



NOTTINGHAM CITY HOMES

## GOVERNANCE REVIEW OF THE STRATEGIC GOVERNANCE ARRANGEMENTS

<b>Report issued:</b>	January 2010
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<b>Audit Plan:</b>	2008/09
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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 Strategic Governance Arrangements

## - EXECUTIVE SUMMARY -

### INTRODUCTION

1. TIAA has reviewed the Strategic Governance arrangements at Nottingham City Homes. The review was carried out in March 2009 as part of the planned internal audit work for 2008/09.

### SUMMARY

2. One Key Risk Control Objective was tested and based on the findings from this work an overall evaluation of the overall adequacy of the Strategic Governance arrangements was established (figure 1 below).

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

System	Evaluation
Strategic Governance	Limited Assurance

### KEY FINDINGS

3. The following significant matters were identified which need to be addressed in order to strengthen the control environment.
  - The only CCAB qualified Audit Committee member, who was appointed to the committee in July 2008, has not subsequently attended a meeting. He has recently indicated through his personal secretary that he is unable to attend future meetings. His place on the Audit Committee is therefore under review. If his membership is removed from the Committee there would be no CCAB qualified members.
  - Discussions with the Senior Governance Officer identified that a number of Board members have their post sent to their secretaries and that confidential Board items are opened by their secretaries.
  - The Financial Regulations and Standing Orders were approved by the Board on 15th May 2008 subject to the following amendment: -
    - the function of the Board, core responsibilities, to include reference to the maintenance of the Company's risk registers; and
    - This amendment has not been incorporated into the current Standing Orders.

### OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. Operational Effectiveness action points were identified.

### MANAGEMENT RESPONSES

5. Effective implementation by management of the recommendations made in this report is important for the maintenance of a reliable internal control system. Recommendations for



improvements should be assessed by the Company for their full impact before they are implemented. Management responses have been received for all the recommendations made in this review.



**MANAGEMENT ACTION PLAN**

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.3	Consideration be given to ensuring that at least one member of the audit committee has recent relevant financial experience and has a professional qualification from one of the professional accounting bodies.	2	<b>COMPLETE</b> <i>The Board and Finance and Audit Committee now have a co-opted Member who has a professional accountancy qualification.</i>	<i>September 2009</i>	<i>Alison Mapp Company Secretary</i>
16.5	Confidential papers be sent direct to the Board members home or it be stated that they are not to be opened by their secretaries.	2	<i>Partially Agreed</i> <i>Papers with highly confidential content are not distributed in advance of Board meetings i.e. cannot be viewed by members until the meeting is held.</i>  <i>Distribution of confidential Board papers and the expectations of Board Members and, staff handling papers, will be discussed with members.</i>	<i>End of March 2010</i>	<i>Alison Mapp Company Secretary</i>
16.7	The amendment to the Standing Orders requested by the Board in May 2008 be made at the next review and it be reported to the Board that the change was not made at the time.	2	<i>Part 1 of the Company's Standing Orders (Governance) are currently being revised and the amendment requested by Board is to be incorporated.</i>	<i>End of March 2010</i>	<i>Alison Mapp Company Secretary</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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Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.2	Attendance by individual Members at Board and other committee meetings be recorded in the Company annual report.	3	<b>COMPLETE</b> <i>Attendance at Board Committees is reported to Board in the respective Committee Annual Reports.</i>	<i>Immediate</i>	<i>Alison Mapp Company Secretary</i>
16.1	A policy be put in place regarding the maximum number of non-executive Board members who are employees of other RSLs or ALMOs that can be on the Board of the Company	3	<i>Part 1 of the Company's Standing Orders (Governance) are currently being revised.</i>  <i>Amendments will include the requirement for the Company to actively seek, and where possible and appropriate recruit, individuals from a variety of backgrounds and professions for appointment as Board members i.e. not solely those who exclusively work in, or have experience predominately from, the Housing sector.</i>	<i>End of March 2010</i>	<i>Alison Mapp Company Secretary</i>
16.4	It be recorded in the minutes that requests by members for further information have been actioned accordingly.	3	<b>COMPLETE</b> <i>The minutes shall reflect all information requests made and received by Members.</i>	<i>Immediate</i>	<i>Alison Mapp Company Secretary</i>

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Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
16.6	At the next review of the Financial Regulations the word 'should' be replaced with an alternative, which eliminates the impression of choice surrounding the requirement.	3	<b>COMPLETE</b> <i>The revised Financial regulations (approved by Board in November 2009) have been updated to remove the impression of choice surrounding requirements and responsibilities. This notably revolved replacing 'should' with 'shall' within the document.</i>	<i>Immediate</i>	<i>Darren Phillips        Head of Finance        (Company)</i>
16.8	Formal terms of reference be devised for the Executive Management Team.	3	<i>Part 1 of the Company's Standing Orders (Governance) are currently being revised.</i>  <i>Following discussion and approval by Directors, draft terms of reference for EMT will be adopted.</i>	<i>End of March 2010</i>	<i>Julie Crook        Director of Finance, ICT &amp;        Governance</i>

PRIORITY GRADINGS

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**OPERATIONAL EFFECTIVENESS MATTERS**

Para. Ref.	Item	Management Comments
15.13	Consideration be given to providing an abbreviated set of Financial Regulations, Standing Orders and Delegated Authorities to the more junior members of staff.	<i>Not Agreed – Introducing such documents would risk inferences being made by employees as to which parts of the Standing Orders they should be aware of and are required to comply with.</i>
15.3	Consideration be given to Board members being provided with a manual such as the NHF ‘In Control, the Board Members Manual’.	<i>Not Agreed – There is already a Board Members Manual in existence which is currently under review.</i>
15.16	It be recorded in the Standing Orders that the Board will ensure that all new members receive a copy of the Financial Regulations, Standing Orders and Delegated Authorities.	<i>Part 1 of the Company’s Standing Orders (Governance) are currently being revised and will be updated to make reference to the requirement for the Board to ensure that all new members receive copies of all parts of the Standing Orders.</i>

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 objective of the review was to assess the effectiveness of the controls which provide assurance that the strategic governance arrangements are operated in accordance with the requirements of the Company.
7. The review considers the role and operation of the; Board and senior management groups; standing orders and financial regulations; and delegated authorities. The review also considers the arrangements by which the Board and senior management groups ensure that decisions taken accord with the long-term business plan. The review does not include consideration of the extent of compliance there is with the financial regulations and delegated authorities or the appropriateness of decision taken by the Board.
8. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.
9. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal mitigation may not be proof against collusive fraud.

**KEY RISK CONTROL OBJECTIVE**

10. Details of the Key Risk Control Objective that was reviewed and the individual assessment of the effectiveness of the arrangements are shown below (figure 2 below).

*Figure 2 - Summary of the Evaluations of the Key Risk Control Objective*

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

11. This review identified and tested the controls that are being operated by the Company and an assessment of the effectiveness of the arrangements in meeting the Key Risk Control Objective is provided. The assessments, which are based solely on the review work carried out, are:

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

**RELEASE OF REPORT**

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

Date draft report issued:	18 <sup>th</sup> March 2009
Date management responses recd:	27 <sup>th</sup> January 2010
Date final report issued:	27 <sup>th</sup> January 2010

**- DETAILED REPORT -**

**BACKGROUND**

13. The internal control framework comprises the whole network of systems and controls (financial and non-financial) that are established to manage the Company and ensure that its objectives are met. The framework starts with the strategic controls designed to achieve top-level objectives and works down to detailed operational controls. The strategic control element of the framework extends, through financial regulations and a scheme of delegated authorities, down to individual policy documents and procedural instructions, all of which should be formally adopted and regularly reviewed to ensure they still reflect the Company's requirements.

<b>14. 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>	From the review of the documentation and tests carried out the Control Evaluation is:  <p style="text-align: center;"><u><b>Limited Assurance</b></u></p>

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

**Risk: The Board and members arrangements are not appropriately codified.**

- 15.1 The current size of the Board is 12, comprising of three Councillors, four independent and five tenant members. In addition there are two co-opted Board members. These are all in accordance with the Governance Standing Orders. The quorum for Board meetings is 6 Board members.
- 15.2 There is no policy in place regarding the maximum number of non-executive Board members who are employees of other RSLs or ALMOs that can be on the Board of the Company. (Recommendation 16.1 refers).
- 15.3 All Board members complete a yearly appraisal with the Chair where an assessment of training needs are identified. Each Board member has their own training records maintained in a booklet. All new Board members receive induction training from the Company Secretary and the Chief Executive. (Operational Effectiveness Matter refers).
- 15.4 The Standing Orders state that the Board shall determine the diversity characteristics for the Board and will ensure that it's composition is reflective of the communities that it serves.
- 15.5 Attendance by individual Members at Board and other committee meetings has not been recorded in the Company annual report. (Recommendation 16.2 refers).
- 15.6 The Company's Financial Regulations and Governance Standing Orders were last reviewed and approved by the Board in May 2008. The Head of Finance (Company) has the responsible for maintaining and identifying changes to the Financial Regulations and Delegated Authorities.
- 15.7 The Audit Committee comprises two tenants, one councillor, one independent and one co-opted member. Neither the Board chair nor vice chair are members of the

audit committee. The Audit Committee meets at least quarterly with six meetings held over the previous 12 months. Each meeting was held quorate. There are currently no members of the Audit Committee who hold a CCAB qualification. One qualified Councillor member was appointed to the committee in July 2008 but has not subsequently attended a meeting. He has recently indicated through his personal secretary that he is unable to attend future meetings. His place on the Audit Committee is therefore under review. (Recommendation 16.3 refers).

- 15.8 The quorum for all committee meetings is at least 50% of the total members of the committee of which at least two must be Board members. The chairs of the committees were selected by the Board and volunteers from the Board make up the membership.

**Risk: Members are not provided with documents and are not advised of regulatory or statutory requirements necessary for them to be able to make strategic decisions.**

- 15.9 One member of the Company Secretariat team attend all committee meeting and provide each with clerking (secretarial) services which includes the circulation of papers, arranging meetings, minute taking and secretarial advice (i.e. that committee is acting intra-vires). The time interval for agendas and papers for meetings to be circulated in order to permit the Members sufficient time to consider them before the meeting is seven days.
- 15.10 It was noted in the minutes of the Audit Committee of 3rd March 2008 that a committee member expressed a concern relating to the amount of work involved by the company secretariat to maintain the employee declarations of interest. The Senior Governance Officer was asked was to report back to the committee in June 2008 regarding this. This has not been recorded in the minutes of the Audit Committee of 10th June 2008. (Recommendation 16.4 refers).
- 15.11 All Board papers, including those relating to confidential items, are held in the Board Members Library in locked filing cabinets. The Executive Management Team decides what matters are deemed to be confidential items. Confidential Board papers and minutes are printed on yellow paper and are distributed in the same way as non-confidential items. Discussions with the Senior Governance Officer identified that a number of Board members have their post sent to their secretaries and that confidential Board items are opened by their secretaries. (Recommendation 16.5 refers).
- 15.12 There are documented urgency procedures included in the Standing Orders. These are the convening of a special meeting, obtaining a written resolution and dealing with the matter under Chair's Action.

**Risk: The Board does not provide comprehensive details of the internal control roles delegated to the executive.**

- 15.13 The Financial Regulations and Governance Standing Orders are available to all employees on the company's intranet, which is available to all employees. It is recorded in the Financial Regulations that it is a disciplinary offence to breach the Financial Regulations. (Operational Effectiveness Matter refers).
- 15.14 The word "should" has been used in the Financial Regulations. This can imply that there is an option, rather than it being mandatory. (Recommendation 16.6 refers).
- 15.15 The Financial Regulations and Standing Orders were approved by the Board on 15th May 2008 subject to the following amendment: - (Recommendation 16.7 refers).
- the function of the Board, core responsibilities, to include reference to the maintenance of the Company's risk registers.

This amendment has not been incorporated into the current Standing Orders.

15.16 Each Board member has been provided with a copy of the Financial Regulations, Standing Orders and Delegated Authorities. (Operational Effectiveness Matter refers).

**Risk: The arrangements for the direction of the senior management team are not codified.**

15.17 The Executive Management Team does not have formal terms of reference in place. (Recommendation 16.8 refers).

16.	Recommendations:	Priority
16.1	A policy be put in place regarding the maximum number of non-executive Board members who are employees of other RSLs or ALMOs that can be on the Board of the Company.	3
16.2	Attendance by individual Members at Board and other committee meetings be recorded in the Company annual report.	3
16.3	Consideration be given to ensuring that at least one member of the audit committee has recent relevant financial experience and has a professional qualification from one of the professional accounting bodies.	2
16.4	It be recorded in the minutes that requests by members for further information have been actioned accordingly.	3
16.5	Confidential papers be sent direct to the Board members home or it be stated that they are not to be opened by their secretaries.	2
16.6	At the next review of the Financial Regulations the word 'should' be replaced with an alternative, which eliminates the impression of choice surrounding the requirement.	3
16.7	The amendment to the Standing Orders requested by the Board in May 2008 be made at the next review and it be reported to the Board that the change was not made at the time.	2
16.8	Formal terms of reference be devised for the Executive Management Team.	3

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