



Nottingham City Homes

Governance – Board Development

April 2013

Draft Report

Assurance Level:

Substantially meets expectations

Audit Sponsor – George Pashley

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1 Introduction

- 1.1 Our work was performed as part of our internal audit plan for 2012/13, which was agreed with Management and the Audit Committee.
- 1.2 The purpose of our review was to assess the adequacy and effectiveness of the internal controls over Board development arrangements currently in place at Nottingham City Homes.
- 1.3 In particular, our review considered the following potential risks:
- The Organisation's governance arrangements may not be aligned with good practice;
 - The structure and constitution of the Board and Committees may not be appropriate for the purposes of the Organisation; and
 - The Organisation may not provide adequate assurance to the Audit Committee that it complies with the Ministry of Justice requirements in relation to the Bribery Act.
- 1.4 The work was carried out primarily by holding discussions with relevant staff, reviewing any 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 the Audit Committee. Based on the audit work carried out we have concluded that the level of control over Board development: **Substantially meets expectations.**
- 2.2 An external consultant carried out a governance review at the Organisation in 2012 to identify areas for improvements and assist in aligning the Organisation's governance arrangements with best practice. The outcome of the review is a Governance Action Plan including time-bound recommendations for implementation. We have not placed reliance on this review in reaching our conclusion but have reviewed the actions included in the Action Plan as part of our audit work to ensure we have not duplicated any recommendations already made. The Action Plan is due for implementation over the next eighteen

months and progress against this Plan will be reported to Board.

- 2.3 The induction process for Board members is appropriate. The training programme for Board members will be enhanced in 2013 to ensure that it is structured around the identification of on-going training needs from the annual appraisal process, in line with the recommendations made by the external governance consultant.
- 2.4 The Board recruitment process is being enhanced in 2013 to ensure that it is open and transparent. The Board have approved for a Tenant and Leaseholder Committee representative and HR Officer to sit on the recruitment panel.
- 2.5 There is currently no process for succession planning for Board members. However, the Governance Action Plan includes an action to decide on succession planning arrangements within the next three months.
- 2.6 The annual appraisal process is being enhanced in 2013 to include appraisals for individual Board Members and the Chair. This will be facilitated by the governance consultant and the results will be used to identify training needs. The Organisation will then carry out the enhanced appraisal process annually in future.
- 2.7 Overall Board induction, training and development arrangements will be adequate to support the Board in their role provided that the relevant actions from the governance review are adequately implemented on a timely basis. There are some further recommendations which include training sessions for Board members in key areas, succession planning, carrying out self-assessments and skills audits, which are not currently included in the Governance Action Plan.
- 2.8 The constitution and composition of the Board is formally defined in its governing documents including the Articles of Association and Standing Orders. The constitution and composition of the Board and its Committees is consistent with good practice. However, there is currently no maximum term stated for Board members to serve which is not in line with good practice.
- 2.9 The overall skills mix of the Board and Committees is suitable. However, there are no Audit Committee members with high expertise in risk management. Attendance at Board and Committee meetings supports effective decision making with regards to the mix of skills present.
- 2.10 The Organisation has assessed the bribery risks to which it is exposed and has put mitigating actions in place. The assessment was carried out at Executive Management team (EMT) level. All Board members will have received Bribery Act training by April 2013. Training has also been provided to senior managers and a training programme for all staff is being developed.

2.11 Key enhancement opportunities include:

- The Organisation should ensure that collective Board appraisals are carried out as part of the annual appraisal process.
- The 'further recommendations' made by the governance consultant in the Board Skills report should be recorded and monitored as actions to ensure that the recommendations are adequately implemented.
- The Organisation should decide on a maximum number of years for Board members to serve which is as a maximum, three terms of three years (nine years) or less in line with good practice.
- The Organisation should consider whether risk management training for current Audit Committee members is necessary or whether a further member should be recruited who has high expertise in risk management.
- The Organisation should provide the Board with assurance that Ministry of Justice requirements in relation to the Bribery Act have been adequately assessed.

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

BDO LLP
April 2013

3 Detailed Findings

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation's governance arrangements may not be aligned with good practice.</p>	<p>The Organisation carried out a tendering exercise in 2012 to procure the services of an external company to review governance arrangements. Central Consultancy and Training won the tender and utilised the Governance Forum Panel as part of the review.</p> <p>A governance assessment was carried out in December 2012 and a Governance Action Plan 2013/14 has been produced which will be presented for approval at the next Board meeting. Each action is time-bound according to its priority level. Priority 1 is due for implementation within 0-3 months; Priority 2 is 3-6 months and so on. A responsible person is named for each action. The format of the Action Plan is therefore appropriate for monitoring purposes.</p> <p>We reviewed the actions included in the Action Plan as part of our audit work to ensure we have not duplicated any recommendations already made. The Action Plan is due for implementation over the next eighteen months and progress against this Plan will be reported to Board. The frequency of reporting is as yet undecided.</p>	<p>An external consultant carried out a governance review of the Organisation in 2012 to identify any areas for improvements and align with good practice.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation's governance arrangements may not be aligned with good practice. (Continued)</p>	<p>Induction for Board members The current induction programme for Board members includes three stages:</p> <ol style="list-style-type: none"> 1. Meeting with the Chief Executive; 2. Meeting with the Company Secretary; 3. Company induction (provided to Board members alongside new staff members). <p>Board members are provided with an Induction Handbook which includes information about the structure of the Organisation and the Board, the Corporate Plan, risk management framework, responsibilities of Board members, Articles of Association and Standing Orders.</p> <p>The induction programme currently commences after the Annual General Meeting (AGM) at which new Board members are appointed. The Organisation is planning to include the induction activities as part of the recruitment process for new Board members from 2013 onwards so that they are prepared to commence their new role once the AGM has been held.</p> <p>Training programme We also confirmed the current training programme for Board members. The Board receives ad-hoc training and the Training Team monitor and record individual Board member attendance at training events.</p> <p>The governance assessment identified that the on-going training programme for individual Board members (in terms of identifying training needs) needs improvement.</p>	<p>The induction process for Board members is appropriate.</p> <p>The training programme will be enhanced in 2013 to ensure that it is structured around the identification of on-going training needs from the annual appraisal process.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation's governance arrangements may not be aligned with good practice. (Continued)</p>	<p>Annual appraisals are carried out (discussed further in this report) but the results of the 2012 appraisals were not acted upon because the Organisation knew that a governance review would be carried out at the end of 2012 and the appraisals for 2013 would be overseen externally. The Organisation has noted that previous Board member appraisals carried out may not have been useful for identifying training needs, because some Board members may not have effectively assessed their own skills.</p> <p>A training programme will be developed this year following the externally facilitated annual appraisal process. The appraisal process (and on-going identification of training needs) will then be repeated by the Organisation on an annual basis.</p> <p>The Governance Action Plan includes the following actions related to training for Board members:</p> <ul style="list-style-type: none"> • Board to develop an administration process which identifies the type and content of training required by the board as well as ensures effective record keeping of board training materials - Priority 2. <p>Board to develop and implement a plan to identify the training and development needs of each Board member and consider an independent consultant to oversee and support members with their personal development - Priority 1.</p>	<p>As above.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation's governance arrangements may not be aligned with good practice. (Continued)</p>	<p>Recruitment of Board members We also confirmed the recruitment process in place for Board members. Recruitment arrangements to the Board vary depending on the category of membership. Council Board Members are nominated and removed at any time at the discretion of the Council by notice in writing to the Organisation. Tenant Board Members are elected to the Board in accordance with the process in the Standing Orders, summarised as follows:</p> <ul style="list-style-type: none"> • A Recruitment Panel is formed of the Chair and two other Board Members (one to be a Tenant Board Member); • The Board's policy is to advertise the vacancy as widely as possible, including the contents of the recruitment pack and timetable for the process; • The Recruitment Panel will decide on the election process that will apply, as well as any support or publicity resources that the Organisation will make available for candidates, who will administer the election process, the timetable and communication with election candidates and how results will be announced. <p>Independent Board Members are selected by the Board in accordance with the process in the Standing Orders, summarised as follows:</p> <ul style="list-style-type: none"> • The Board should review its skills and experience mix before a recruitment exercise takes place; • The Recruitment Panel composition and application process is the same as for Tenant Board Members; <p>The Recruitment pack will normally include arrangements for short-listing, interview and recommendations to the Board.</p>	<p>The recruitment process is being enhanced in 2013 to ensure that the process is open and transparent.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation's governance arrangements may not be aligned with good practice. (Continued)</p>	<p>Recruitment of Independent and Tenant Board Members takes place as casual vacancies arise during the year and also in anticipation of the retirement cycle for such members from the Board (in line with the Standing Orders).</p> <p>The Company Secretary proposed a review of the Board Member recruitment process to Board in January 2013. This review was proposed because the Tenant and Leaseholder Congress (TLC) had previously expressed concerns about the transparency of the process. TLC nominated four members to form the review panel and the Board was asked to nominate individuals to join the TLC members on the review panel. An action plan was agreed following the review panel meeting in February 2013 which includes the following main actions:</p> <ul style="list-style-type: none"> • TLC to nominate a representative to observe the short-listing and interviews process for all Board recruitment. This is to ensure that tenants are involved in the process. • HR Officer to sit as observer on all Board recruitment panels to oversee that the process is managed fairly and consistently. • By the end of the review any changes in the Standing Orders will be affected and presented to the Board for approval. • Consideration to be given to Candidates no longer being permitted to vote in the election process. <p>The implementation of the above actions will further assist the Board in showing openness and transparency in their recruitment process of Board Members.</p>	<p>As above.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation's governance arrangements may not be aligned with good practice. (Continued)</p>	<p>Succession planning The patterns of appointment for Board members are included in the Organisation's Articles of Association (Sections 14, 15 and 16) which state the cycle of retirement for Tenant and Independent Board members from the Board. The Standing Orders state that the Board should seek to recruit Board members that complement and add to the existing skills and knowledge base of the Board rather than duplicate skills and experience that already exists. There is currently no process for succession planning for Board members. The Governance Action Plan includes an action to agree succession planning arrangements (Priority level 1), therefore so as to avoid duplication we have not raised a recommendation relating to this area in this report.</p> <p>Appraisals We confirmed whether the Organisation carries out appraisals for individual Board Members and the Board as a whole.</p> <p>Annual appraisals of individual Board members have been carried out historically in the form of a self-assessment questionnaire completed by each Board Member and the Chair also assesses each Board Member as well. The questionnaire is aligned to the core competencies of Board Members included in the Standing Orders. The scores from the annual appraisals in 2012 were not used to identify training needs.</p>	<p>There is currently no process for succession planning for Board members. The Governance Action Plan includes an action for the Board to decide on succession planning arrangements within the next three months.</p> <p><i>The newly formed Tenant Academy includes training for tenants who want to become board members in future. This should provide a pool of talent from which future board members can be drawn</i></p> <p>The annual appraisal process is being enhanced in 2013 to ensure that results are used to identify training needs. The Organisation does not have a formal process for carrying out overall Board appraisals.</p> <p>R1 The Organisation should ensure that collective Board appraisals are carried out as part of the annual appraisal process.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation's governance arrangements may not be aligned with good practice. (Continued)</p>	<p>The Chair also carries out a self-assessment on his/her own performance and each Board Member is also invited to assess the Chair against the core competencies included in the self-assessment questionnaire. The scores of the self-assessments have been collated into a matrix (which the Organisation considers to be an overall Board appraisal).</p> <p>The Governance Action Plan contains an action for the Board to develop and implement a plan to identify the training and development needs of each Board member and consider an independent consultant to oversee and support members with their personal development (Priority 1). This will be based on the findings of skills assessments and performance appraisals. The Organisation should ensure that collective Board appraisals are carried out as part of the annual appraisal process.</p> <p>The annual appraisal process for Board members will be facilitated by the external governance consultant in 2013. The consultant carried out a Board Member skills audit in late 2012 which identified the Board strengths and did not identify any Board weaknesses (i.e. where there is only one board member with a high expertise in any one skill).</p> <p>The Organisation will use the annual appraisal process for 2013 to learn from and will carry out the annual appraisal process independently from 2014 onwards.</p>	<p>As above</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation's governance arrangements may not be aligned with good practice. (Continued)</p>	<p>We identified whether Board Member induction, training and development arrangements are adequate to support the Board in their role.</p> <p>The governance review carried out by the external consultant will address any skills gaps and enable the Organisation to carry out this exercise in future years, as discussed above in this report. As part of the review, the Board were asked whether they felt individually that they needed training in four core areas of governance, finance, legal and employment law. This identified that many of the Board require training in more than one of these areas and a further recommendation was made for group training sessions to be used to address this. The 'further recommendations' made by the governance consultant include recommendations on training, self-assessments and skills audits. These should be recorded and monitored as actions to ensure their implementation. These are not currently included on the Governance Action Plan.</p> <p>The Company Secretary is responsible for ensuring that the Board as a whole is kept up-to-date with any relevant legislative changes. Training records for each Board Member are maintained by the Organisation's Learning and Development team in the same way that staff training records are held. However, the Governance team is responsible for overall ownership of Board Member training and the Learning and Development team is responsible for organising training as requested from the Governance team and recording attendance. The Governance Action Plan includes an action for the Chair to delegate the responsibility of recording training needs according to individual Board members to the Board administrator.</p>	<p>Provided that the actions from the governance review are adequately implemented on a timely basis, the Board induction, training and development arrangements will be adequate to support the Board in their role. However, the further recommendations from the Board Skills report are not currently included on the Action Plan.</p> <p>R2</p> <p>The 'further recommendations' made by the governance consultant in the Board Skills report must be recorded and monitored as actions to ensure that the recommendations are adequately implemented.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The structure and constitution of the Board and Committees may not be appropriate for the purposes of the Organisation.</p>	<p>Board composition and constitution The constitution and composition of the Board is formally defined in its governing documents including the Articles of Association and Standing Orders.</p> <p>The Board meets at least four times a year and consists of twelve members who include nominees from the Council, Independent Board Members and Tenant Board Members. The Articles of Association provide for the Board to co-opt up to two additional people on the Board in a non-voting capacity. The quorum is six Board Members and decisions are made by a majority vote. The cycle of board renewal renews every three years and is included in the Standing Orders. However, there is no maximum term for Board members. National Housing Federation guidance states that a Board member should serve for two or three terms up to a maximum of nine years.</p> <p>The Scheme of Delegation for the Board is included in the Standing Orders. The minimum number of Board Members is set for each Committee. The Standing Orders also state that the Board requires the three standing Committees (Audit, Resources, Policy & New Business) to meet a minimum of four times per year and the Performance & Service Improvement Committee to meet a minimum of six times per year. We noted that the Service Improvement Committee will now meet four times per year to sync with performance information which is presented quarterly. The Standing Orders will be updated to reflect this</p>	<p>The constitution and composition of the Board and its Committees is consistent with good practice. However, there is no maximum term for Board members.</p> <p>R3 The Organisation should decide on a maximum number of years for Board members to serve which is three terms of three years (nine years) or less in line with good practice.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The structure and constitution of the Board and Committees may not be appropriate for the purposes of the Organisation. (Continued)</p>	<p>Board duties and responsibilities The main duties and responsibilities of the Board and its Committees are defined in its Standing Orders. Board duties and responsibilities are clearly defined, consistent with what we would expect and include the essential functions of the Board as described in the NHF Excellence in Governance Code. These include defining and ensuring compliance with the Organisation's values and objectives, appointment (and if necessary, dismissal) of the Chief Executive and approval of his/her terms of employment, approving each year's accounts, budgets and financial plan, establishing and overseeing a framework for the identification and management of risk and a framework of delegation and systems of internal control.</p> <p>The Board has delegated responsibility to the Audit Committee, Resources Committee, Human Resources Sub-Committee, Policy and New Business Development Committee and the Performance and Service Improvement Committee. The Committees have formal and clear roles and responsibilities which are consistent with what we would expect.</p> <p>Attendance at Board and Committee meetings We reviewed the most recent minutes for Board and each Committee to establish whether attendance at those meetings supported effective decision making in terms of the mix of skills present. We confirmed this by reviewing the Skills Matrix which was completed by the external consultant and comparing the individual skill-set of each Board Member present, to the type of decisions made. The expertise of each Board Member in each area is rated as high, medium, low or no expertise. For the Board and each Committee, we confirmed that the skills mix present supported effective decision making.</p>	<p>Board duties and responsibilities are clearly defined and recorded in the Organisation's constitutional documents.</p> <p>Attendance at Board and Committee meetings supports effective decision making with regards to the mix of skills present. However, none of the current Audit Committee members have high expertise in risk management.</p> <p>R4 The Organisation should consider whether risk management training for current Audit Committee members is necessary or whether a further member should be recruited who has high expertise in risk management.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The structure and constitution of the Board and Committees may not be appropriate for the purposes of the Organisation. (Continued)</p>	<p>We also reviewed overall Board and Committee membership to confirm whether the overall skills mix is suitable. There are members of the HR Sub-Committee who have high expertise in human resources. There are also members of the Performance & Service Improvement Committee with high expertise in performance management, and members of the Policy & New Business Committee with high expertise in strategic and business planning. We noted that none of the current Audit Committee members have high expertise in risk management. Each member has medium expertise in this area. The Organisation should consider providing further training to current members or recruiting another member with high expertise in risk management. We noted that some Board members do have high expertise in this area.</p> <p>Attendance at Board and Committee meetings is recorded and monitored by the Senior Governance Officer. We did not note any issues with non-attendance.</p>	<p>As above.</p>
<p>The Organisation may not provide adequate assurance to the Audit Committee that it complies with the Ministry of Justice requirements in relation to the Bribery Act.</p>	<p>Assessment of bribery risks The Assistant Director of Finance, Company Solicitor and Company Secretary reviewed the impact of the Bribery Act. Following this review, the following main actions were carried out:</p> <ul style="list-style-type: none"> • Amendments to the Tendering & Contract Procurement Rules (including reference to Bribery Act). • Update(s) in Team Briefs. • Specific Board training on the Bribery Act. • Training for all Managers on anti-fraud which includes Bribery Act (part complete). <p>Planned training for all staff on anti-fraud which will highlight the Bribery Act.</p>	<p>The Organisation has assessed the bribery risks to which it is exposed and has put mitigating actions in place. The assessment was carried out at EMT level.</p> <p>R5 The Organisation should provide the Board with assurance that Ministry of Justice requirements in relation to the Bribery Act have been adequately assessed.</p>

Key Risks	Key Controls and Mitigating Action	Conclusion
<p>The Organisation may not provide adequate assurance to the Audit Committee that it complies with the Ministry of Justice requirements in relation to the Bribery Act. (Continued)</p>	<p>A report was also presented to EMT on fraud awareness and the Bribery Act in July 2012. The Organisation may also want to consider providing the report to Board to ensure that the Board has been provided with assurance in this area.</p> <p>Bribery Act training We confirmed whether staff and Board members have received appropriate training with respect to their responsibilities for the prevention and detection of bribery and corruption.</p> <ul style="list-style-type: none"> • Board members: Bribery Act training (contained within Anti-Fraud training) has been provided to nine Board members. The remaining members confirmed training via other Housing organisations, the Council or their workplace, and this is to be confirmed in writing to the audit committee. The Bribery Act presentation includes an explanation of the six principles included in the Ministry of Justice guidance and is presented by a senior solicitor. <p>Staff: Anti-fraud training has been provided to all top Company Managers at the Organisation. A computer-based training exercise is being drafted by the Learning and Development team to be rolled out to all staff.</p>	<p>As above.</p> <p>All Board members will have received Bribery Act training by April 2013. Training has also been provided to senior managers and a training programme for all staff is being developed.</p>

4 Action Plan

Ref.	Findings	Recommendations	Priority	Management Response	Responsibility / Due Date
R1	The Organisation does not have a formal process for carrying out overall Board appraisals.	The Organisation should consider whether collective board appraisals are carried out as part of the annual appraisal process.	Low		George Pashley – Company Secretary (End of June 2013)
R2	The 'further recommendations' made by the governance consultant include recommendations on training, succession planning, self-assessments and skills audits are not currently included on the Governance Action Plan.	The 'further recommendations' made by the governance consultant in the Board Skills report must be recorded and monitored as actions to ensure that the recommendations are adequately implemented.	Medium	The work with the governance consultant is ongoing and the Governance Action Plan has still to be completed. Board will decide the key actions for inclusion bearing in mind that the organisations primary aim is to achieve the NHF's Governance standard.	George Pashley – Company Secretary (End of Sept 2013)
R3	The Standing Orders do not included a maximum term for Board members to serve.	The Organisation should decide on a maximum number of years for Board members to serve which is three terms of three years (nine years) or less in line with good practice.	Medium	Agreed to seek Board views as part of the current review of Governance	George Pashley – Company Secretary

Ref.	Findings	Recommendations	Priority	Management Response	Responsibility / Due Date
					(End of Dec 2013)
R4	There are currently no Audit Committee members who have high expertise in risk management. There are other Board members with high expertise in this area.	The Organisation should consider whether risk management training for current Audit Committee members is necessary or whether a further member should be recruited who has high expertise in risk management.	Low	Agreed to seek Board views as part of the current review of Governance	George Pashley – Company Secretary (End of Sept 2013)
R5	The Organisation has assessed the bribery risks to which it is exposed and has put mitigating actions in place. The assessment was carried out at EMT level.	The Organisation should provide the Board with assurance that Ministry of Justice requirements in relation to the Bribery Act have been adequately assessed.	Low	An update will be included in the next Company Secretary report.	George Pashley – Company Secretary (End of July 2013)

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.