



ITEM: 7 (i)
AUDIT COMMITTEE
13 JANUARY 2014

Nottingham City Homes

Risk Management

November 2013

Final Report

Assurance Level - Substantially meets expectations

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Staff Interviewed : Darren Phillips

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1 Introduction

- 1.1 Our work was performed as part of our internal audit plan for 2013/14, which was agreed with Management and the Audit Committee, January 2013.
- 1.2 The purpose of our review was to assess the adequacy and effectiveness of the internal controls over risk management currently in place at Nottingham City Homes.
- 1.3 In particular, our review considered the following potential risks:
- The risk management framework may not be effective;
 - There may be inadequate assessment of the risks facing the Organisation; and
 - Risks may not be appropriately reported.
- 1.4 The work was carried out primarily by holding discussions with relevant staff, reviewing available documentation and testing controls in place to determine their effectiveness.
- 1.5 This report has been prepared as part of the internal audit of Nottingham City Homes under the terms of the contract for internal audit services. It has been prepared for Nottingham City Homes and we neither accept nor assume any responsibility or duty of care to any third party in relation to it. The conclusions and recommendations are based on the results of audit work carried out and are reported in good faith. However, our methodology relies upon explanations by managers and sample testing and management should satisfy itself of the validity of any recommendations before acting upon them.

2 Executive Summary

- 2.1 We have carried out the audit in accordance with the programme agreed with management and the Audit Committee. Based on the audit work carried out we have concluded that the level of control over risk management: substantially meets expectations.
- 2.2 The Risk Management Framework ("RMF") document in place has not been updated since our last review of this area, which we reported on in January 2013. Our review at that time identified that the RMF document itself complied with good practice requirements.
- 2.3 Our last review of this area noted that there were a number of gaps where the RMF was not being applied effectively in practice, including full documentation of risks on the Covalent system, review of directorate risks at Directorate Management Team (DMT) level, and setting of target risk scores. As part of this review, we sought to verify that these areas are now operating effectively.

- 2.4 Our last report in relation to the Organisation's risk management framework noted that regular review of risks was not consistently evidenced at DMT level, and recommended that such a review is undertaken every six months in accordance. Discussions confirmed that this recommendation remains outstanding. However, the Organisation has made some progress in this area, through the development of a dashboard for review at DMT level which will cover risks faced by the teams within the directorate.
- 2.5 We confirmed that the Board reviewed the Corporate risk register at its meeting in July 2013, and noted that the Corporate risk register now includes target risk scores as required by the RMF. Based on review of the Corporate risk register, the Board is focusing on strategic risks and on the operational risks for which it is appropriate for them to have oversight. However, we noted that the minutes lacked detail regarding the discussion and challenge regarding the Corporate risk register at Board level. It was noted that alongside the Corporate risk register, there was a report from the Company Secretary to the Board which included a risk management update. This report highlighted the new risks added since the Board's last review of the corporate risk register. However, changed or deleted risks were not highlighted.
- 2.6 Our last report in relation to the Organisation's risk management framework identified omissions in the documentation of individual risks on the Covalent system in several cases, such as original, current and target risk scores and mitigating actions. Management has acknowledged that this is an area that still requires further embedding, and our previous recommendation in relation to this issue remains outstanding.
- 2.7 The RMF document clearly outlines the roles and responsibilities within the Organisation with respect to risk management, including those of the Board, Audit Committee, Executive Directors, and officers responsible for individual risks. Our review also confirmed that Board papers submitted routinely have a "risk implications" section. We reviewed a sample of Board papers and confirmed in each case that this section had been completed. However, for one Board paper reviewed, relating to Equality and Diversity, it was stated that there were no risk implications.
- 2.8 We confirmed that the RMF sets out adequate arrangements for the consideration of project risks. We reviewed documentation in relation to the ownership, construction and management of 62 family homes at Lenton, and confirmed that a separate risk register was being maintained for this project, in accordance with requirements.
- 2.9 The Organisation has clearly defined its risk appetite within the risk management framework and there are a number of different strands to the definition. The RMF states that a risk appetite or "tolerance" will be established for each risk through identifying a risk score for impact and likelihood. The risk score is then categorised as low, medium or high risk, which in turn triggers different levels of response in accordance with the risk scores. Our review confirmed that this is operating in practice for

the Corporate risk register.

2.10 Key enhancement opportunities include:

- The Organisation should implement six-monthly reviews of risks at DMT level, as set out within the risk management framework, as soon as practicable.
- Where possible, Board and Audit Committee minutes should document discussion and challenge surrounding risk information in a greater level of detail.
- The Organisation should ensure that operational risks are fully documented on Covalent in accordance with procedures.
- The risk implications section of Board papers should be challenged at EMT before being submitted to Board to ensure this has been fully completed. Employees or managers preparing these papers to receive appropriate risk management training so they are aware of expectations in this area.

2.11 Finally, we wish to thank all members of staff for their availability, co-operation and assistance during the course of our review.

BDO LLP
November 2013

3 Detailed Findings

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The risk management framework may not be effective.</p>	<p><u>Risk Management Framework</u> The Risk Management Framework ("RMF") document in place has not been updated since our last review of this area, which we reported on in January 2013.</p> <p>Our review at that time identified that the RMF document itself complied with good practice requirements. However, at that time a number of gaps were identified where the RMF was not being applied in practice. As part of this review we have sought to verify that these areas are now operating effectively.</p> <p>The gaps between the RMF and operation in practice identified during our last review were as follows:</p> <ul style="list-style-type: none"> • Each identified risk was not fully documented on Covalent. • Executive Directors were not reviewing risks for their teams on a six-monthly basis as required by the RMF. • Risks were not being managed within the stated risk appetite i.e. we identified that risks already with a score of 4 had further mitigating controls planned, which was not in accordance with RMF requirements. • Target risk scores were not in place as required by the RMF. <p>Each of the above is considered further below alongside additional findings and observations.</p>	<p>The Risk Management Framework in place is in line with good practice.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The risk management framework may not be effective.</p>	<p><u>Risk Management roles and responsibilities</u> The Risk Management Framework document outlines the roles and responsibilities with respect to risk management within the Organisation. This includes the responsibilities at each of the following levels:</p> <ul style="list-style-type: none"> • Board; • Audit Committee; • Executive Management Team; • Executive Directors; • Corporate Risk Officer; • Operational Risk Group; • Responsible Officers, and • All staff. <p>Our report of January 2013 concluded that these documented responsibilities were clear, comprehensive and appropriate to each level.</p> <p><u>Understanding of responsibilities</u> <i>Board</i> - the Board is responsible for discussing what constitutes an acceptable risk to the company i.e. setting the risk appetite. At our last review of this area it was not clear this was fully understood from review of the Board minutes, as meeting minutes reviewed did not reflect or evidence challenge from the Board or Audit Committee regarding the identified risks and the scoring of these. In addition, it was noted that the Board had not been provided with target risk scores for each of the identified corporate risks.</p> <p>Since our last review of this area, the Board has conducted a further annual review of the corporate risk register, in July 2013.</p>	<p>Roles and responsibilities are clearly documented within the risk management framework, but these are not operating fully in practice.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The risk management framework may not be effective.</p>	<p>It was noted that the version of the risk register reviewed at this meeting included target risk scores. The minutes of the Board meeting of July 2013 were also reviewed and it was noted that the Board had agreed for the risk register to be a standing item on the Board agenda. However, the minutes still did not set out in detail the discussions held at Board level, including the degree of challenge.</p> <p><i>Audit Committee</i> - The risk management framework specifies that the Audit Committee should review the corporate risk register a minimum of twice per annum. It was confirmed to Audit Committee minutes and meeting packs that the Committee had reviewed the corporate risk register at its meetings of July 2013 and October 2013.</p> <p><i>Management responsibilities</i> - The risk management framework in place specifies that NCH Executive Directors and Senior Managers are responsible for managing their services and are therefore responsible for identifying, assessing and managing the risks associated with planning, delivering and monitoring service delivery.</p> <p>The individual responsibilities for risk management lie with the Chief Executive and the four Executive Directors within Housing Services, Property Services, Corporate and Support Services directorates.</p> <p>The Director of Finance has the responsibility for ensuring that the Risk Management Framework is fully implemented and the Company Secretary has been designated as the organisation's Corporate Risk Officer.</p>	<p>As above.</p> <p>R1 Where possible, Board and Audit Committee minutes should document discussion and challenge surrounding risk information in a greater level of detail.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The risk management framework may not be effective.</p>	<p>Executive Directors are responsible for ensuring that key directorate risks are monitored at DMT on a regular basis and ensure that they are satisfied that the Covalent system accurately documents the key risks within their directorate, the controls in place mitigate the key risks to an acceptable level, and that the actions identified to further mitigate key risks are sufficient to manage risk down to the required level.</p> <p>Officers responsible (ROs) for compiling/ owning team plans (usually heads of service) have responsibility for maintaining and updating Covalent on an ongoing basis to ensure that all risks which impact on their service area are adequately documented. The risk management framework states that ROs should review risks on at least a quarterly basis and document such reviews to evidence that this has been considered. This process has been considered further below.</p> <p>Our last report in relation to the Organisation's risk management framework noted that regular review of risks was not consistently evidenced at DMT level, and recommended that such a review is undertaken every six months in accordance with the risk management framework.</p> <p>Discussions confirmed that this recommendation remains outstanding. However, the Organisation is in the process of producing a dashboard for review at DMT level which will cover risks faced by the teams within the directorate.</p>	<p>As above.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The risk management framework may not be effective.</p>	<p>Notwithstanding this, it is important that Executive Directors can evidence understanding of the risks faced in their respective areas, otherwise there is a risk that they could appear to have been too remote from potential risk and the management of such should any risks materialise in practice. The Organisation should therefore implement the relevant six monthly reviews at DMT level as soon as possible and ensure that notes or minutes of DMT meetings evidence discussion and review of risk.</p> <p><u>Updating of Risk Management Framework</u> It was noted that the risk management framework states that "the Audit Committee will review the risk management framework on an annual basis to ensure that it remains up to date and reflects what is happening across the Organisation. The Board will then subsequently approve the framework including any changes recommended by the Audit Committee".</p> <p>It was noted through discussion and through review of Audit Committee papers that the Audit Committee has not reviewed the risk management framework since it was implemented in June 2012 and this control has not therefore operated in practice.</p>	<p>As above.</p> <p>R2 The Organisation should implement six-monthly reviews of risks at DMT level, as set out within the risk management framework, as soon as practicable.</p> <p>The Risk Management Framework is overdue for review by the Audit Committee.</p> <p>R3 The Risk Management Framework should be reviewed by the Audit Committee on an annual basis, in accordance with procedures. The findings of this review should be utilised to inform the Audit Committee review process of the risk management framework.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>There may be inadequate assessment of the risks facing the Organisation.</p>	<p><u>Risk identification and assessment</u> Risks are identified at NCH at three different levels:</p> <ul style="list-style-type: none"> •Corporate (Strategic) risks - i.e. risks which affect the Company's ability to achieve its corporate plan. •Project (Programme) risks - i.e. risks that impact upon the Organisation's ability to complete projects within the original budgets and timescales or deliver the required outputs. •Operational (service area/ team) risks - risks which may prevent the Organisation delivering its core services and/ or service improvements within team plans. <p><u>Corporate risk register</u> We obtained the latest corporate risk register, which was reviewed by the Board July 2013. The corporate risk register is maintained by the Organisation's Company Secretary who is also designated as the Corporate Risk Officer.</p> <p>Review of this risk register confirmed that it includes documentation of identified risks, risk scores and mitigating controls. Risks are scored at both gross and net levels.</p> <p>In addition, risk owners and target risk scores for both likelihood and impact are specified.</p> <p>The risk management framework in place documents the process for escalating risks at team/ operational level to the corporate risk register. Executive Directors are responsible for ensuring that such high level risks identified by ROs are fed into the corporate risk register or for discussing their proposed inclusion with the Corporate Risk Officer.</p>	<p>The corporate risk registers include all identified risks, risk scores and a range of mitigating controls. However, further embedding of risk management processes at team level is required.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>There may be inadequate assessment of the risks facing the Organisation.</p>	<p>In addition, there are specific scoring criteria in place for likelihood and impact and these are set out within the risk management framework and were provided to the Board as part of their annual review of risk within the Organisation. Based on our review we concluded that the scoring definitions are clear and appropriate.</p> <p><i>Team risk registers</i> Risk registers at a team/ operational level are maintained on the Covalent system, where all the identified risks for each particular area are recorded.</p> <p>In our last report relating to this area, dated January 2013 we noted that there were gaps in the recording on Covalent in the sample of risks reviewed. Management acknowledged that this remains an area for the Organisation to further embed the processes in place as they are still not operating fully in practice.</p> <p><i>Review of risk maps by management</i> Discussions highlighted that the corporate risk register goes to EMT in advance of being presented to the Audit Committee and our review of January 2013 identified that this occurs in practice.</p> <p><i>Review of risk maps by Audit Committee</i> The risk management framework specifies that the Audit Committee should review the corporate risk register at least twice per annum.</p> <p>From review of meeting packs for the Audit Committee meetings from the past year it was confirmed that the corporate risk register was reviewed at both the July and October 2013 meetings.</p>	<p>As above.</p> <p>R4 The Organisation should ensure that operational risks are fully documented on Covalent in accordance with procedures.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>There may be inadequate assessment of the risks facing the Organisation.</p>	<p><u>Review of risk maps by Board</u> The risk management framework specifies that the Director of Finance will report annually to the Board on risk management, and that this report shall accompany the Board's review and approval of the corporate risk register and risk management framework.</p> <p>It was confirmed to Board minutes that the Board received a report on risk from the Company Secretary alongside the corporate risk register at its meeting of July 2013 and therefore this was operating in practice.</p> <p><u>Board/ Audit Committee focus on the strategic risks</u> From review of the corporate risk register reviewed at the July 2013 Board meeting, it was noted that the majority of risks identified were strategic in nature, i.e. risks which would prevent the organisation from achieving its strategic objectives.</p> <p>A number of risks are included on the corporate risk register which are more operational in nature. However, based on review, these are risks for which it is appropriate for the Board to be aware of/ updated with, such as failure to meet statutory safety obligations, failure of business continuity arrangements and ICT projects, and system improvements not being delivered as planned.</p> <p>The number of risks on the top-level corporate risk register is therefore high compared to some other organisations (24 risks in total) but this appears appropriate to the Organisation's requirements.</p>	<p>Review of the risk maps is operating at Audit Committee and Board level in accordance with the arrangements set out in the risk management framework.</p> <p>Based on review of the corporate risk register, the Board is focusing on strategic risks and on the operational risks for which it is appropriate for them to have oversight.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>There may be inadequate assessment of the risks facing the Organisation.</p>	<p><u>Board papers and decision making</u> From discussions held, Board papers submitted routinely have a 'risk implications' section.</p> <p>The papers submitted to the Board meeting of May 2013 were reviewed to confirm this was the case.</p> <p>The following papers had been submitted/ considered at this meeting:</p> <ul style="list-style-type: none"> • Corporate plan annual review; • Standing Orders part 2 - financial regulations; • Health and Safety annual report; and • Equality and Diversity update. <p>It was noted that each of these papers had a "risk implications" section, although the Equality and Diversity update paper stated that there were no risk implications. However, there are potential risks associated with failure appropriately to manage Equality and Diversity issues, and it should therefore be ensured that this section on Board papers is challenged at EMT to ensure it has been adequately completed. In addition, managers and other members of staff completing these sections should be provided with training in relation to risk management to ensure they understand what is required to be documented.</p> <p>A Board decision (as opposed to just a paper for discussion) was also selected in order to review and consider the risk information supplied.</p> <p>The decision selected was that regarding the ownership, construction and management of 62 family homes at Lenton, considered by the Board at its September 2013 meeting.</p>	<p>Risks are considered as part of the management decision-making process. However, the risk implications section did not appear fully complete for one of the Board papers reviewed.</p> <p>R5 The risk implications section of Board papers should be challenged at EMT before being submitted to Board to ensure this has been fully completed. Employees or managers preparing these papers to receive appropriate risk management training so they are aware of expectations in this area.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>There may be inadequate assessment of the risks facing the Organisation.</p>	<p>It was noted that the "risk implications" section of this paper had been completed, including the arrangements NCH has put in place to manage the identified risks. The project has its own separate risk register which was also presented to the Board.</p> <p><i>Project risks</i></p> <p>The risk management framework in place makes reference to project and programme risks as follows:</p> <ul style="list-style-type: none"> • Under the "risk management activities" section, the requirement for Project Managers to carry out risk assessments in relation to all significant projects is stated. • One of the responsibilities listed under the "responsibilities of all staff" section is to compile risk registers for significant projects or programmes. • There is a section in the "risk checklist" (appendix C) relating to items that could be considered by project managers/ responsible officers as potential risks to the achievement of project objectives, to provide a starting point for their considerations. <p>As noted above, such risk considerations were in place in relation to the Lenton new build project.</p>	<p>There are adequate arrangements in place for the consideration of project risks.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>There may be inadequate assessment of the risks facing the Organisation.</p>	<p><u>Risk appetite</u> The Organisation has defined its risk appetite within the risk management framework and there are a number of different strands to the definition.</p> <p>There is a section within the risk management framework entitled "What is an acceptable risk"?</p> <p>This specifies that NCH will seek to eliminate and control all those risks which:</p> <ul style="list-style-type: none"> • Impact on its ability to meet its corporate objectives; • Have a high potential for incidents to occur; • Would have a substantial adverse financial impact; • Could cause loss of public confidence in the company, and consequently the City Council, and/ or its partner organisations; • Prevent NCH from meeting its obligations under the Partnership Agreement with the City Council; or • Prevent NCH from assisting the City Council to carry out its statutory functions. <p>The risk management framework also has a further, separate section related to risk appetite.</p> <p>This states that a risk appetite or "tolerance" will be established for each risk through identifying a risk score for impact and likelihood. The risk score is then categorised as low, medium or high risk, which in turn triggers different levels of response in accordance with the risk scores.</p>	<p>The Organisation's risk appetite is clearly defined and being applied in practice.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>There may be inadequate assessment of the risks facing the Organisation.</p>	<p>Review of the corporate risk register confirmed that identified risks were being managed in line with these criteria.</p> <p>Target scores for each risk had also been set, for each of likelihood and impact. This is another aspect of the expression of the Organisation's risk appetite.</p>	<p>As above.</p>
<p>Risks may not be appropriately reported.</p>	<p><i>Risk reporting</i> The Board meeting pack of July 2013 was obtained and reviewed to establish the information with which the Board is provided in relation to its risk management responsibilities.</p> <p>It was noted that alongside the corporate risk register there was a report from the Company Secretary which included a risk management update.</p> <p>This report highlighted the new risks added since the Board's last review of the corporate risk register. However, changed or deleted risks were not highlighted.</p> <p>Based upon review of the corporate risk register for July 2013, compared to that for July 2012, it was noted that there had been changes in risk score for a number of the identified risks and from the information reviewed it was not possible to see the reasons for this i.e. whether these were due to changes in the external environment, internal circumstances or just refining of the risk management processes in place. In order that the Board can challenge movements in scores, it would be good practice to include some form of trend indicator on the risk map to indicate whether the risk score is increasing, decreasing or static.</p>	<p>Arrangements for highlighting changes to risks could be enhanced.</p> <p>R6 The Corporate risk register should include an indication of the trend in the current risk score, i.e. whether the score is increasing, decreasing or static. This will enable greater Board challenge of risk scores applied.</p>

4 Action Plan

Ref.	Findings	Recommendations	Priority	Management Response	Responsibility / Due Date
R1	Roles and responsibilities are clearly documented within the risk management framework, but these are not operating fully in practice.	Where possible, Board and Audit Committee minutes should document discussion and challenge surrounding risk information in a greater level of detail.	Medium	<p>Risk Management training is planned for early 2014 during which roles and responsibilities will be clearly explained to managers</p> <p>Discussion on risk is clearly documented in Board, Audit and Risk Management Group minutes.</p>	George Pashley - Company Secretary (March 2014)
R2	Roles and responsibilities are clearly documented within the risk management framework, but these are not operating fully in practice.	The Organisation should implement six-monthly reviews of risks at DMT level, as set out within the risk management framework, as soon as practicable.	Medium	The requirement to hold 6 monthly reviews at DMT level will be re-enforced during the above training. RMG will put a checking mechanism in place and support responsible officer.	George Pashley - Company Secretary (March 2014)

Ref.	Findings	Recommendations	Priority	Management Response	Responsibility / Due Date
R3	The Risk Management Framework is overdue for review by the Audit Committee.	The Risk Management Framework should be reviewed by the Audit Committee on an annual basis, in accordance with procedures. The findings of this review should be utilised to inform the Audit Committee review process of the risk management framework.	Low	Current requirement to review the Framework on an annual basis is, for a relatively static document, deemed to add little value. Proposed framework is amended to require committee to approve all changes and then the full framework approval every 3 years. To be agreed with Committee Chair and amendment and/or framework to be reported to Committee in Qr3.	Darren Phillips - Assistant Director of Finance & Procurement January 2014
R4	The corporate risk registers include all identified risks, risk scores and a range of mitigating controls. However, further embedding of risk management processes at team level is required.	The Organisation should ensure that operational risks are fully documented on Covalent in accordance with procedures.	Medium	See R1 and R2 above. Responsible officer shall be supported by RMG.	George Pashley - Company Secretary (March 2014)
R5	Risks are considered as part of the management decision-making process. However the risk implications section did not appear fully complete for one of the Board papers reviewed.	The risk implications section of Board papers should be challenged at EMT before being submitted to Board to ensure this has been fully completed. Employees or managers preparing these papers to receive appropriate risk management training so they are aware of expectations in this area.	Medium	This will be picked up during the next quarterly review of the Risk Register.	George Pashley - Company Secretary (March 2014)

Ref.	Findings	Recommendations	Priority	Management Response	Responsibility / Due Date
R6	Arrangements for highlighting changes to risks could be enhanced.	The Corporate risk register should include an indication of the trend in the current risk score, i.e. whether the score is increasing, decreasing or static. This will enable greater Board challenge of risk scores applied.	Low	<p>Not Agreed.</p> <p>CRR includes original, current and target risk scores which show the trend. After moderating scores earlier this year all scores should now decrease as further actions are embedded.</p> <p>Where this is not the case and there are exceptions and scores go up this would be highlighted to Committee/Board as a matter of course.</p>	N/A

5 Definitions

Assurance Level	Definition
Fully meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the area under review and meet or exceed relevant external requirements. There is only a small risk of failure or non-compliance.
Substantially meets expectations	Our audit work provides assurance that the arrangements should deliver the key objectives and risk management aims of the organisation in the area under review and meet most relevant external requirements. There is some risk of failure or non-compliance.
Partly meets expectations	Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the area under review or may not meet relevant external requirements. There is a significant risk of failure or non-compliance.
Does not meet expectations	Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the area under review or will not meet relevant external requirements. There is an almost certain risk of failure or non-compliance.

Recommendation priority	Definition
High priority recommendations	Those that failure to address would result in a significant and unacceptable risk to the organisation arising or continuing.
Medium priority recommendations	Those that failure to address would result in a moderate risk to the organisation arising or continuing or relate to significant best practice improvements.
Low priority recommendations	Those that failure to address would result in a minor risk to the organisation arising or continuing or relate to moderate best practice improvements.