



NOTTINGHAM CITY HOMES

## GOVERNANCE REVIEW OF THE CONFLICTS OF INTEREST ARRANGEMENTS

<b>Report issued:</b>	January 2010
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<b>Audit Plan:</b>	2009/10
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The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

## Governance Review of the Conflicts of Interest Arrangements

### - EXECUTIVE SUMMARY -

#### INTRODUCTION

1. We have reviewed the Conflicts of Interest arrangements at Nottingham City Homes. The review was carried out in October 2009 as part of the planned internal audit work for 2009/10.

#### SUMMARY

2. One Key Risk Control Objective was identified and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established (figure 1).

*Figure 1 - Evaluation of the Effectiveness of the Internal Controls*

<b>Evaluation</b>
Limited Assurance

#### KEY FINDINGS

3. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. The prioritisation of the recommendations are summarised below (figure 2).

*Figure 2 - Summary of Priorities of Recommendations*

Urgent	Important	Routine	Operational
1	3	3	0

#### MANAGEMENT RESPONSES

4. Recommendations for improvements should be assessed by the Organisation for their full impact before they are implemented.

#### RELEASE OF REPORT

5. The table below sets out the history of this report.

Date draft report issued:	2 <sup>nd</sup> December 2009
Date management responses recd:	28 <sup>th</sup> January 2010
Date final report issued:	29 <sup>th</sup> January 2010



**MANAGEMENT ACTION PLAN**  
**PRIORITY 1, 2 AND 3 RECOMMENDATIONS**

Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.	Declaration of interest forms have not been received from five of the Board members that were in place at the time that the last declarations were requested (January 2009).	Recommendation 2: Current declaration of interest forms be returned by all Board members.	1	<i>New declaration of Interest forms are to be sent to those Board Members who have not returned a declaration since the AGM.</i>	<i>End of January 2010</i>	<i>Alison Mapp Company Secretary</i>
Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.	Out of a sample of 20 employees checked (10 management and 10 staff), returns had not been received from three management and six staff.	Recommendation 5: Completed declaration of interest forms be returned by all staff.	2	<i>Reminders sent to staff and an article has in placed in team brief. Managers have also been contacted with names of those who have not returned their forms. All employees with outstanding disclosures have also been sent another form.</i>	<i>End of March 2010</i>	<i>Mary Mayes Head of HR</i>

**PRIORITY GRADINGS**

1	URGENT	Fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	Control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	Control issue on which action should be taken.
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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.	The Human Resources department are responsible for maintaining a list of staff who have not returned their declaration of interest forms. The number of staff who have not returned their forms has not yet been reported to the Board or Committee.	Recommendation 6: The Board/Committee be informed of the number of members of staff who have not returned their declaration of interest forms, in particular staff who are of seniority or in a position to award/place contracts or grant tenancies.	2	<i>Mechanism for ensuring that the status of staff declarations returned will be adopted following discussions between the HR and Governance teams.</i>  <i>Consideration will be given to the appropriate level of reporting for this information i.e. Board or Committee.</i>	End of March 2010	Mary Mayes – Head of HR supported by Alison Mapp – Company Secretary
Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.	Completed, signed contractor questionnaires, which include details of declarations of interests, could not be located for T & S Projects, who complete adaptations works and have been paid £391,542 in the current financial year, and Savilles who complete stock condition and asbestos surveys.	Recommendation 7: Declaration of interests be returned by all contractors and suppliers.	2	<b>COMPLETE</b> <i>Questions will be inserted in to every tender issued through Procurement which will require a mandatory response from tenderers. This element will form part of the evaluation process.</i>	End of January 2010	Pete Smith Procurement and Operational Support Manager

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.	Declarations of interest are requested from new Board members after they have been appointed and are signed at induction.	Recommendation 1: Consideration be given to prospective members of the Board being required to make a declaration of interest before they are formally appointed to the Board.	3	<b>COMPLETE</b> <i>Governance team has now adopted the policy of obtaining signed declarations of interest from Board Members prior to appointment.</i>	<i>Immediate</i>	<i>Alison Mapp Company Secretary</i>

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Risk	Finding	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.	The confidential reporting system for key staff to report all personal relationships that could have a potential Schedule 1 implication should be communicated to all employees. It should be noted that from April 2010 all ALMOs will be regulated by the Tenant Services Authority and although the Company follow the spirit of schedule 1 it is important that all staff and members are made aware of this requirement.	Recommendation 4: Staff be made aware of both the requirement to declare where they have entered into personal relationships which could have a potential conflict of interest and the confidential reporting system for discussing and reporting possible Schedule 1 implication with Human Resources.	3	<i>Current declaration of interest questions to be reviewed and revised, in liaison with Governance, to ensure that all staff who may have a conflict of interest arising through a personal relationship are aware of their responsibility to declare these interests or discuss required declarations with HR.</i>	<i>End of April 2010</i>	<i>Mary Mayes – Head of HR supported by Alison Mapp – Company Secretary</i>
Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.	It has not been reported to the Board whether members have completed and returned their declarations.	Recommendation 3: The Board be explicitly informed whether all members have completed and returned their declarations.	3	<i>Status of outstanding Board Member declarations to be reported to the Board in March in the Company Secretary's Report.</i>  <i>A new declaration of interest form is to be sent to all Board Members in January 2010</i>	<i>End of March 2010</i>	<i>Alison Mapp Company Secretary</i>

**PRIORITY GRADINGS**

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**OPERATIONAL EFFECTIVENESS MATTERS**

Item	Management Comments
<b>No Operational Effectiveness Matters were raised.</b>	

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of the procedures, rather than on a one-by-one basis



### **SCOPE AND LIMITATIONS OF THE REVIEW**

6. The review considers the governance related registers that need to be reviewed by the Audit Committee and/or the Board. The review includes consideration of: conflicts of interest; how the registers are maintained and updated; reported to committee; and h
7. The limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

### **ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES**

8. This review identified and tested the controls that are being operated by the Organisation and an assessment of the combined effectiveness of the controls in mitigating the key probity risks is provided. The assessments are:

<b>Substantial Assurance</b>	robust series of internal controls in place which should ensure continuous and effective achievement of the control objective.
<b>Reasonable Assurance</b>	reasonable number of internal controls in place, however may not be operated all the time.
<b>Limited Assurance</b>	the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective.
<b>No Assurance</b>	fundamental breakdown or absence of core internal controls.

### **MATERIALITY**

9. At the date of the review the Company had 12 Board members and employed 1066 members of staff.

<b>10 Risk</b>	Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.
<b>Risk Control Objective</b>	Arrangements in place provide for the aims and objectives to be met.
<b>Evaluation</b>	<u>Limited Assurance</u>

11. The following matters were identified in reviewing the Key Risk Control Objective:

**Risk: Arrangements for Members.**

11.1 The Company's Governance Standing Orders state that the Company will comply with the spirit of Schedule 1 of the Housing Act 1996 for the provision of any non-contractual benefits to staff and Board members (or their relatives).

11.2 Declarations of interest are requested from new Board members after they have been appointed and are signed at induction.

*Recommendation 1: Consideration be given to prospective members of the Board being required to make a declaration of interest before they are formally appointed to the Board.*

11.3 Guidance is provided to Board members on declarations of interest during the induction process and are directed to the Board members Code of Conduct contained within the Governance Standing Orders, provided to each Board member, where the responsibilities of the Board members include declaring any relevant interests and make explicit reference to the Nolan Principles of Public Life.

11.4 All meetings of the Board and other committees have a standing item at the start of the meeting requiring members and attendees to state whether they have an interest to declare. The Board, Audit, P&R and HR Committee meetings for 2009 were reviewed and all complied with the requirements of declarations of interest.

11.5 Declaration of interest forms have not been received from five of the Board members that were in place at the time that the last declarations were requested (January 2009).

*Recommendation 2: Current declaration of interest forms be returned by all Board members.*

11.6 The Company Memorandum and Articles of Association dated May 2008 state that in the event that a Board member or attendee has an interest in an item being considered at a committee meeting; the Member concerned shall not remain present during the discussion of that item unless requested to do so by the remaining members of the Board or committee of the Board.

11.7 It has not been reported to the Board whether members have completed and returned their declarations.

*Recommendation 3: The Board be explicitly informed whether all members have completed and returned their declarations.*

**Risk: Arrangements for staff.**

11.8 Application forms for employment with the Company asks whether the applicant is related to a Board/Committee Member or Senior Officer of Nottingham City Homes. New staff are required to complete a Declaration of Interest return and this is covered as part of the induction process. The Code of Conduct for Employees includes a section on personal interests (financial and non-financial) and gives examples of interests that are required to be declared.

- 11.9 The confidential reporting system that Human Resources provide for key staff to report all personal relationships that could have a potential Schedule 1 implication should be communicated to all employees. It should be noted that from April 2010 all ALMOs will be regulated by the Tenant Services Authority and although the Company follow the spirit of schedule 1 it is important that all staff and members are made aware of this requirement.

*Recommendation 4: Staff be made aware of both the requirement to declare where they have entered into personal relationships which could have a potential conflict of interest and the confidential reporting system for discussing and reporting possible Schedule 1 implication with Human Resources.*

- 11.10 At the time of the audit, 483 declaration of interest forms had been returned for 2009 out of 1066 staff (approximately 45%). These were sent out on 11th June with a closing date for returns of 26th June. Out of a sample of 20 employees checked (10 management and 10 staff), returns had not been received from three management and six staff.

*Recommendation 5: Completed declaration of interest forms be received from all staff.*

- 11.11 The Human Resources department are responsible for maintaining a list of staff who have not returned their declaration of interest forms. The number of staff who have not returned their forms has not yet been reported to the Board or Committee.

*Recommendation 6: The Board/Committee be informed of the number of members of staff who have not returned their declaration of interest forms, in particular staff who are of seniority or in a position to award/place contracts or grant tenancies.*

**Risk: Arrangements for temporary staff.**

- 11.12 All temporary and agency staff are required to complete the same declaration as full time employees. Agencies currently do not have to sign a declaration that they understand fully the restrictions imposed by Schedule 1 and that they are responsible for vetting any person they wish to place with the organisation. The employment agencies contract is to go out to tender in the next month and agencies have been sent a copy of the staff declaration that will be required to be completed and that the Company has to be transparent and the need to comply with the Housing Act and the Local Government Act 1972.

**Risk: Arrangements for suppliers and contractors.**

- 11.13 The Company's Terms and Conditions state that the contractor shall ensure that no conflicts of interest arise in connection with a contract. If a conflict of interest arises during the term of the contract and the effect of this interest cannot be resolved, then the Company has the right to terminate the contract. A question on the contractor questionnaire asks "Are any of these persons currently or former (in the last 12 months) a board member or employee of Nottingham City Homes, or a close relative of such person?"
- 11.14 All contractors invited to carry out work for the Company are required to complete a contractor questionnaire which asks for details of shareholders, proprietor, and managers who are a board member or employee of Nottingham City Homes, or a close relative of such person. In the event that an interest was to be declared by a contractor, the issue would be referred to the Governance Team for further instruction before proceeding.
- 11.15 Completed, signed contractor questionnaires, which include details of declarations of interests, could not be located for T & S Projects, who complete adaptations works and have been paid £391,542 in the current financial year, and Savills who complete stock condition and asbestos surveys.

*Recommendation 7: Declaration of interests be returned by all contractors and suppliers.*

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