

NOTTINGHAM CITY HOMES LIMITED
AUDIT COMMITTEE MEETING



Date: MONDAY 9 OCTOBER 2017

Time: 5.30 PM

Place: MEETING ROOM LH 1.18, LOXLEY HOUSE, NOTTINGHAM, NG2 3NJ

Directors of the Board are requested to attend the above meeting on the date and at the time and place stated to transact the following business:

George Pashley
Company Secretary

AGENDA

			Page No.	Time
1	INTRODUCTORY ITEMS			
1.1	WELCOME			5.30
1.2	APOLOGIES FOR ABSENCE			
1.3	DECLARATION OF INTERESTS			
1.4	MINUTES OF THE MEETING HELD ON 17 JULY 2017	Attached	3 - 8	5.30
1.5	MATTERS ARISING			
2	ITEMS FOR DISCUSSION AND DECISION			
2.1	APPOINTMENT OF CHAIR OF THE AUDIT COMMITTEE Report of Company Secretary	Verbal		5.30
2.2	PRESENTATION ON GENERAL DATA PROTECTION REGULATIONS Report of the Head of Governance	Verbal		5.35
2.3	OUTSTANDING AUDIT RECOMMENDATIONS Report of the Business Improvement and Performance Manager	Attached	9 - 13	5.50
2.4	CORPORATE RISK REGISTER REVIEW Report of the Head of Risk Management	Attached	14- 22	6.00
2.5	INTERNAL AUDIT REPORTS (i) Right to Buy (ii) ICT Control (iii) Internal Audit Plan Progress Update Reports of the Head of Internal Audit	Attached	23 - 52	6.10

3 CLOSING ITEMS

3.1 ANY OTHER BUSINESS

3.2 DATE OF NEXT MEETING – 8 JANUARY 2018

Members wishing to raise matters under Any Other Business should note that items will only be accepted if referred to and agreed by the Chair of the Board prior to commencement of the Meeting. Members wishing to submit their apologies should do so by contacting the Company Secretariat on 0115 746 9485. This agenda was issued by email on **2 October 2017**.

Distribution List:

All Board Members:

Dave Bennett-Bull, Bill Blincoe, Scott Campbell, Anne Dean, Elizabeth Ekaeteh, Patience Ifediora, Mike Khouri-Bent, Neghat Khan, Julian Owen, Sarita-Marie Rehman-Wall, Michael Savage, Malcolm Sharp, MBE, Geoff Walker and Sam Webster.

All EMT Members

Report Authors:

Ian Rabett, Phil Saunders, Shail Shah (NCC), Jane Buck (NCC), John Slater (NCC), Simon Parsons (NCC).

NOTTINGHAM CITY HOMES LIMITED

AUDIT COMMITTEE

Minutes of the **Public** Meeting of the Audit Committee held on **17 JULY 2017** at 5:30pm, in Room LH1.18 Loxley House, Station Street, Nottingham.

Present

Committee Members:

Anne Dean
Glenn Harris MBE (Chair)
Sarita-Marie Rehman-Wall

Also in attendance:

Philip Coleman	Principal Auditor, RSM UK Audit LLP
Tom Mouldsdales (Minute Taker)	Governance Officer
Simon Parsons	Audit Manager, NCC
George Pashley	Company Secretary
Darren Phillips	Assistant Director of Finance and Procurement
Ian Rabett	Head of Risk Management
Phil Saunders (Observer)	Business Improvement and Performance Manager
Michael Savage (Observer)	Tenant Board Member
Shail Shah	Head of Audit and Risk, NCC

1 WELCOME AND INTRODUCTIONS

The Chair opened the meeting and welcomed the attendees.

2 APOLOGIES FOR ABSENCE

Apologies received from Dave Bennett-Bull and Scott Campbell.

3 DECLARATIONS OF INTEREST

None declared.

4 ITEMS FROM THE CHAIR

None.

5 MINUTES OF THE PUBLIC MEETING HELD ON 10 APRIL 2017

The Audit Committee adopted the minutes as a true and accurate record of the meeting and signed by the Chair.

6 MATTERS ARISING

- 6.1 The Chair introduced the Head of Risk Management and explained that, following the recent events at Grenfell Tower, he and his team have been working continuously to answer the queries of Board Members, local Councillors and residents. This had meant the Corporate Risk Register item for July had been deferred. This will defer all scheduled 'deep dives' by one quarter.
- 6.2 The Head of Risk Management informed the Committee that NCH were in a strong position with regard to fire safety overall due to the work already conducted in high-rise properties, the safety group meetings, and the close working relationship with Nottinghamshire Fire and Rescue Service (NFRS). Following Grenfell, all high-rise blocks were internally reassessed to confirm they were still compliant with current standards. For additional assurance, the Fire Risk Assessments (FRA) for all 13 high-rises are also being reassessed by an independent verifier. Results are scheduled to be published publicly in August 2017. The 'Stay Put' policy was reviewed with NFRS to make sure it is still fit for purpose and 'Stay Put' remains to be the message nationally.
- 6.3 Much time has also been committed to tenant reassurance. This was accomplished through sending bespoke letters to all high-rise tenants and leaseholders as well as organising drop in sessions for every high-rise block to allow tenants and leaseholders to pose their concerns to NCH officers along with members of NFRS. Following the success of the drop in sessions NCH plans to organise an annual health and safety day for every block and NFRS have also committed to be involved with these events.
- 6.4 The Head of Risk Management confirmed that the cladding used on NCH blocks is not the same as the cladding used on Grenfell Tower. Cladding remains to be a major concern nationally and NCH's Asset Management Team have committed to review independently the cladding on all 13 high-rise blocks. The Head of Risk Management explained that suppliers are also required to do tests on their cladding products.
- 6.5 The Chair informed the committee that Nottingham City Council (NCC) will install sprinkler systems in all communal areas of the 13 high-rise blocks. The Chair queried if NCH has access to the necessary resources to meet the issues they face. This funding will be a part of NCC's capital expenditure budget and meetings have been arranged with the Portfolio Holder for Housing and the Director of Strategic Finance NCC to determine what funding can be made available from the government.
- 6.6 The Chair highlighted the overall issue caused by the lack of transparency in the Housing Revenue Account (HRA). Board members cannot be expected to make decisions on long term investments if they do not receive the appropriate level of financial context. The Director of Investment and Business services stated that, in the previous Resources Committee, representatives responsible for the HRA used to attend two NCH meetings a year. The Committee were asked if this is something they would like to bring back.
- 6.7 The Chair thanked the Head of Risk Management for the work he and his team, and the other teams involved, have accomplished and also praised the quality of the updates Board members have received.

7 OUTSTANDING AUDIT RECOMMENDATIONS

- 7.1 The Assistant Director of Finance and Procurement presented the report. The Audit Register includes a total of 39 audit recommendations of which 14 are still outstanding. Of the 14, all have gone beyond the original target dates agreed for their implementation. Of the 14, two are prioritised as high, ten are medium and two are low priority.
- 7.2 The Committee noted the significant progress that has been made and queried if the Service Level Agreement (SLA) with NCC Insurance & Risk Management Services is expected to be complete by October 2017. The Director of Investment and Business Services stated that other SLAs with the NCC, such as the ICT SLA, are almost complete and is back with NCC to be agreed.
- 7.3 The Senior Principle Auditor, RSM UK, queried the cost of damaged plant and equipment and if these costs of repair would be less than insuring the assets. The Head of Risk Management stated that this had not been an issue on a day to day basis however there have been noticeable exceptions. There are 20 to 30 high value high risk assets which need to be insured.
- 7.4 The Committee was informed that the Business and Improvement Manager would be responsible for reporting on outstanding Audit recommendations in the future.

RESOLUTIONS:

The Committee agreed to:

- 1. Note the contents of the report.**

8 2016/17 FINANCIAL STATEMENTS

- 8.1 The Assistant Director of Finance and Procurement presented the draft NCH report together with the financial statements for the year ended 31 March 2017 and the Final Audit Findings by RSM UK Audit LLP (RSM
- 8.2 The Principal Auditor, RSM UK, presented the final audit findings report. The Committee were informed of minor outstanding matters, which included; a letter from the bank which confirms the balances in the Company's bank account, final review of financial statements, and post year management accounts.
- 8.3 The Committee was informed that page 66 of the Committee paper notes the issues identified at the planning stage. No major issues were found relating to going concern; however this did not include a formal cash flow forecast or a forecast balance sheet. In regards to property accounting, accounts currently do not show depreciation on newly bought/constructed properties in their first year. This is not currently an issue due to the modest amount of depreciation in the first year.
- 8.4 The Principal Auditor, RSM UK, commented on pension liability stating that the valuation prepared by the Actuary has been reviewed and the assumptions used have been benchmarked against those used by other schemes, and these appear reasonable.
- 8.5 The Principal Auditor, RSM UK, commented on restructuring stating that the majority of the provision brought forward has been released in the year to cover payments made and an additional charge has been made due to forthcoming

payments.

- 8.6 The Principal Auditor, RSM UK, commented on the subsidiary companies stating that they will remain dormant but expect to commence trading in 2017/18.
- 8.7 The Principal Auditor, RSM UK, commented on accruals stating we have accepted the position adopted by management but will keep this under review in future years to ensure that invoices do not appear to be held in accruals beyond a reasonable time frame.
- 8.8 The Chair thanked the Assistant Director of Finance and Procurement for the quality of the accounts provided.

RESOLUTIONS:

The Committee agreed to:

- 1. Note the contents of the report.**
- 2. Approve the financial statements to go to Board on 27 July**

9 CHANGES TO STANDING ORDERS PART 2 AND 3

- 9.1 The Assistant Director of Finance and Procurement explained that the Articles of Association, the Terms of Reference of the Board, its Committees and the Standing Orders outline how the Company will be controlled and run. The Standing Orders are split into 3 parts; Governance, Financial Regulations, and Tender and Contract Procedure rules. Standing Orders require updating on a regular basis and the Committee was asked to review the amendments to part 2 and 3 of the standing orders.
- 9.2 The Chair queried what was the main change to wage income highlighted on page 94 of the pack. The Assistant Director of Finance and Procurement stated that it is to reflect the new Growth activities within NCH that have to be tendered for, thus leaving an uncertainty in income.

RESOLUTIONS:

The Committee agreed to:

- 1. Approve the revised Standing Orders Part 2 and 3.**

10 INTERNAL AUDIT REPORTS

- 10.1 The NCC Audit Manager presented the reports on the following items and stated that out of the six items, three are reports and three are updates;
- Final Report Follow Ups
 - Final Report Information & Data Management
 - Final Report Health and Safety (Water Hygiene)
 - Progress Report for 2017/18 Plan
 - Proposed Internal Audit Plan 2017-2018
 - Proposed internal Audit Strategic Plan 2017-2020

10.2 FINAL REPORT FOLLOW UPS

- 10.2.1 The Audit Manager, NCC, stated that high priority recommendations have been

taken from the six previous audit reports since 2014/15. Out of these recommendations five have been implemented and one is outstanding. The recommendation which is still outstanding needs additional time and we are happy to give significant assurance.

- 10.2.2 The Principal Auditor, RSM UK, queried the IT management issue were accounts are still active once an employee leaves the organisation. The Chair explained that this is not a major security risk as you need to have access to the networking within NCH before you can get into the system.

RESOLUTIONS:

The Committee agreed to:

- 1. Note the contents of the report.**

10.3 FINAL REPORT INFORMATION & DATA MANAGEMENT

- 10.3.1 The Audit Manager, NCC, provided limited assurance on governance concerns relating to data processing, information sharing and retention of information. The General Data Protection Regulations (GDPR) comes into effect in May next year and large fines can be incurred if measures are not taken. In this report are three high priority recommendations; first relating to compliance and the remaining two relating to record keeping and forms used to track consent for personal data.

- 10.3.2 The Chair stated that this will be more significant from May next year. The Company Secretary stated that the Head of Governance can present an update to Audit Committee on the impact of the new GDPR. An action group has been set up to prepare for the issues in the future. The Chair asked for an update to the Committee once these works have been concluded.

RESOLUTIONS:

The Committee agreed to:

- 1. Note the contents of the report.**
- 2. Head of Governance to provide updates on GDPR working group.**

10.4 FINAL REPORT HEALTH AND SAFETY (WATER HYGIENE)

- 10.4.1 The Audit Manager, NCC, provided significant assurance on this report. The report highlights 2 medium priority and 5 low priority recommendations relating to record keeping.

RESOLUTIONS:

The Committee agreed:

- 1. To note the contents of the report.**

10.5 PROGRESS REPORT FOR 2017/18 PLAN

- 10.5.1 Head of Audit and Risk, NCC, stated that there have been three audits this quarter and there will be another three next quarter. Scope has been included to clarify specific areas and linkages have been put in place to the Corporate Risk Register on a quarterly basis. Some Audits have also been combined such as payroll, recruitment, and absence management as it would make the process easier.

NOTTINGHAM CITY HOMES

REPORT OF THE BUSINESS IMPROVEMENT AND PERFORMANCE MANAGER

AUDIT COMMITTEE
9 OCTOBER 2017

OUTSTANDING AUDIT RECOMMENDATIONS

1 EXECUTIVE SUMMARY

- 1.1 To ensure that actions from internal audits are implemented within agreed timescales, updates are regularly obtained from responsible officers on a regular basis and documented in the Audit Recommendations Register.
- 1.2 The Audit Committee is required to oversee the timely implementation of all agreed actions agreed by managers in response to internal audit recommendations, in order to fulfil its responsibility to advise the Board on the effectiveness and adequacy of the company's internal control arrangements.
- 1.3 The audit register includes a total of 26 audit recommendations of which 16 are outstanding. A summary of the status of all audit recommendations is attached as Appendix 1.

2 RECOMMENDATIONS

It is recommended that the Audit Committee:

- 2.1 **Review** the report and confirm that they are satisfied with the progress made by appropriate managers in implementing the agreed internal audit actions.

3 REPORT

- 3.1 The Audit Register contains a total of 16 audit recommendations which have yet to be implemented, this compares with 14 at the end of the previous quarter.
- 3.2 There has been good progress in implementing audit register recommendations. Out of a total of 26, 10 have been completed. Of the 16 recommendations still outstanding, 10 have gone beyond the original target dates agreed for their implementation.
- 3.3 There are two internal audit recommendations which were assigned as a high priority and which are still outstanding. Details of these recommendations, agreed management actions and target dates for implementation are included in Appendix 2.

4 FINANCIAL, LEGAL AND RISK IMPLICATIONS

4.1 Financial Implications

4.1.1 None

4.2 Legal Implications

4.2.1 None

4.3 Risk Implications

4.3.1 There are clearly risks for the business if internal audit actions are not implemented in a timely manner. The internal audit reports highlight the level of risk attributed to each of the actions as follows

- High – A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
- Medium – A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
- Low – The audited body is not exposed to any significant risk, but the recommendation merits attention.

5 IMPLICATIONS FOR NOTTINGHAM CITY HOMES' OBJECTIVES

5.1 Through regular monitoring of audit outcomes and action to address concerns, our systems will assist NCH is achieving on its core objectives.

6 EQUALITY AND DIVERSITY IMPLICATIONS

6.1 Has the equality impact of these proposals been assessed?
 Yes (EIA attached)
X No (this report does not contain proposals which require an EIA)

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

7.1 Outstanding Audit Recommendations Summary - [Appendix 1](#)

7.2 Outstanding High Priority Recommendations – [Appendix 2](#)

Contact officers: Name: Phil Saunders
Address: Loxley House, Station Street, Nottingham
[Tel:0115 7469017](tel:01157469017)
E-mail: philip.saunders@nottinghamcityhomes.org.uk

Date: 9 OCTOBER 2017

AUDIT RECOMMENDATIONS REGISTER SUMMARY - APPENDIX 1

Audit Report	Date of Issue	Recommendations / Agreed Management Actions					Priority of O/S Items		
		Total	Complete	Out-standing	Past Original Target Date	Revised Target Date	Hi (1)	Medium (2)	Low (3)
IT SECURITY MOBILE TECHNOLOGY	MAY 2013	1	-	1	1	NOVEMBER 2017	-	-	1
IT: SYSTEMS ADMIN & ASSET MGT	SEPTEMBER 2014	2	-	1	1	NOVEMBER 2017	-	1	-
	JUNE 2017	3	-	1	1	OCTOBER 2017	1	-	-
PROCUREMENT & CONTRACTS	DECEMBER 2014	4	-	1	1	JANUARY 2018	-	1	-
BUSINESS CONTINUITY	JANUARY 2015	5	-	1	1	DECEMBER 2017	-	1	-
RENT ARREARS & MANAGEMENT	SEPTEMBER 2015	6	-	1	1	DECEMBER 2017	-	1	-
		7	-	1	1	DECEMBER 2017	-	1	-
KEY PERFORMANCE INDICATORS	DECEMBER 2015	8	1	-	-	SEPTEMBER 2017	1	-	-
		9	-	1	1	SEPTEMBER 2017	-	1	-
HR – PAY POLICY COMPLIANCE	DECEMBER 2016	10	1	-	-	NOVEMBER 2017	-	1	-
	DECEMBER 2016	11	1	-	-	DECEMBER 2017	1	-	-
INFORMATION & DATA MANAGEMENT	JUNE 2017	12	1	-	-	OCTOBER 2017	1	-	-
	JUNE 2017	13	1	-	-	OCTOBER 2017	-	-	1
	JUNE 2017	14	1	-	-	OCTOBER 2017	1	-	-
	JUNE 2017	15	1	-	-	OCTOBER 2017	1	-	-
	JUNE 2017	16	1	-	-	OCTOBER 2017	-	1	-
HR – EMSS ASSURANCE & RECRUITMENT FOLLOW UP	DECEMBER 2016	17	-	1	1	NOVEMBER 2017	-	1	-
RISK – BOARD PLANNING & GOV	DECEMBER 2016	18	-	1	1	OCTOBER 2017	1	-	-

25.09.17

HEALTH & SAFETY (WATER HYGIENE)	JUNE 2017	19	1	-	-	JULY 2017	-	1	-
	JUNE 2017	20	-	1	-	DECEMBER 2017	-	1	-
	JUNE 2017	21	-	1	-	SEPTEMBER 2017	-	1	-
	JUNE 2017	22	-	1	-	SEPTEMBER 2017	-	1	-
	JUNE 2017	23	-	1	-	SEPTEMBER 2017	-	1	-
	JUNE 2017	24	-	1	-	OCTOBER 2017	-	-	1
	JUNE 2017	25	1	-	-	JULY 2017	-	-	1
CONSTRUCTION, REPAIRS & MAINTENANCE	JUNE 2017	26	-	1	-	NOVEMBER 2017	-	-	1
		Total	Complete	Out-standing	Past Original Target Date	Revised Target Date	Hi (1)	Medium (2)	Low (3)
TOTALS		26	10	16	10		7	14	5

25.09.17

AUDIT REGISTER – OUTSTANDING HIGH PRIORITY AUDIT RECOMMENDATIONS (Sep 17)							
Audit & Date of Issue	REF	Recommendations	Priority	Initial Target Date	Agreed Mgt Response	Current Status	Responsible Officer (Revised Date)
IT SYSTEMS ADMINISTRATION & ASSET MANAGEMENT 2014/15 FOLLOW UP JUNE	3	Develop procedures for the removal of access by individuals that have left the employment of NCH and for staff transferring into different roles within the company. The procedures should ensure that partner organisations are also informed promptly when an employee leaves	High	Oct 2017	HR and Business Transformation will develop a written process ensuring that all leaver information is reported in a timely manner and implement checks to mitigate the risk of unauthorised access	The Business Transformation Team has now developed a draft process and is in discussion with relevant managers prior to implementation. In the interim HR are reviewing the Oracle structure to ensure leavers are removed and this information is reported by to IT.	Claire Bristow Head of Organisational Development (Nov 2017)
RISKS ASSOCIATED WITH BOARD PLANNING & GOVERNANCE DECEMBER 2016	18	Governance arrangements need to ensure that strategic developments in NCH are fully notified to the Insurance & Risk Team in a timely way to obtain adequate cover.	HIGH	May 2017	Concerning NCH properties we are reviewing our process to provide NCC with regular updates	A draft SLA has been prepared and is currently with relevant NCH colleagues for comment before being finalised with NCC.	Ian Rabett – Head of Risk Management (October 2017)

NOTTINGHAM CITY HOMES

AUDIT COMMITTEE
9 OCTOBER 2017

REPORT OF THE HEAD OF RISK MANAGEMENT

CORPORATE RISK REGISTER REVIEW

1 SUMMARY

- 1.1 Audit Committee is invited to review our arrangements for managing risks associated with ICT (CRR008) and Business Development (CRR 009). A summary of these risks is provided as [Appendix 1](#) to this report.
- 1.2 This review completes the cycle of risk reviews for the current risk register; the review cycle was originally scheduled to have been completed in July, although this was delayed by one quarter due to unexpected workloads.
- 1.3 A planned external review of our ICT disaster recovery capability has been cancelled, but has now be carried out by Internal Audit, and a report is expected to be available at the next Audit Committee meeting.
- 1.4 A new register is under development alongside the new Corporate Plan. This will include new and emerging risks, including a number of new risks relating to ICT.
- 1.5 Further changes are required to the Registered Provider (RP) risk register following feedback from the Homes and Communities Agency (HCA). Audit Committee will be updated on how this affects existing risk registers once the RP risk register has been finalised.

2 RECOMMENDATIONS

It is recommended that the Audit Committee:

- 2.1 **Review** the arrangements for managing the risks described in Sections 8-9 of our Corporate Risk Register.

3 REPORT

- 3.1 Board has previously agreed that Audit Committee monitor the Corporate Risk Register by carrying out a 'deep dive' into each risk. Audit Committee agreed to review a selection of risks each quarter, so that the entire risk register is monitored annually. The risks that Audit Committee agreed to monitor this quarter are:

CRR008 – Information and Communication Technology [ICT] (Jonathan Shaw).

CRR009 – Business Development (Jonathan Shaw).

A summary report is provided at [Appendix 1](#). Audit Committee is invited to ask appropriate questions of the lead officers for these risks.

- 3.2 These risks were originally scheduled to be reviewed in July 2017; however this review was postponed due to additional workloads following the Grenfell Tower disaster. A verbal update on the actions taken following Grenfell was provided instead.
- 3.3 The Nottingham City Homes (NCH) ICT Team has recently been restructured. It has been managed by a number of interim post holders. A permanent Head of Business Transformation has now been appointed alongside a new ICT Manager, and a period of stability is now expected especially with regard to ICT project management.
- 3.4 An external review of the ICT disaster recovery arrangements in place by Nottingham City Council (NCC) was anticipated last financial year; however the costs following competitive tender were significantly greater than originally budgeted for. Internal Audit will now carry out this review and present their findings to Audit Committee by the end of this year.
- 3.5 NCH continues to develop new business models and the new subsidiaries created to facilitate this growth are now operational. Although Board is expected to be less risk averse in this area than other areas such as Health and Safety, legal or financial risk, it is important that governance and financial controls are in place and maintained in relation to the development of new business models.

4 FINANCIAL, LEGAL AND RISK IMPLICATIONS

Financial

- 4.1 Financial risks are included in the Corporate Risk Register, however these are not the subject of this quarter's review and there are no new financial implications arising from the content of the report.

Legal

- 4.2 N/A

Risk

- 4.3 This report forms part of our processes for managing risk.

5 IMPLICATIONS FOR NOTTINGHAM CITY HOMES' OBJECTIVES

- 5.1 The Risk Register defines risks to the Corporate Plan objectives and identifies measures to ensure that objectives are met. The Risk Register is also required to meet HCA governance standards in respect of the Registered Provider subsidiary.
- 5.2 NCH has introduced a new corporate objective "To generate new business, securing income to reinvest in Nottingham and our communities". CRR 009 (Business Development) addresses risks associated with this new objective.

6 EQUALITY AND DIVERSITY IMPLICATIONS

- 6.1 Has the equality impact of these proposals been assessed?
- Yes (EIA attached)
- No (this report does not contain proposals which require an EIA)

7 APPENDICES

- 7.1 [Appendix 1](#): Summary of Risks CRR008 and CRR009

Contact officers: Ian Rabett
Head of Risk Management
Loxley House
Station Street
Nottingham
Tel: 0115 746 9080
E-mail: ian.rabett@nottinghamcityhomes.org.uk

Date: 26 SEPTEMBER 2017

Summary of Risks CRR008 and CRR009

CRR008	INFORMATION & COMMUNICATIONS TECHNOLOGY [ICT]		
Loss of data, failure of networks or operating systems, insufficient data security or a failure to invest in technological improvements prevents efficient delivery of services or results in legal action			
			<p>Commentary: ICT is central to the delivery of all our services, and NCH is working with NCC towards the modern infrastructure that is required to maintain a continuous and efficient service, retain sensitive data securely, implement mobile working and combat emerging risks such as cyber crime and compliance with the forthcoming General Data Protection Regulations.</p> <p>A restructure of our ICT team has involved the transition of a number of technical support staff to NCC, but has retained much of the project management function. Although there has been a period of instability within the management structure during this transition, a permanent head of service and ICT manager have been recruited and will start in post shortly.</p> <p>An external audit of our disaster recovery capability had been planned for 2015/16, however the cost of this far exceeded our allocated budget. The original scope of the audit has been shared with Internal Audit who will now carry out this review.</p>

Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR008a	Critical ICT systems and data are not backed up securely, resulting in significant data loss or inability to provide effective services.	HIGH	- NCC Backup service (NCC provide a comprehensive backup of data on NCH behalf and exception reporting provided)	MED	- Recruit Head of Business Transformation and ICT Manager - Infrastructure refresh to provide a cost effective, resilient and fit for future purpose ICT infrastructure	LOW

Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR008b	ICT projects and system improvements are not delivered as planned, causing delays to major projects and additional costs	HIGH	<ul style="list-style-type: none"> - ICT Programme Board (Senior management oversight on progress of ICT Projects and reviews prioritisation of projects) - Project Management (ICT projects managed through agreed project management process and reported to ICT Programme Board and CPB) 	HIGH	<ul style="list-style-type: none"> - Recruit Head of Business Transformation and ICT Manager - Infrastructure refresh to provide a cost effective, resilient and fit for future purpose ICT infrastructure - Corporate Mobile Working (The purpose of this Corporate Project is to deliver new ways of working, services, service standards and channel shift which will help to enhance service delivery to our staff) 	LOW
CRR008c	Inadequate ICT security allows data theft, fraud and malware infections of NCH and customer information.	HIGH	<ul style="list-style-type: none"> - Acceptable Use Policy (mandatory completion for all employees to ensure understanding and compliance with data security requirements) - Data Encryption (Mobile devices and approved USB sticks hold encrypted data) - Firewall security (NCC provide highly restricted access to the network to ensure data security). 	MED	<ul style="list-style-type: none"> - Recruit Head of Business Transformation and ICT Manager - Infrastructure refresh to provide a cost effective, resilient and fit for future purpose ICT infrastructure 	MED
CRR008d	ICT databases and web pages are not kept up to date or contain incorrect information, resulting in poor customer services and experience	HIGH	<ul style="list-style-type: none"> - New Corporate Website (New corporate website went live in 2016 with review of content) - CRM (New CRM now in place ensuring customer data is available in one place with increased integration with Northgate). 	MED	<ul style="list-style-type: none"> - Recruit Head of Business Transformation and ICT Manager - Data cleansing and architecture project 	LOW

Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR008e	Failure to match company requirements and ICT systems results in inefficient service delivery.	HIGH	<ul style="list-style-type: none"> - ICT Programme Board (Senior management oversight on progress of ICT Projects and reviews prioritisation of projects) - Project Management (ICT projects managed through agreed project management process and reported to ICT Programme Board and CPB) 	HIGH	<ul style="list-style-type: none"> - Corporate Mobile Working (The purpose of this Corporate Project is to deliver new ways of working, services, service standards and channel shift which will help to enhance service delivery to our staff) - Recruit Head of Business Transformation and ICT Manager - Update ICT Strategy - Infrastructure refresh to provide a cost effective, resilient and fit for future purpose ICT infrastructure 	LOW

CRR009	BUSINESS DEVELOPMENT
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NCH fails to diversify, compete effectively in open markets or manage the risks associated with new business activities, resulting in a reducing core business, poor investments and loss of confidence in the organisation

<p>Original Risk</p>	<p>Current Risk</p>	<p>Target Risk</p>	<p>Commentary: NCH continues to focus on new business opportunities, and this is reflected by the introduction of a new corporate objective “To generate new business, securing income to reinvest in Nottingham and our communities”. The two new subsidiary organisations that were created to facilitate growth are now active, as is our market rented arm. A review of our Construction, Repairs and Maintenance service management and staff structure is nearly complete, which should allow us to tender more competitively in the open market, and we continue to investigate ways to expand our telecare services to more customers. Nevertheless, the creation of new business streams is not without risk, and often involves slow returns on investment such as when developing or purchasing properties for rent. Board is therefore expected to be less risk averse in this area than others, but to keep governance and financial safeguards under close review.</p>
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Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR009a	<p>Our failure to identify new business opportunities and to grow and diversify appropriately results in a net reduction of the company's business and assets.</p> <p>Management Structure</p>	HIGH	<ul style="list-style-type: none"> - Management restructure (the management structure has been revised to future proof the organisation and to prepare for additional commercial activities and the creation of a registered provider) - Board Control over Development (NCH business development priorities agreed by Board) - Market Rented Arm - Creation of subsidiaries to deliver new business opportunities for NCH. 	MED	<ul style="list-style-type: none"> - Review New Business Development Strategy - Development and implementation of marketing plan to grow NOC with regard to lifeline and telecare provision. Linked to KPI to increase number of private customers for NOC 	LOW

Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR009b	A failure to identify and manage the risks attached to new business results in financial loss or reputational damage for Nottingham City Homes Management Structure	HIGH	<ul style="list-style-type: none"> - Management restructure (the management structure has been revised to future proof the organisation and to prepare for additional commercial activities and the creation of a registered provider) - Senior Management Training (External expert training provided on the responsibilities of directors in running the new subsidiaries) - Business Opportunities Matrix (Business Opportunities Matrix provides a framework for assessing risk) - Governance Arrangements (New business governance arrangements and business case template) - Market Rented Arm - Creation of subsidiaries to deliver new business opportunities for NCH. 	MED	<ul style="list-style-type: none"> - Review New Business Development Strategy - Development and implementation of marketing plan to grow NOC with regard to lifeline and telecare provision. Linked to KPI to increase number of private customers for NOC 	LOW
CRR009c	A lack of commercial awareness and expertise at Board and Executive Management level results in early failure of new business models	HIGH	<ul style="list-style-type: none"> - Self-assessment (Comprehensive self-assessment undertaken utilising the NHF 2015 Code of Governance Checklist to ensure governance arrangements meet the minimum criteria required. The NHF requirements are more stringent than HCA) - Standing Orders (NCH has a Company Secretary with clear accountability to the Board. NCH supported by comprehensive Standing Orders Part 1 Governance, Part 2 Financial Regulations and Part 3 Tender and Contracts Procedures are in place). - Training (Board, EMT and staff training undertaken with regard to governance compliance. Anthony Collins Training provided to EMT and Staff members). - Creation of subsidiaries to deliver new business opportunities for NCH. 	LOW	<ul style="list-style-type: none"> - Review New Business Development Strategy 	LOW

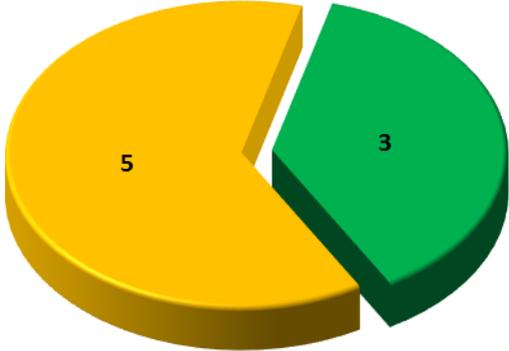
Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR009d	Competition and other market forces impact on the success and profitability of new business ventures	HIGH	<ul style="list-style-type: none"> - Business Objects Matrix (Business Opportunities Matrix provides a framework for assessing risk) - New Business Governance Arrangements (New business governance arrangements and business case template) - Market Rented Arm - Creation of subsidiaries to deliver new business opportunities for NCH. 	MED	- Review New Business Development Strategy	LOW
CRR009e	Forced sale of new build homes at below market rates through RTB leaves NCH with outstanding debt and no rental income for affected properties.	MED	<ul style="list-style-type: none"> - NCH's structures and activities mean it can invest in ALMO social, subsidiary market rented and subsidiary RP housing assets. Currently only RP status exposes those assets to the risk of RTB - Current Legislation (NCH Limited is currently not effected by RTB legislation). - Discounts capped and Cost Floors for new build properties - Market Rented Arm - Creation of subsidiaries to deliver new business opportunities for NCH. 	LOW	- Review New Business Development Strategy	LOW
CRR009f	Inability to acquire land suitable for development in Nottingham reduces scope and increases cost of new build programmes	HIGH	<ul style="list-style-type: none"> - NCC Partnership (Working with NCC to identify appropriate sites) - Market Rented Arm - Creation of subsidiaries to deliver new business opportunities for NCH. 	MED	- Review New Business Development Strategy	MED



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Distribution List	
Issue Date:	21 st September 2017
Issued to:	Gill Moy – Director of Housing and Customer Services, NCH
	Paul Millward – Head of Resilience, NCC
Copied to:	Malcolm Townroe – Director of Legal and Governance, NCC
	Geoff Walker – Strategic Director of Finance, NCC
	Kim Tokelove – Senior RTB Officer, NCC
	Mark Lawson – Executive Assistant, NCH
	Dawn Greenwood – Leasehold Manager, NCH
	Kay Frankson – Head of Rents
	Richard Holland – Assistant Director
Graham Demax – Housing Partnership Manager	

Contact Details:		
Head of Internal Audit	Shail Shah	Ext 64245
Audit Manager	Simon Parsons	Ext 64246
Lead Auditor	Jane Rankin	Ext 64238
Senior Auditor	Steve Hales	Ext 64153

<p>Department: NCC – Strategy and Resources NCH – Housing and Customer Services</p> <p>Previous review: NCH Right to Buy (Cost Floor) 2015/16 NCH Right to Buy (Cost Floor) Follow Up 2016/17</p>	<p>Overall Opinion: </p> <p>Significant Assurance</p>	<p>Direction of Travel: </p>								
<p><u>Scope and Approach:</u> This review considered the following aspects of the Right to Buy (RTB) process:</p> <ul style="list-style-type: none"> • A review of the RTB process within the Council and Nottingham City Homes. • Ensuring properties are only sold to those eligible to purchase under RTB. • Applications are processed promptly and in accordance with legislation. • Valuations are undertaken in a timely manner. • A review of the process to establish cost floor values and that they are accurately recorded • Discounts are reclaimed if a property is resold. 										
<p>High Priority Recommendations</p> <p>There are no High Priority recommendations.</p>	<p><u>Summary of the recommendations by priority</u></p>  <table border="1"> <caption>Summary of the recommendations by priority</caption> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>0</td> </tr> <tr> <td>Medium</td> <td>5</td> </tr> <tr> <td>Low</td> <td>3</td> </tr> </tbody> </table>		Priority	Count	High	0	Medium	5	Low	3
Priority	Count									
High	0									
Medium	5									
Low	3									

Right To Buy

Introduction and background

- 1.1 The RTB Scheme was introduced under the 1980 Housing Act and amended by the Housing Act 2004.
- 1.2 The scheme entitles tenants to buy the Council home they are currently renting at a discounted price if the tenant:
 - Is a secure tenant now and
 - Lives at the property as their main home and
 - Has a total of at least 3 year's public sector tenancy in either Council or Housing Association property.
- 1.3 The maximum discount is £78,600 across England, except in London boroughs where it is £104,900 and increases each year in April in line with the consumer price index (CPI). The discount is based on:
 - How long the tenant has been with a public sector landlord.
 - The type of property that is being bought - a flat or house.
 - The value of the property.
- 1.4 If the tenant is buying with someone else, the years of whoever's been a public sector tenant the longest is counted. The tenant will usually have to repay some or all of the discount if the property is sold within 5 years.
- 1.5 Aspects of the overall process are undertaken within Nottingham City Council (NCC) and Nottingham City Homes (NCH) and therefore testing has been undertaken in both organisations and the findings incorporated into this report.
- 1.6 In calculating the sale price, the cost floor needs to be determined. Previous Internal Audit work has identified issues with this part of the process and specific testing has been undertaken – see 1.16.

Key Findings

- 1.7 As parts of the RTB process are undertaken within NCC and NCH work has been split as follows:
 - Processes undertaken within NCC's RTB Team
 - NCH Cost Floor calculations
 - NCH Leasehold Cost calculations

Right To Buy

1.8 The key findings in each of these areas are detailed below.

Processes undertaken within NCC's RTB Team

1.9 NCC's RTB Team is involved in the overall process from receipt of the RTB application until sale, either being directly responsible for some aspects of the process or co-ordinating information / responses for other parts.

1.10 We met with the Senior RTB Officer to document the processes within NCC's RTB Team.

1.11 We selected a sample of 25 applications to ensure these processes are operating correctly and that there is evidence to support each application and the calculation of the final discount and therefore sale price. In addition, the City Council's Counter Fraud Team (CCCF) Team have also undertaken eligibility checks on each of the sample.

1.12 The results of the testing were as follows:

- All applicants had been notified that their RTB application had been received.
- The CCCF Team have confirmed that there are no issues in respect of the eligibility of each applicant. This includes joint / other applicants.
- Whilst the CCCF Team confirmed the above there were instances where an application included a family member with a different surname. At present, the RTB Team will accept the applicant on the basis that they are signing to confirm that all information provided is correct. Current checks include consulting the Register of Electors for all family members, except spouses, to confirm 12 month residency. Also, a spouse with a different surname has to provide sight of a marriage certificate if residency is claimed or proven to be less than 12mths.
- All tenancies were secure.
- Qualifying periods have been calculated correctly.
- A RTB2 (Section 124 Notice that an application has been admitted or denied) had been issued in all cases where appropriate.
- The decision to admit or deny the application was in accordance with relevant guidance.
- For 23 applications, the statutory timescale for admitting or denying had been exceeded and for 18 applications, the statutory timescale from admission to offer had been exceeded. If these timescales are exceeded the applicant can use the delay process to claim compensation for the delay caused. This would have the effect of entitling the

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applicant to a refund of rents paid during the delay period. The Head of Resilience has confirmed that since this audit was completed, the 'backlog' has now been eliminated as at 1st September 2017 and so no current additional refund of rents are being made.

- Following the provision of an additional staff resource in December 2016, the RTB Team has introduced a monitoring process, which ensures that applications are dealt with in a chronological order, thereby prioritising work. This should help reduce the number of applications that exceed the statutory timescales.
- Valuations had been received in all cases were appropriate and had not caused any delay in the process.
- Discounts had been calculated correctly.
- There was evidence on file to support the cost floor. Note - cost floor has only been verified to paperwork on file - as agreed at the start of the audit no further work has been undertaken to verify to Northgate / other systems. Separate testing has been undertaken on an additional cost floor sample – see 1.16 NCH Cost Floor Calculation.
- There was evidence on file to support leasehold costs where appropriate. As above, separate testing has been undertaken on an additional leasehold cost sample – see 1.24 NCH Leasehold Cost Calculation.
- The RTB Team gathers information from other parts of the Council / NCH in order to process the application. It does this by sending out a list of the new RTB's to appropriate contacts. Whilst we saw evidence on files where there had been an issue raised by the respective contact, any responses received confirming no issues were not on file, although all e-mail responses are filed electronically.
- Previous discounts had been considered correctly where appropriate.
- The RTB Team runs drop in sessions for both prospective and current RTB applicants. As part of these sessions, application details could be confirmed / changed. As part of the sample, we identified some changes on the application form. When we questioned these, it was established that some had been made by the applicant personally, whilst others had been changed by one of the members of the RTB Team. We also established that changes could be made as a result of letters / email's / telephone conversations etc. It was not always apparent why / who had made the change to the form.

1.13 In addition, we discussed with NCC's RTB Team and the Housing Partnership Manager the process for dealing with the sale of a property purchased under the RTB scheme.

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- 1.14 If a tenant sells within 5 years they may have to repay the discount. This would be noted within the property deeds and the Council would be informed by the vendor's solicitor. The amount of repayment is calculated and the tenant informed. This is processed through Conveyancing and they may approach the RTB Team to confirm the repayment amount. The Council has also established a policy that will enable them to waive the repayment of whole or part of the discount that would be repayable. This was approved through a Portfolio Holder's Decision
- 1.15 If the tenant sells within the first 10 years, the Council has the right to buy back the property. As above, this would be noted in the deeds and the vendor's solicitor would contact the council. The Council will then decide whether to exercise its option to buy back the property.

NCH Cost Floor calculation

- 1.16 As part of the calculation of the sale price of the property, the cost floor must be determined. This is the amount of money spent on an individual property in the 10 year period prior to the relevant date (except if the property was built or acquired after 1st April 2012, then the cost floor period increases to 15 years).
- 1.17 Legislation outlines the relevant costs that can be included within this amount and states that the first £5,500 of these relevant costs should be excluded if they meet the specified criteria.
- 1.18 To determine the cost floor, each month, NCH runs a Business Objects report to pick up all the RTB applications from that month through the Northgate Housing system to extract the following information:
- Property construction or acquisition date to establish the relevant period for costs to be included in the cost floor calculation
 - Build or acquisition costs, if applicable
 - Responsive repair costs for each property
 - Block repair costs
- 1.19 In addition to the above, planned work costs are added manually as these are recorded on other systems (Keystone / Delcam) and do not appear on the Northgate Housing system.
- 1.20 The above information is extracted to a monthly spreadsheet and £5,500 deducted, if applicable, to establish the cost floor. This spreadsheet is then sent to NCC's RTB Team.

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- 1.21 The date the cost floors are received in RTB will affect the statutory timescales for the serving of the S125, as these are needed to calculate the discount, which is quoted in the formal offer letter.
- 1.22 We have undertaken testing on a sample of 20 RTB applications from the monthly cost floor spreadsheets to verify the above information and that the cost floor has been calculated correctly.
- 1.23 The results of the testing were as follows;
- The period used for the calculation of costs on the property was correct in all cases.
 - Build or acquisition costs were not relevant for any of the sample as this date was outside the relevant period above.
 - The Business Objects report picks up the relevant repair costs for the 10 year period prior to the report run date. This allows for any repairs prior to the RTB application date to be completed and charged on the Northgate Housing system. This is considered to be in line with Appendix A – The Housing (Right to Buy) (Cost Floor) (England) Determination 1998.
 - The Business Object report picks up information at a “moment in time” and this data is retained to support the repairs amount included in the cost floor calculation. It is difficult to verify this on Northgate Housing retrospectively as some repair costs may not be finalised until a later date. We feel that the approach used is reasonable due to the legislative timeframes that need to be met and the low risk that an amended cost floor will affect the sale price.
 - We were able to confirm all planned maintenance and improvements costs that had been added to the spreadsheet manually to the appropriate other systems.
 - Previous audit work had identified that spot checks by management on calculations take place, however, these are not recorded. The current process is overseen by the Executive Assistant within NCH who undertakes checks prior to the information being returned to NCC’s RTB Team, however these are still not documented.
 - As stated above, the process has been overseen since March 2017 by the Executive Assistant within NCH. This is on an interim basis whilst it has been developed through discussion with NCC’s Senior RTB Officer and Housing Partnership Manager. It is anticipated that this process will ultimately move to the Asset Management Team within NCH.

NCH Leasehold Cost calculation

- 1.24 The Leasehold Team receives a list of the new RTB applications each month. Each of the applications is entered onto the RTB application checklist to track its progress within the Team. The Leasehold Team send details of the properties in each application to the Asset Team who provide the following:
- Forecast of maintenance and repair works to the block
 - Forecast of improvements (major works) to blocks
- 1.25 This cost data comes from the Keystone Asset Management System which stores stock condition data for all Nottingham City Council owned properties. The information held in the database is constantly updated from new surveys conducted by Building Surveyors as well as from the 'Completed Works Interface'. This information is used to create yearly Programmes of Work for Planned Maintenance as well as Investment Forecast Assessments.
- 1.26 In the database, for every element i.e. roof, wall Insulation, path etc. there is the following:
- Installation date
 - Replacement date
 - Quantity
 - Material
 - Cost
- 1.27 If the replacement date falls within the next 5 years this is added to the RTB service charge report. The cost is based on the Schedule of Rates that is also stored in Keystone. The SOR is updated on a yearly basis to reflect the actual cost of element replacement.
- 1.28 In addition, information is added in respect of the costs from NCH's cyclical programmes of works and returned to the Leasehold Team.
- 1.29 The Leasehold Team adds this to the RTB Service Charge proforma, along with details of the annual estimated service charges, which the Leasehold Team is responsible for calculating. The Council is bound by these costs and cannot charge above these figures once the sale is complete or for any works of repair, maintenance or improvement not quoted in the forecast.

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- 1.30 The date that the RTB Service Charge proforma's are received in RTB affects the statutory timescales for the serving of the S125, as these are needed to form part of the formal leasehold offer letter.
- 1.31 We selected a sample of 5 leasehold properties and gathered evidence to support the figures that are reported to NCC's RTB Team for inclusion in the final sale documentation.
- 1.32 The results of the testing were as follows;
- Progress for each application had been recorded on the applications checklist
 - We were able to confirm the repairs and improvement works costs to the information provided by the Asset Management Team for 3 of the sample. For the two others for one there was no evidence to support the costs reported to the RTB Team and it was established for the other this was a transposition error when there was an amendment to the proforma used.
 - We were able to confirm the annual service costs for all of the sample.
 - In discussions with the Leasehold Manager, we also established that the information received from the Asset Management Team has been reviewed and now additional costs are being included. This will ensure that the most accurate estimate of repairs and improvement costs is used.

Opinion

- 1.33 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed as set out in the agreed Audit Brief. We can report **Significant Assurance** on the controls in this area. In addition, we have noted that there have been significant improvements in the cost floor process.

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Summary of Recommendations

- 1.34 Details of all of the issues arising from this review, along with our recommendations and management responses, are set out in the attached Action Plan.
- 1.35 Within the Action Plan we have assigned a priority ranking to each recommendation to reflect the degree of risk that the issue that they relate to pose in the context of the audited area and hence the urgency with which the recommended actions should be addressed. The recommendations are summarised as follows:

Priority	Number of Recommendations		
	NCC	NCH	Total
High	0	0	0
Medium	3	2	5
Low	1	2	3
Total	4	4	8

Added Value

- 1.36 This audit has helped to provide assurance that the systems and procedures in place for RTB are working well. We have also established that there have been improvements in respect of the cost floor calculation process.

Responsibilities

- 1.37 Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested.
- 1.38 It is expected that management will respond to this draft report within 10 working days of receipt.
- 1.39 Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.

Detailed Findings and Action Plan

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
NCC'S RTB TEAM					
2017-18 R1	<p>Whilst the CCCF Team confirmed the eligibility of all applicants in the sample there were instances where an application included a family member with a different surname. At present, the RTB Team will accept the applicant on the basis that they are signing to confirm that all information provided is correct. Current checks include consulting the Register of Electors for all family members, except spouses, to confirm 12 month residency. Also, a spouse with a different surname has to provide sight of a marriage certificate if residency is claimed or proven to be less than 12mths.</p> <p>Risk Ineligible applicant may be included on the RTB.</p>	Additional evidence should be obtained to verify the family member's eligibility were this situation occurs.	Medium	This issue was raised by the RTB team for advice from Audit as to the level if identity checks considered acceptable. Current methods (which include checks on the Register of Electors) have been used for 20+ years. Following advice from Audit RTB are suggesting that family members included in applications should provide 2 forms of ID dated 12mths prior to the application date but where the electoral checks show the family member as not registered, additional ID will be required to prove residency within 12 months prior to the	<p>Paul Millward – Head of Resilience.</p> <p>Following receipt of Audit advice as to suitable methods of proof, RTB will implement a new system for all new applicants within four weeks.</p>

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
				relevant date. Where a family member has a different surname RTB requests further advice from Audit as to what evidence can be legitimately requested to prove family member status criteria is met. Currently RTB accepts the status given and signed for on the RTB1.	
2017-18 R2	<p>For 23 applications, the statutory timescale for admitting or denying has been exceeded and for 18 applications, the statutory timescale from admission to offer has been exceeded. If these timescales are exceeded the applicant can use the delay process to claim compensation for the delay caused. This would have the effect of entitling the applicant to a refund of rents paid during the delay period. This will be offset against the sale price.</p> <p>The RTB Team has introduced a monitoring process, which ensures that applications are dealt with in a chronological order, thereby prioritising</p>	Adequate resources should be allocated to ensure that statutory timescales are met to avoid potential compensation claims	Medium	<p>This recommendation has now been met and, at present, no financial compensation is being paid to tenants.</p> <p>An additional resource was made available in December 2016 and as a result the 'backlog, of applications has rapidly reduced over the year to the extent as at 1-9-17 financial compensation to tenants was not being paid for those applications already ' in the system'.</p>	<p>Paul Millward – Head of Resilience.</p> <p>In Operation</p>

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	<p>work. This should help reduce the number of applications that exceed the statutory timescales.</p> <p>Risk Potential for financial loss to the Council.</p>			<p>However, the statutory performance indicator of 100% applications being processed within set deadlines is unlikely to be met for a considerable time.</p> <p>It is unlikely that further additional resources will be available to the RTB section in the foreseeable future.</p>	
2017-18 R3	<p>The RTB Team gathers information from other parts of the Council / NCH in order to process the application. It does this by sending out a list of the new RTB's to appropriate contacts. Whilst we saw evidence on files where there had been an issue raised by the respective contact, any responses received confirming no issues were not on file although all e-mail responses are filed electronically.</p> <p>Risk Lack of audit trail/accountability</p>	<p>A checklist should be introduced to indicate when responses have been received. This would also highlight reasons for potential delays.</p> <p>All responses should be held on file.</p>	Low	<p>This information is currently stored electronically by the Senior RTB Officer. We will review this process and either print the email responses for each file or manually make a note on the file. However, this information does not halt the process of the RTB if it is not received as any necessary action can be taken at any point during the RTB process.</p>	<p>Paul Millward – Head of Resilience.</p> <p>New system will be implemented for all new applications by 9th October 2017</p>

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
2017-18 R4	<p>The RTB Team runs drop in sessions for both prospective and current RTB applicants. As part of these sessions, application details could be confirmed or changed. As part of the sample, we identified some changes on the application form. When we questioned these, it was established that some had been made by the applicant personally whilst others had been changed by one of the members of the RTB Team. We also established that changes could be made as a result of letters / emails / telephone conversations etc. It was not always apparent why / who had made the change to the form.</p> <p>Risk Increases potential for possible fraud</p>	Changes should be noted on the file indicating details of why the change has been made and by whom.	Medium	The RTB team have been made aware of the importance of writing an explanatory note to say what has been changed, why, and who has signed the amendment. In addition, RTB have created a log sheet which will be placed within the RTB file for recording chronologically all telephone calls, face to face conversations, emails and letters to the tenant during the RTB process up to the point the file is passed to Legal for the completion stage.	<p>Paul Millward – Head of Resilience.</p> <p>System implemented as at 19-9-17 for all new applications and any amendments to existing applications</p>
NCH – COST FLOOR CALCULATION					
2017-18 R5	The cost floor process has been overseen since March 2017 by the Executive Assistant within NCH. This is on an interim basis whilst it has been	NCH should identify who is responsible for the various aspects of this process.	Medium	Accountability since March 2017 has sat with the NCH Executive Assistant, to ensure the	Tim Shirley, Head of Asset Planning & Strategy

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	<p>developed through discussion with NCC's Senior RTB Officer and Housing Partnership Manager. It is anticipated that this process will ultimately move to the Asset Management Team within NCH.</p> <p>Risk Lack of accountability</p>			<p>new process is effective. It was agreed that this would remain in place until a successful audit & then accountability would be reassigned.</p> <p>Following minor changes to the spreadsheet, the report will be automated each month and emailed to the Asset management team where accountability will lie.</p>	Target date; 31 st October 2017
2017-18 R6	<p>Previous audit work had identified that spot checks by management on calculations take place, however, these are not recorded. The current process is overseen by the Executive Assistant within NCH who undertakes checks prior to the information being returned to NCC's RTB Team, however these are still not documented.</p> <p>Risk Potential for error</p>	Managers should record when calculation reviews take place.	Low	<p>The new process audited on this occasion has been fully checked by the Executive Assistant each month before submission to the RTB team. This has been the case since March 2017.</p> <p>Documented sample checks will be undertaken by the Executive Assistant quarterly from November 2017.</p>	Mark Lawson, Executive Assistant Target date; 31 st October 2017

Year Ref	Finding Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
NCH – LEASEHOLD COST CALCULATION					
2017-18 R7	We were able to confirm the repairs and improvement works costs to the information provided by the Asset Management Team for 3 of the sample. For the two others one of these there was no evidence to support the costs reported to the RTB Team and it was established for the other this was a transposition error when there was an amendment to the proforma used. Risk	The Leasehold Team should ensure evidence is retained to support all repairs and improvement costs reported on the RTB Services Cost Proforma	Medium	In respect of the samples reviewed, these all related to the system used prior to April 2017, when we implemented the new system. The costs for service charges and improvements are better recorded and evidence saved.	Dawn Greenwood – Leasehold Manager In operation from April 2017
2017-18 R8	Lack of audit trail / potential for error	There should be periodic management review of the costs reported on the RTB Services Cost Proforma and these should be documented.	Low	The Leasehold Manager will set up a quarterly sample check of RTB service costs and record this check on the RTB checklist sheet to indicate which properties have been sample checked.	Dawn Greenwood – Leasehold Manager October 2017

Levels of Assurance

We use three categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

Significant Assurance	Significant assurance that there is a generally sound system of control designed to meet the organisation’s objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls may put the achievement of particular objectives at risk.
Limited Assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation’s objectives at risk in the areas reviewed.
No Assurance	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation’s objectives in the areas reviewed.

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

Categorisation of Recommendations

The recommendations within this report have been categorised by Internal Audit as:

High Priority	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium Priority	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low Priority	The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases, Internal Audit will follow up implementation of the recommendations by the agreed date.

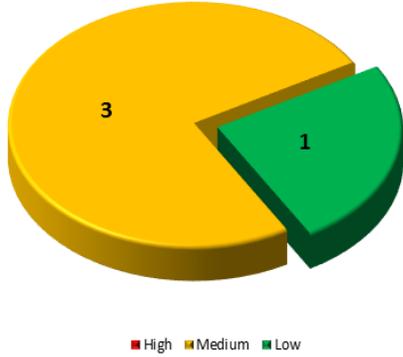
<u>Key to Opinion & Direction of Travel</u>			
<u>Overall Opinion</u>			<u>Direction of Travel</u>
Significant Assurance		Improving	
Limited Assurance		No changes	
No Assurance		Deteriorates	



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Distribution List	
Issue Date:	2 nd October 2017
Issued to:	Jonathan Shaw – Director of Business Services
Copied to:	

Contact Details:		
Head of Internal Audit	Shail Shah	Ext 64245
Audit Manager	Simon Parsons	Ext 64246
Lead Auditor	Peter Thompson	Ext 64238
Senior Auditor	Neville Kerby	Ext 64241

<p>Organisation: Nottingham City Homes (NCH)</p> <p>Previous Audit:</p> <p>None</p>	<p>Overall Opinion:</p> <p>Significant Assurance</p>		<p>Direction of Travel:</p> <p>This is the first review of this area. </p>								
		<p>Scope and Approach: The review will look at the controls in place within the system and their effectiveness in addressing the risks identified. In particular the scope of the audit will review the strategic IT risk:-</p> <p>“Loss of data, failure of networks or operating systems, insufficient data security or a failure to invest in technological improvements prevents efficient delivery of services or results in legal action”</p> <p>This review will look at the mitigating actions for the following two elements and the level of assurance that management receives to ensure that the controls are operating.</p> <p>8a Critical ICT systems and data are not backed up securely, resulting in significant data loss or inability to provide effective services.</p> <p>8c Inadequate ICT security allows data theft, fraud and malware infections of NCH and customer information.</p>									
<p>High Priority Recommendations</p> <p>There are no High Priority Recommendations</p>		<p><u>Summary of the recommendations by priority</u></p>  <table border="1"> <caption>Summary of the recommendations by priority</caption> <thead> <tr> <th>Priority</th> <th>Count</th> </tr> </thead> <tbody> <tr> <td>High</td> <td>0</td> </tr> <tr> <td>Medium</td> <td>3</td> </tr> <tr> <td>Low</td> <td>1</td> </tr> </tbody> </table>		Priority	Count	High	0	Medium	3	Low	1
Priority	Count										
High	0										
Medium	3										
Low	1										

Introduction and Background

- 1.1 Nottingham City Homes (NCH) is the Arm's Length Management Organisation (ALMO) that manages around 26,000 homes and approximately 1,000 leasehold properties on behalf of Nottingham City Council. It is responsible for the day to day management of the homes including services such as tenancy management, rent collection and repairs. The company's turnover is just over £60m this financial year.
- 1.2 Nottingham City Homes places reliance on many IT systems in order to deliver timely services to their customers and partner organisations; any interruption to the services provided may prevent the company from delivering services to vulnerable citizens. The Company has acknowledged within its Strategic Risk Register that its IT systems may be at risk from a Cyber threat.
- 1.3 In reviewing the controls in place within the system, we considered the following strategic IT risk:-
“Loss of data, failure of networks or operating systems, insufficient data security or a failure to invest in technological improvements prevents efficient delivery of services or results in legal action”
and the mitigating actions for the following two elements.
- 8a Critical ICT systems and data are not backed up securely, resulting in significant data loss or inability to provide effective services.
 - 8c Inadequate ICT security allows data theft, fraud and malware infections of NCH and customer information

In addition, we have reviewed the level of assurance that management receives to ensure that the controls are operating to mitigate the above risks.

Key Findings

- 1.4 Nottingham City Homes is currently in the process of transferring some of its IT Services to Nottingham City Council. A draft Service level agreement has been written, but has yet to be approved by the Management Team. The SLA covers some aspects of the mitigating action above but fails to indicate scope of the review meetings and assurances to be provided regarding:
- Patching of Servers

- Vulnerability testing
- System monitoring and reporting
- Backup of servers
- Business continuity arrangements

Risk Element – 8a Critical ICT systems and data are not backed up securely, resulting in significant data loss or inability to provide effective services.

1.5 The mitigating actions in place to address the above include:

- Servers are cluster-based so that if one fails, services are transferred to another server. Multiple servers are specified for all new systems.
- Back-ups of the servers are completed, with Nottingham City Council IT Services providing reports to NCH IT confirming that all servers are successfully backed up or if issues were encountered during that process.

Risk Element – 8c - Inadequate ICT security allows data theft, fraud and malware infections of NCH and customer information

1.6 The mitigating actions in place to address the above include:

- Access to systems is properly managed and controlled and colleagues appropriately trained
- Training for colleagues in order to provide an awareness of their responsibilities and the risks which face the organisation
- The regular application of software updates to ensure both servers and applications remain secure
- Vulnerability Testing
- Security Monitoring and Reporting

Access

- 1.7 User access to the systems are appropriately controlled with line managers, HR or in case of apprentices/ work experience by Learning & Development approving the request and NCH Business Transformation (previously Applications) reviewing the suitability of each request.

Training

- 1.8 Data Protection training is part of the compulsory NCH Induction Training that needs to be completed within 6 weeks of the colleague's starting date with NCH. It is also run annually for all employees through the NCH Learning Zone, with a set deadline for completion.
- 1.9 Our testing of HR's training records indicated that 85 current colleagues had not received Data Protection training for over a year and 61 of these had not received the training within 2 years.
- 1.10 The IT Security Policy is issued by HR to employees prior to starting within the business. Colleagues need to sign the Policy Declaration before any access to IT is arranged. The signed copy of the Declaration is retained in the IT section. The IT Security Policy is also linked to induction training for all new starters.

Software Updates

- 1.11 Currently (and prior to the proposed transfer to the City Council), NCH are responsible for patching all NCH servers. However, it is understood that some servers (eg Server 2003) are not up-to-date & may have vulnerabilities.

Penetration Testing

- 1.12 We understand that the City Council's IT Services commissions vulnerability testing, as part of the Council's Public Services Network accreditation process. The aim of this testing is to identify system weakness which may allow unauthorised individuals access to the access the network and disrupt services through the dissemination of viruses or malware. This testing will include those servers belonging to NCH, but does not include mobile devices such as laptops.

Security Monitoring and Reporting

- 1.13 The City Council use SIEM software (LogRhythm) that constantly monitors and searches across the IT environment and has the ability to quickly mitigate and recover from security incidents/ complex cyber threats. We understand that NCC IT do not report on "routine" activity, but would advise NCH as a matter of urgency if a major incident occurs (ie malware, ransomware attacks).

Opinion

- 1.14 We are required to provide an opinion on the adequacy and effectiveness of internal controls in relation to the area under review. Our opinion is based on the work performed as set out in the agreed Audit Brief. We are able to give **Significant Assurance** for the arrangements in this area. We appreciate that IT services are in a period of transition.

Summary of Recommendations

- 1.15 Details of all of the issues arising from this review, along with our recommendations and management responses, are set out in the attached Action Plan.

Within the Action Plan we have assigned a priority ranking to each recommendation to reflect the degree of risk that the issue that they relate to pose in the context of the audited area and hence the urgency with which the recommended actions should be addressed. The recommendations are summarised as follows:

Priority	Number of Recommendations
High	0
Medium	3
Low	1
Total	4

Added Value

- 1.16 We have highlighted areas for improvement in respect of the transfer of responsibilities for IT to the City Council

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	Service Level Agreement [SLA]				
1	<p>NCH have a draft version of an SLA with the City Council that has yet to be approved by NCH management. Several issues have yet to be determined these include:</p> <ul style="list-style-type: none"> • Patching of Servers • Vulnerability testing • System monitoring and reporting • Backup of servers • Business continuity arrangements 	Managements should consider including the issues raised when formalising the SLA.	Medium	Agreed	30 November 2017 Jonathan Shaw
	Updates				
2	It is understood that some servers (e.g. Server 2003) are not up-to-date & may have vulnerabilities.	NCH management should ensure that patching of servers is brought up-to-date	Medium	NCH will work with NCC infrastructure team to prioritise updating of theses servers	30 November 2017 Robert Allen
	Training				

3	Our testing of HR's training records indicated that 85 current colleagues had not received Data Protection training for over a year and 61 of these had not received the training within 2 years.	The training database should be reviewed to identify colleagues who need refresher Data Protection training and training provided as appropriate	Low	<p>On line data protection training will be launched the first week of November 2017 through the Learning Zone to all employees as a mandatory unit.</p> <p>A deadline will be set for completion of the training and reports generated to managers to chase those employees who fail to undertaken the training,</p> <p>Reports will also be generated to EMT where managers/employees fail to address this issue.</p>	Carol Aaron 31 December 2017
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4	The IT Security Policy is issued by HR to employees prior to starting within the business. Colleagues need to sign the Policy Declaration before any access to IT is arranged. The signed copy of the Declaration is retained in the IT section. The IT Security Policy is also linked to induction training for all new starters.	IT Security training should be more pro-active for existing colleagues in order to provide updates on recent legislation and threats	Medium	<p>There is a section in the data protection training (which is updated annually) on IT security.</p> <p>Additional modules are being made available on the Learning Zone on:</p> <ul style="list-style-type: none"> • Cyber • Cyber security • DSE <p>When new mobile devices are issued – users will be advised on IT security.</p>	Carol Aaron 31 December 2017
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Client Responsibilities

- Whilst a number of recommendations are included in this report, it is the responsibility of management to determine the action that will be taken in response to each recommendation. Management should assess the risks to the objectives involved and the cost-effectiveness of the control improvements suggested.
- Management is responsible for ensuring that all agreed recommendations are implemented within the agreed timescales.
- Management should note that any recommendations that relate to Financial Regulations must be implemented unless a satisfactory business case has been agreed justifying why the recommendation will not be implemented.

Levels of Assurance

We use four categories to classify Internal Audit assurance over the processes examined, these are defined as follows:

Significant Assurance	Significant assurance that there is a generally sound system of control designed to meet the organisation's objectives and that controls are generally being applied consistently in the areas reviewed. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk.
Limited Assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed.
No Assurance	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result in failure to achieve the organisation's objectives in the areas reviewed.

Where appropriate we may also comment on the level of assurance we can give that objectives will be met. This may apply when there are risks either partially or wholly outside of the control of management.

Categorisation of Recommendations

The recommendations within this report have been categorised by Internal Audit as:

High Priority	A fundamental weakness which presents material risk to the audited body and requires urgent attention by management.
Medium Priority	A significant weakness whose impact or frequency presents an unacceptable risk to the audited body that should be addressed by management.
Low Priority	The audited body is not exposed to any significant risk, but the recommendation merits attention.

In all cases Internal Audit will follow up implementation of the recommendations by the agreed date.

<u>Overall Opinion</u>		<u>Key to Opinion & Direction of Travel</u>		<u>Direction of Travel</u>	
Significant Assurance		Improving			
Limited Assurance		No changes			
No Assurance		Deteriorates			

Nottingham City Homes
Internal Audit Plan 2017-2018 Quarter 2 Update 2

N

Ref to CRR	Area	Scope	Director	Days	QR1	QR2	QR3	QR4	Comment / Changes requiring Audit Committee Approval	
CRR002d	Construction, Repairs & Maintenance	Repairs & Maintenance - review of systems & processes and management of risk	Delroy Beverley	6			6			
CRR003a&b	Health & Safety	Legionella - to ensure testing and documentation is up to date and in line with requirements	Ian Rabett	6	6					
CRR002a	Void Property Management	Review of procedures in place to ensure void properties managed effectively	Gill Moy	6				6		
CRR002e	Right To Buy	Full review incorporating NCC	Gill Moy	6		6				
CRR008a&c	ICT Control	Review of IT security, systems administration	Jonathan Shaw	6		6			Report will be finalised week commencing 25th September	
CRR002	Asset Management & Capital	Energy Works	Jonathan Shaw	6		6			Per Steve Edlin, the report will not be taken to this committee.	
CRR008	Information & Data Management	Publication Scheme, document record mgt, Data Protection Policy	George Pashley	4	4					
CRR001e	Financial Systems	Testing of NCH transactions processed via Oracle	Darren Phillips	4			4			
CRR001e	Budgetary Control & Financial Reporting	Review of budget setting and reporting arrangements	Darren Phillips	4				4		
CRR002	Recruitment & Payroll	Procedures and checks for new starters and payroll checks & absence management	George Pashley	8			8			
CRR001d	Governance	Review of the governance arrangements re subsidiaries	George Pashley	6				6		
	Contingency			1				1		
	Follow ups			2	2					
				TOTAL	65	12	18	18	17	

COMMITTEE DATES & FINAL REPORT DEADLINES		Key
QR1 - 17th July 2017	Deadline: 30th June 2017	In progress
QR2 - 9th October 2017	Deadline: 22nd September 2017	Completed draft
QR3 - 8th January 2018	Deadline: 14th December 2017	Completed final
QR4 - 9th April 2018	Deadline: 23rd March 2018	Committee approved