

NOTTINGHAM CITY HOMES

FINANCE AND AUDIT COMMITTEE

REPORT OF DIRECTOR OF FINANCE, ICT AND GOVERNANCE

17 MAY 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 forms a key part of the Company's internal control framework and the all audit reports produced are reviewed and monitored the Finance and Audit Committee.
- 1.3 Since the previous Finance and Audit Committee in February 2010, 7 audit reports have been issued in relation to audit reviews timetabled within the 2009/10 Annual Audit Plan. Within those reports the internal auditors provided an assessment, in relation to the adequacy of internal control, of 'reasonable' assurance for 4 of the audited areas, but only 'limited' assurance in relation to the other 3.

2 RECOMMENDATIONS

It is recommended that members:-

- 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 minor changes to the 2010/11 Annual Audit Plan and approve the change in planned audit reviews.

3 REPORT

- 3.1 Attached to this report are the following internal audit reports produced

by the Company's internal auditors, TIAA Ltd:

- Review of the Works Procurement Arrangements;
- Compliance Review of the Allocations and Lettings Arrangements;
- Compliance Review of the Gas Safety Arrangements;
- Review of the Contract Services Arrangements;
- Review of the IT Security – Application Upgrade Control Arrangements; and
- Audit Report Recommendations – Follow-up Review.

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 in relation to the adequacy of the respective control cycles for each of the latest internal audit reports:

Report	Evaluation
Works Procurement	Reasonable Assurance
Allocations and Lettings	Reasonable Assurance
Gas Safety	Reasonable Assurance
Contract Services	Limited Assurance
IT Security – Application Upgrades	Limited Assurance
Follow-up Report	N/A

3.4 The Follow-up review does not include a formal evaluation of assurance, but instead reports on management's progress in implementing past audit report recommendations. The main finding highlighted in these reports are summarised in more detail in the paragraphs below:

3.5 Works Procurement – 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 5 recommendations raised by TIAA in their audit report 3 have been rated as 'Important' priorities and the remaining 2 recommendations are rated as 'Routine'.

3.6 Allocations and Lettings – TIAA have reviewed the adequacy of the Company's control arrangements and identified no recommendations or actions which they deem are required of management in order to fundamentally strengthen the respective control environment. All the 6 recommendations raised by TIAA in their audit report have been rated as 'Important' priorities.

3.7 Gas Safety – TIAA have reviewed the adequacy of the Company's control arrangements and identified no recommendations or actions which they deem are required of management in order to fundamentally strengthen the respective control environment. Of the 3 recommendations raised by TIAA in their audit report 2 have been rated as 'Important' priorities and the 1 remaining recommendation is rated as 'Routine'.

3.8 Contract Services – 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.

However, of the 7 recommendations raised by TIAA in their audit report 5 have been rated as 'Important' priorities and the weaknesses noted have led to an overall evaluation of limited assurance. Of the remaining 2 recommendations 1 has been rated as a 'Routine' priority and 1 recommendation was classified as 'Operational'.

3.9 IT Security – Application Upgrades – 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.

However, of the 11 recommendations raised by TIAA in their audit report 6 have been rated as 'Important' priorities and the weaknesses noted have led to an overall evaluation of limited assurance. All of the remaining 5 recommendations have been rated as 'Routine' priorities.

3.10 Follow-up Review – The review established the management action that had been taken as a result of the high level recommendations arising from internal audit reports presented to Finance and Audit Committee (formerly) in the 2009/10 financial year as well as those recommendations still outstanding from previous audit reviews.

Of the 83 recommendations reviewed, 61 were identified as having been implemented, 7 as being in the process of being implemented and 12 recommendation was noted as still being outstanding at the time of the report. The final 3 recommendations were classified as 'not applicable' due to system changes meaning there was no longer a requirement for implementation.

3.11 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.

3.12 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.

- 3.13 The following reports have been issued by TIAA Ltd and will be reported to members once the contents of the reports have been agreed and the 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
Void Management	March 2010	Reasonable
Purchase Cards	April 2010	Limited

* - Investigation review performed outside the scope of the Audit Plan for which a confidential report was produced.

- 3.14 All audit field work in relation to the 2009/10 audit plan has now been completed and the reports highlighted in 3.1.3 above together with the Annual Internal Audit Report, remain the only reports yet to be finalised. The 2010/11 Audit Plan is attached to this report as appendix 7 and includes the following changes:

- Insurance review (Quarter 1) deferred and replaced by review of Allocations and Lettings in Quarter 2;
- Scope of the Asset Management review (Quarter 1) revised and moved to Quarter 2.
- Rent Collection review moved from Quarter 2 to Quarter 1.

The net effect of these changes on the 2010/11 audit plan is a decrease of 5 audit days, from 215 to 210, since the plan was last reported to members in February.

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. The reduction in audit days noted above (215) from the total included in the original 2010/11 Annual Audit Plan (250) represents a reduction in the 2010/11 audit fee and hence an anticipated saving against budget of £11,560*.

* - It should be noted that £1,445 of this saving (equivalent to 5 audit days) has been set aside to fund a financial advisory review within Property Services Commercial Delivery.

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 (see paragraph 3.1) – Appendixes 1 to 6.

8.2 Internal Audit Annual Plan and Audit Strategy – Appendix 7.

8.3 Company Standing Orders.

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