



NOTTINGHAM CITY HOMES

**INTERNAL AUDIT ANNUAL REPORT  
2009/10**

<b>Report issued:</b>	August 2010
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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



## Internal Audit Report

### - EXECUTIVE SUMMARY -

#### INTRODUCTION

1. This is the 2009/10 Annual Report by TIAA on the internal control environment at Nottingham City Homes

#### SUMMARY OF SYSTEMS OF INTERNAL CONTROL REVIEWED

2. Within the areas of activity reviewed during 2009/10 there were no systems reviewed by internal audit where it was assessed that the effectiveness of some of the internal control arrangements provided 'no assurance'. Overall, the system reviews carried out indicate that the Organisation has procedures in place that are designed and operated to provide effective control (table 1 below). These systems can only provide reasonable and not absolute assurance against misstatement or loss and their effectiveness is reduced if:
  - the internal audit recommendations made during the year have not been fully implemented.
  - changes are made to operating practices subsequent to the internal audit review, which either reduce the segregation of duties or diminish the effectiveness of the internal controls.

Table 1 - Summary of the Evaluations of the effectiveness of the internal controls

System	Substantial Assurance	Reasonable Assurance	Limited Assurance	No Assurance
Budgetary Control	✓			
DLO Service Delivery			✓	
Finance Systems		✓		
Governance-Conflicts of Interest			✓	
IT Security Network Controls			✓	
IT Security-Application Upgrades			✓	
Major Repairs		✓		
Payroll			✓	
Purchasing Cards			✓	
Rent Collection			✓	
Service Charges			✓	
Sundry Income		✓		
Works Procurement		✓		



### RESPONSIBILITY

3. It is the Company's responsibility to maintain effective internal controls. The Audit Committee is invited to note the contents of this report.

### RELEASE OF REPORT

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

Date report issued:	2 <sup>nd</sup> August 2010
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## - DETAILED REPORT -

### OBJECTIVES OF THE ANNUAL REPORT

5. Published good practice states that the internal audit function should produce an annual report of its activities to the Board, or the Audit Committee. This report is designed to assist the Board in making its annual statement on internal financial control.
6. This report provides an overall opinion on the adequacy of design and effective operation of the systems of risk management and internal control(s) reviewed supported by:
  - (a) overview of systems of internal control reviewed.
  - (b) restatement of terms of reference and standards.
  - (c) audit work conducted in the year together with comparison with approved plan.
  - (d) other areas of work during the year.
  - (e) main findings arising from internal audit work, together with a status report on key control weaknesses identified together with a status report on management action to improve the treatment of risks, and weaknesses in internal control and assurance systems.

### RESTATEMENT OF TERMS OF REFERENCE

7. TIAA and Nottingham City Homes operate to comprehensive terms of reference, which were adopted at the time TIAA was appointed. The key aspects of independence, objectivity and responsibility, as set out in the Terms of Reference, are:
  - Nottingham City Homes is responsible for ensuring that appropriate and adequate arrangements exist and cannot depend upon TIAA as a substitute for effective controls.
  - The role of internal audit is to provide management with an objective assessment of whether systems and controls are working properly.
  - The work of TIAA embraces the whole internal control system of Nottingham City Homes including all its operations, resources, staff, services, and responsibilities for subsidiary or associated bodies.
  - It is not within the remit of TIAA to question the appropriateness of policy decisions. However, TIAA will examine the management arrangements of Nottingham City Homes by which such decisions are made, monitored and reviewed.
  - TIAA's work is performed in accordance with the relevant requirements of the Regulator, the standards for internal audit laid down in the 'Standards and Guidelines for Professional Practice of Internal Auditing' issued by the IIA-UK and relevant guidance issued by the Auditing Practices Board.
  - TIAA has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. It may provide advice, however, on control and related matters, subject to the need to maintain objectivity and to resource constraints.
  - TIAA has unrestricted rights of access to all Nottingham City Homes documents, records, information, personnel and assets, which it considers necessary to fulfil its responsibilities.



- The Director of TIAA has a direct right of access to the chair of the Board (or equivalent) and the Chief Executive.

## ANNUAL PLAN – WORK CARRIED OUT

8. The Annual Plan, which was agreed with Nottingham City Homes provided for 247 days in the internal audit programme for 2009/10. All the planned work has been carried out and the reports have been issued (table 2 below). The changes to the planned work were agreed in advance with Nottingham City Homes.

Table 2 - Actual against planned Internal Audit Work 2009/10

System	Type	Planned Days	Actual Days	Comments
Payroll	Assur	10	10	Report issued
IT Security Network Controls	ICT	10	10	Report issued
Service Charges	Assur	10	10	Report issued
Major Repairs	Assur	15	15	Report issued
Risk Management-Integrating Risk	Risk	10	10	Report issued
Finance Systems	Assur	10	10	Report issued
Budgetary Control	Assur	10	10	Report issued
Rent Collection	Assur	15	15	Report issued
Sundry Income	Assur	7	7	Report issued
DLO Service Delivery	Assur	15	15	Report issued
Allocations & Lettings	Compl	10	10	Report issued
IT Application Upgrades	ICT	15	15	Report issued
Governance-Conflicts of Interest	Assur	10	10	Report issued
Purchasing Cards	Assur	10	10	Report issued
Gas Safety Checks	Compl	15	13	Report issued
Management of Voids	Appr	20	20	Report issued
Works Procurement	Assur	15	15	Report issued
Follow Up	FU	10	10	Report issued
Half Year ICA Report		5	5	Report issued
Annual Report		5	5	Report issued
Annual Plan and Strategy		5	5	Report issued
Audit Management		15	15	
Total Days		247	245	

## OTHER WORK CARRIED OUT

9. There was no work carried out which was in addition to the work set out in the Annual Plan.



**STATUS REPORT ON KEY CONTROL WEAKNESSES IDENTIFIED AND MAIN FINDINGS ARISING FROM INTERNAL AUDIT WORK**

10. For each system review the key control objectives were identified. To assess whether the key control objectives are being met each review identified and tested the controls that are being operated by Nottingham City Homes Assessments of the effectiveness of the controls in meeting the key control objectives were provided in each report (table 1 above). The definitions of the assessments 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.

11. TIAA provides one overall assessment for each system reviewed, in line with published guidance.

12. There were eight systems reviewed by internal audit where it was assessed that the effectiveness of some of the internal control arrangements provided 'limited assurance'. Recommendations were made to further strengthen the control environment in these areas and the management responses indicated that the recommendations had been accepted. Table 3 (below) sets out the Organisation's risk exposure in these areas and the number of Priority 1 recommendations made to mitigate the risk exposure. Priority 1 recommendations are 'Urgent' and relate to fundamental control issues on which action should be taken immediately.

*Table 3 – Risk Exposure based on systems Internal Audit Work 2009/10*

System	Audit Assessment	Control Risk Exposure	Number of Priority 1 Recommendations
Payroll	Limited	Losses arising from unauthorised action by staff.	1
IT Security Network Controls	Limited	Failure to direct the process through approved policy & procedures Losses arising from unauthorised action by staff.	- -
Service Charges	Limited	Losses arising from unauthorised action by staff.	1
Rent Collection	Limited	Failure to direct the process through approved policy & procedures.	-



System	Audit Assessment	Control Risk Exposure	Number of Priority 1 Recommendations
IT Application Upgrade	Limited	Failure to direct the process through approved policy & procedures.	-
Governance – Conflicts of Interest	Limited	Failure to have arrangements in place to ensure compliance with statutory, other regulatory, and good governance requirements.	1
DLO Service Delivery	Limited	Losses arising from unauthorised action by staff.	-
Purchasing Cards		Losses arising from unauthorised action by staff.	1

13. The following reviews carried out did not provide risk control assurance assessments.

Review area	Overall rating
Management of Voids	Reasonable
Gas Safety	Reasonable
Allocations and Lettings	Reasonable
Risk Management-Integrating Risk	Reasonable

## BOARD RESPONSIBILITY

14. The Board is responsible for ensuring that appropriate action has been taken on audit findings. All the internal audit reports produced for 2009/10 have been presented to the Audit Committee and any matters of significance that impacted on internal controls assurance were drawn to the Audit Committee's attention at the meetings at which the reports were presented.

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