

NOTTINGHAM CITY HOMES

REPORT OF DIRECTOR OF
FINANCE, ICT AND GOVERNANCE

FINANCE & AUDIT COMMITTEE
8 FEBRUARY 2010

FINAL INTERNAL AUDIT REPORTS AND AUDIT PLAN

1 SUMMARY

- 1.1 The Company has a duty to uphold principles of good Governance which, as per the Company's Standing Orders, includes ensuring that effective systems of delegation, audit and control are maintained. The Board also has a statutory responsibility for ensuring adequate systems of internal control are in place and operating effectively within the Company.
- 1.2 To enable the Board to achieve its statutory obligations, the Company appoints internal auditors to provide a rolling programme of audit reviews to assess its key financial and non-financial systems and related procedures as part of an agreed Internal Audit Strategic Plan. The work of internal audit and the reports produced are a key part of the Company's framework for monitoring its overall system of internal control.
- 1.3 Historically all internal audit reports have been monitored by the Company's Finance and Audit (formerly Audit) Committee. Following Governance reorganisation the new Housing Management and Property Services Committees are responsible for reviewing and monitoring all audit reports in relation to the their Directorates. The Finance & Audit Committee will continue to receive all audit reports in order to:
- Monitor progress with the annual Internal Audit Plan and Audit Strategy; and
 - Fulfil its responsibility to advise the Board on the effectiveness and adequacy of the Company's internal control arrangements.
- 1.4 Since the previous Finance & Audit Committee in November 2009, 3 final audit reports have been issued in relation to audit reviews timetabled within the Strategic and Annual Audit Plans. Within those reports the internal auditors provided an assessment, in relation to the adequacy of internal control, of 'reasonable' assurance for 1 of the audited areas, but only 'limited' assurance in relation to the other 2.

2 RECOMMENDATIONS

It is recommended that the Finance & Audit Committee:-

- 2.1 Note the content of the reports, notably the levels of controls assurance provided;

2.2 Agree the adequacy and appropriateness of the management comments and actions agreed by responsible officers in response to the audit recommendations; and

2.3 Note the changes to the Strategic Audit Plan as well as the progress to date and agree the Annual Audit Plan for 2010/11.

3 REPORT

3.1 Attached to this report are the following 3 internal audit reports produced by the Company's internal auditors, TIAA Ltd:

- Review of the Sundry Income Arrangements;
- Governance Review of the Conflicts of Interest Arrangements; and
- Review of the Strategic Governance Arrangements.

3.2 TIAA give an evaluation of the effectiveness of the risk mitigation arrangements for each audit completed. There are four possible evaluations used in their audit reports, which are defined as follows:

- Substantial Assurance;
- Reasonable Assurance;
- Limited Assurance; and
- No Assurance.

The full definitions of each of the four evaluations are contained within each of the audit reports.

3.3 The following table shows the level of assurance provided by TIAA Ltd in relation to the adequacy of the respective control cycles for each of the latest internal audit reports:

Report	Evaluation
Sundry Income	Reasonable Assurance
Conflicts of Interest	Limited Assurance
Strategic Governance	Limited Assurance

The main finding highlighted in these reports are summarised in more detail in the paragraphs below:

3.4 Sundry Income – TIAA have reviewed the Company's controls and identified no recommendations or actions which they deem are required of management in order to fundamentally strengthen the respective control environment. Of the 4 recommendations raised by TIAA in their audit report 1 has been rated as an 'Important' priority and the remaining 2 recommendations are rated as 'Routine'.

3.5 Conflicts of Interest – TIAA have reviewed the adequacy of the Company's control arrangements and the following significant matter was identified which needs to be addressed by management in order to further strengthen the control environment:

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

Of the 7 recommendations raised by TIAA in their audit report the 1 highlighted above has been rated as an 'Urgent' priority, 3 have been rated as 'Important' priorities and the remaining 3 recommendations are rated as 'Routine'.

- 3.6 Strategic Governance – TIAA have reviewed the adequacy of the Company's control arrangements and the following significant matters were identified which need to be addressed by management in order to further strengthen the control environment:
- The only CCAB qualified Audit (now Audit and Finance) Committee member, who was appointed to the committee in July 2008, has not subsequently attended a meeting; and
 - A number of Board members have their post sent to their secretaries and confidential Board items are opened by their secretaries.

Of the 8 recommendations raised by TIAA in their audit report 3, including the 2 above, have been rated as a 'Important' priorities and the remaining 5 recommendations are rated as 'Routine'.

- 3.7 Management responses designed to adequately address weaknesses in the related control environments, together with responsible officers and timescales for implementation, have been agreed with internal audit for all the recommendations raised in the aforementioned reports.

- 3.8 Some audit reports include recommendations classified as 'operational effectiveness matters' which TIAA state should be considered as part of the management review of procedures rather than on a one by one basis. These recommendations are not rated or given a priority by TIAA and NCH is not required to agree a responsible officer or set a timescale for implementation. Therefore these recommendations are not included on the Company's Audit Register.

- 3.9 Members should primarily focus their attention on discussing Support Services audit reports in detail at Committee meetings and it is expected that Housing and Property Services audit reports will only be a focus of discussion where there are fundamental or material breakdowns in internal control i.e. 'no assurance' evaluation. The significant matters arising from each of the latest TIAA audits are highlighted at the beginning of each audit report.

- 3.10 The following reports have been issued by TIAA Ltd and will be reported to members once the contents of the reports have been agree, and Management Action Plans completed, by the Responsible officers:

Audit Report	Date Draft Report Issued	Draft Level of Assurance
Cash in Transit *	February 2009	N/A
Allocations & Lettings	December 2009	Limited
Contract Services	January 2010	Limited

** Investigation review performed outside the scope of the Audit Plan – confidential report.*

- 3.12 Following consultation with Executive Directors and Company Managers the 2010/11 Audit Plan has been updated and agreed with TIAA Ltd and is attached to this report as Appendix 4. The revised plan includes a reduction in audit days of 3 in 2009/10 and 35 in 2010/11 against the original annual allocation of 250. Appendix 5 includes an update on the progress made to date with the 2009/10 Annual Audit Plan as well as a summary of the levels of assurance provided by TIAA in respect of all completed reports included in the 2008/09-2010/11 Strategic Audit Plan.

4 OTHER OPTIONS

- 4.1 Not applicable.

5 IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES

- 5.1 The consistent application of recognised control procedures will address a number of issues raised by the Audit Commission.

6 VALUE FOR MONEY & EFFICIENCY ISSUES

- 6.1 Compliance with key controls and procedures is an essential part of delivering efficiency and cost effectiveness. In addition, the reduction of audit days included in the Strategic Audit Plan of 38, will lead to a reduction in the annual internal audit fee and produce a cumulative VFM saving against budget of approximately £10,982. This reduction is based on confirmation from TIAA Ltd that the 2009/10 day rates charged will be frozen in 2010/11.

7 EQUALITY & DIVERSITY IMPLICATIONS

- 7.1 None.

8 BACKGROUND MATERIAL AND PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

- 8.1 TIAA Ltd audit reports attached (see paragraph 3.1) – Appendixes 1 to 3.
- 8.2 Internal Audit Annual Plan and Audit Strategy – Appendix 4.
- 8.3 Internal Audit Annual Plan and Strategy Update – Appendix 5.
- 8.4 Company Standing Orders.

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