

NOTTINGHAM CITY HOMES LIMITED
AUDIT COMMITTEE MEETING



Date: WEDNESDAY 12 OCTOBER 2016
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 ITEMS FROM THE CHAIR				
1.5 MINUTES OF THE PUBLIC MEETING HELD ON 11 JULY 2016	Attached	3 - 8		5.30
1.6 MATTERS ARISING				5.35
2. GOVERNANCE				
2.1 CORPORATE RISK REGISTER REVIEW Report of the Head of Risk Management	Attached	9 - 18		5.40
3. STRATEGY AND LEADERSHIP				
3.1 INTERNAL AUDIT REPORTS	Attached			5.55
(i) Highwood House,		19 - 31		
(ii) Repairs Service,		32 - 38		
(iii) Equality & Diversity		39 - 48		
(iv) Right To Buy (Cost floor)		49 - 58		
Reports of the Head of Internal Audit				
3.2 OUTSTANDING AUDIT RECOMMENDATIONS Report of the Assistant Director of Finance & Procurement	Attached	59 - 63		6.05
3.3 FURTHER UPDATE ON PAYROLL AUDIT Report of the Company Secretary	Verbal			6.10

4. CLOSING ITEMS

4.1 ANY OTHER BUSINESS

4.2 DATE OF NEXT MEETING

Monday 9 January 2017 in Room LH 1.18, Loxley House.

6.10

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 **5 October 2016**.

NOTTINGHAM CITY HOMES LIMITED

AUDIT COMMITTEE

Minutes of the Meeting of the Audit Committee held on **11 July 2016** in Room LH1.15
Loxley House, Station Street, Nottingham from 5:30 pm

Present

Committee Members:

Anne Dean
Glenn Harris MBE (Chair)
Steve Young

Also in attendance:

Gary Moreton	RSM UK
Tom Mouldsdales	Governance Officer
Simon Parsons	Internal Audit Manager
George Pashley	Company Secretary
Darren Phillips	Assistant Director of Finance and Procurement
Jonathan Shaw	Director of Investment and Business Services
Ian Rabett	Head of Health & Safety
Gill Moy	Director of Housing and Customer Services

1. INTRODUCTORY ITEMS

1.1 WELCOME

The Chair opened the meeting and welcomed the attendees.

1.2 APOLOGIES FOR ABSENCE

Apologies were received from Philip Coleman, and Shail Shah.

1.3 DECLARATIONS OF INTEREST

None declared.

1.4 ITEMS FROM THE CHAIR

None.

1.5 MINUTES OF THE PUBLIC MEETING HELD ON 11 APRIL 2016

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

1.6 MATTERS ARISING

None.

2. GOVERNANCE

2.1 CORPORATE RISK REGISTER

2.1.1 The Head of Risk Management presented the Corporate Risk Register report, which proposes how the risks will be reported to the Audit Committee and Board throughout the year.

2.1.2 The Head of Risk Management explained that the Corporate Risk Register is substantially complete and has been reviewed by EMT

2.1.3 Future reports to the Committee will be broken down so that a maximum of three risks are presented at each meeting. The report is presented in easily understandable graphics.

2.1.4 The Committee recommended an improvement to the Risk Register by adding numerical values to the risks, as well as explaining why some specific targets are left blank, in order to improve clarity of the document. Another recommendation includes the addition of a summary page at the front of the document which will contain the top five risks. This is particularly helpful in increasing focus at the Governing Board by reducing the document to no more than ten pages.

2.1.5 RESOLUTIONS:

The Committee agreed:

- 1. Include a summary at the front of the document in order to highlight the top five risks.**

3. STRATEGY AND LEADERSHIP

3.1 INTERNAL AUDIT REPORTS

The Internal Audit Manager NCC presented the reports on the following items.

3.1.1 3.1(i) Procurement 2015 - 2016.

3.1.1.1 The Internal Audit Manager NCC explained that this review focussed on procurement arrangements, including standing orders, procedures, tender documents, contracts register and procurement analysis. The Overall opinion was Significant assurance with only one low category recommendation.

3.1.1.2 RESOLUTIONS:

The Committee agreed:

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

3.1.2 3.1(ii) Annual Internal Audit Report 2015 – 2016

3.1.2.1 The Internal Audit Manager NCC presented the Annual Internal Audit Report 2015-2016 and explained that this was the second year of a three year audit contractual

arrangement. While making reference appendix 1, the Internal Audit Manager stated that out of the 16 audits this financial year 13 had a high or significant level of assurance, while 2 limited assurance, and 1 is currently low assurance.

3.1.2.2 **RESOLUTIONS:**

The Committee agreed:

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

3.1.3 3.1(iii) Capital Governance Programme

3.1.3.1 The Internal Audit Manager NCC explained that this review focussed on Contract Management Arrangements. The overall outcome was Significant Assurance with 3 medium priority recommendations.

3.1.3.2 **RESOLUTIONS:**

The Committee agreed:

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

3.1.4 3.1 (iv) Fleet Management

3.1.4.1 The Internal Audit Manager NCC explained that this is the first time NCH has been audited regarding fleet management. The scope of this report includes; contract/SLA management, charging mechanism for vehicle usage, management Information systems and budget/transactional reporting.

3.1.4.2 Out of this report two high priority recommendations were made. Firstly NCH should insist that all NCC fleet vehicles service books are completed, up to date, and on-going. Secondly NCH needs to consider the requirements of the Service Level Agreement with NCC in relation to safety checks, coupled with the risk and cost implications.

3.1.4.3 **RESOLUTIONS:**

The Committee agreed:

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

3.1.5 3.1 (v) Health & Safety: Fire System Inspections

3.1.5.1 The Internal Audit Manager NCC explained that as part of the 2016/17 Audit Plan, he has undertaken a review of Fire Safety Assessments and has responded to issues which were raised. Out of this report 3 recommendations were made, 2 of the 3 being medium priority, and 1 being low.

3.1.5.2 The Audit Committee commented on the lack of training on Housing Patch Managers to which the Head of Health & Safety confirmed that training is being reviewed in order to properly determine who requires statutory training.

3.1.5.3 **RESOLUTIONS:**

The Committee agreed:

1. **To note the content of the report.**

3.1.6 3.1 (vi) Leaseholder Charges – Follow-up

3.1.6.1 The Internal Audit Manager NCC explained that they have undertaken a follow-up review of the Leaseholder Service charge system as part of the 2016-17 Internal Audit Plan. This review sought to establish whether agreed recommendations made at our previous audit have been satisfactorily implemented.

3.1.6.2 The Internal Audit Manager NCC was pleased to note that considerable attention has been focused on the areas identified in previous audits which have significantly improved controls operating over this process.

3.1.6.3 The Director of Housing and Customer Services clarified that issues with the leaseholder team have been addressed by taking the decision to create a process which has significantly improved operating controls. This has shown to have positive results as following initial arrears letters being sent out in January, the arrears have reduced from £220k in January to £142k in March and to around £60k in June. However we, along with internal Audit, have identified a few areas where further improvements in control could be made.

3.1.6.4 **RESOLUTIONS:**

The Committee agreed:

1. To note the contents of the report.

3.1.7 3.1 (vii) 2016 – 2017 IA Plan – QR1 Progress Update

3.1.7.1 The Internal Audit Manager NCC presented the update of the Internal Audit plan which summarises the progress in the year so far. The first quarter has now been completed, while second quarter items are in progress. The Repairs and Maintenance Service has been agreed to be deferred until September in order to evenly distribute tasks between quarters.

3.1.7.2 **RESOLUTIONS:**

The Committee agreed:

1. To note the contents of the report.

3.2 **OUTSTANDING AUDIT RECOMMENDATIONS**

3.2.1 The Assistant Director of Finance and Procurement presented the report on the outstanding audit recommendations.

3.2.2 The audit register includes a total of 35 audit recommendations of which 20 are outstanding. Out of the remaining 20 recommendations, 12 are medium risks, and 8 are low risks.

3.2.3 As requested by Committee, the additional report, issued to members following the release of the formal Committee papers, shows more detail on the outstanding medium priority recommendations. Details include items outstanding, the distribution of low/medium/high recommendations, and initial target date to implement recommendations.

3.2.4 **RESOLUTIONS:**

The Committee agreed:

- 1. For The Assistant Director of Finance and Procurement to issue the more detailed report to Committee once a year.**

3.3 UPDATE ON PAYROLL AUDIT

3.3.1 The Company Secretary presented an update on Payroll Audit providing information on outstanding actions.

3.3.2 The Company Secretary explained that originally one employee was responsible for the entire payroll procedure in NCH and they recently resigned. As a temporary measure a paper based system has been put in place to make cost and time savings while transitioning to EMSS.

3.3.3 The benefits of EMSS are that it is all self-service and could be significantly cheaper than the current arrangements.

3.3.4 Audit Committee questioned the accuracy and effectiveness of a 100% self-service system. Short term arrangements would be put in place to deal with the current position. Audit Committee agreed that a full payroll audit should take place in the first quarter of 2017.

3.3.5 **RESOLUTIONS:**

The Committee agreed:

- 1. For the Company Secretary to meet with the NCC employee who is their internal link to EMSS.**
- 2. To conduct a further smaller audit into EMSS followed by a larger audit in the first quarter of next year.**

4. FINANCIAL AND PERFORMANCE MONITORING

4.1 2015 – 2016 FINANCIAL STATEMENTS

4.1.1 The Assistant Director of Finance and Procurement explained that attached to this report are the draft NCH Report and Financial Statements for the year ended 31st March 2016 and the Final Audit Findings Report issued by the Company's external auditors RSM UK Audit LLP (RSM), following completion of their audit work.

4.1.2 The Company delivered a surplus of £215k against its 2015/16 budget of £219k as reported to Board in June 2016. Nonetheless the overall Company's Income Statement shows a reported loss of £3.160 million following FRS 17 Pension adjustments. A reconciliation between the net surplus position reported to Board and the loss shown in the financial statements was reviewed.

4.1.3 As stated in NCC's Letter of Confirmation, NCC shall assist NCH in meeting its pension fund liabilities as and when they fall due.

4.1.4 The External Auditor for RMS presented the External Audit Report (appendix 2): They explained that while the Assistant Director of Finance and Procurement covered the qualitative aspects, it is the key auditing areas which need specific focus. In detailed findings can be shown in the response section of the appendix 2.

NOTTINGHAM CITY HOMES

REPORT OF THE HEAD OF RISK MANAGEMENT

AUDIT COMMITTEE
12 OCTOBER 2016

CORPORATE RISK REGISTER REVIEW

1. SUMMARY

- 1.1 The risk management action plan is on schedule.
- 1.2 Reports are attached so that Audit Committee can monitor the corporate risk register.
- 1.3 Potential new corporate risks have been identified during the development of the Company Secretariat risk register.

2. RECOMMENDATIONS

- 2.1 Audit Committee is requested to review the corporate risk register as explained at paragraph 3.2
- 2.2 Audit Committee is invited to discuss how they would prefer to receive potential new corporate risks as explained at paragraph 3.3

3. REPORT

- 3.1 The risk management action plan for 2016 (see [Appendix 1](#)) remains on schedule. The corporate risk register has been approved by Board, and the Company Secretariat risk register has been developed. Risk registers will be completed for the other three Nottingham City Homes (NCH) directorates over the next quarter. We do not anticipate the need to develop additional registers for either of the new subsidiaries this year.
- 3.2 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:

CRR001 – Strategic Leadership (George Pashley)
CRR003 – Health & Safety (Ian Rabett)
CRR004 – Business Continuity (Ian Rabett)

Summary reports are provided at Appendix 2. Audit Committee is invited to ask appropriate questions of the lead officers for each risk.

3.3 Potential new corporate risks were identified during the development of the Company Secretariat risk register. Audit Committee has responsibility in the Risk Management Framework for deciding which new risks should be added to the corporate risk register (see Appendix 3). Audit Committee members are asked to discuss briefly how they would prefer this process to work. The potential new risks are:

a. Oracle and lack of reporting facility - failure to maintain data in Oracle or system failure, resulting in incorrect management data and / or payroll; inability to extract management data from Oracle may result in poor quality decision making.

b. New apprenticeship levy - compulsory introduction of apprenticeship levy results in unexpected budget pressures.

c. Leaseholder doors – Lack of legal remedy to force leaseholders to fit or maintain fire doors on internal flat entrances exposes NCH to enforcement action by FRS and residents to risk of fire spread within building.

3.4 Board requested at their July meeting that the company's risk appetite statement be reviewed and the process for setting risk appetite be simplified. A proposal will be reviewed by EMT in October for submission to the next Board meeting.

4. **FINANCIAL, LEGAL AND RISK IMPLICATIONS**

4.1 Financial

N/A

4.2 Legal

N/A

4.3 Risk

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 Homes and Communities Agency (HCA) governance standards in respect of the Registered Provider (RP) subsidiary.

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 FURTHER INFORMATION

7.1 N/A

8 APPENDICES

8.1 [Appendix 1](#): Extract from Risk Management Framework; Risk Management Action Plan 2016

8.2 [Appendix 2](#): Summary of Risks CRR001; CRR003 & CRR004

8.3 [Appendix 3](#): Extract from Risk Management Framework; moving risks between registers

Appendix 1: Extract from Risk Management Framework; Risk Management Action Plan 2016

Month [2016]	Action	Meeting Dates	
January	<ul style="list-style-type: none"> ✓ Identify risk owners ✓ Update to Audit Committee ✓ Set up Corporate Risk Management Group 	EMT	04/01/15
February March	<ul style="list-style-type: none"> ✓ Training for risk owners and risk management group ✓ Develop CRR ✓ Update report to RP Board ✓ Populate Covalent 	RM Group RP Board	05/02/16 25/02/16
April May June	<ul style="list-style-type: none"> ✓ Update report to Audit Committee ✓ Further development of CRR ✓ Develop audit schedule (including internal audit) ✓ Develop CRR report formats 	RM Group Audit Committee RM Group	08/04/16 11/04/16 03/06/16
July	<ul style="list-style-type: none"> ✓ Full CRR to Audit Committee - for approval ✓ Full CRR to Board 	Audit Committee Board	11/07/16 28/07/15
August September October November December	<ul style="list-style-type: none"> ✓ Develop format for directorate risk registers ✓ Train directors and other appropriate officers ✓ Develop independent audit process for risk registers ✓ Publish risk management audit schedule 		

table 4: Risk Management action plan 2016/17

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Appendix 2: Summary of Risks CRR001; CRR003 & CRR004

CRR001	STRATEGIC LEADERSHIP		
Weaknesses in the leadership provided by Board and senior management, our planning processes or governance arrangements lead to poor performance, lack of confidence or breach of statutory requirements			
<p>Original Risk</p> <p>Current Risk</p> <p>Target Risk</p>			<p>Commentary: This risk has recently been audited by NCC Internal Audit, and a report is submitted to Audit Committee separately. It is therefore more appropriate to rely on the findings of the independent audit on this occasion than to add further commentary here.</p>

Sub-Risks:

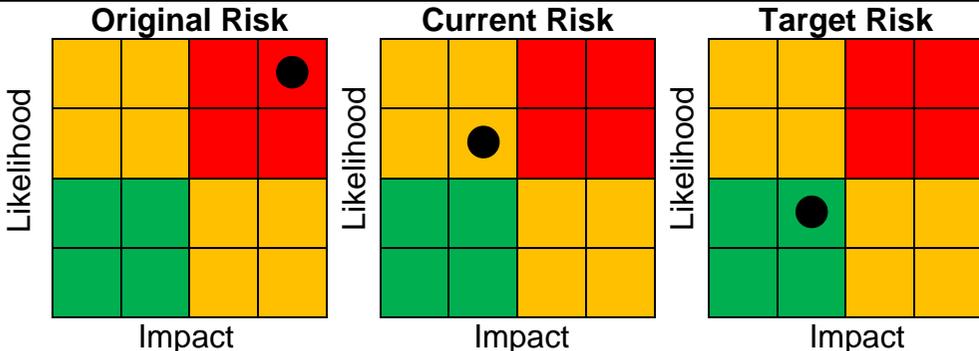
Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR001a	Board lacks the competence, structure and authority to provide strategic direction and oversight, and appropriate challenge to senior management.	HIGH	<ul style="list-style-type: none"> a. Comprehensive Board member skills audit and appraisals undertaken each year. b. Independent assessment of the Chair undertaken annual by an external examiner. c. Review of skills in 2015 lead to the recruitment of Board Members with specific skills in order to ensure capability of providing strategic direction and challenge. d. There is a comprehensive induction process for Board Members. e. Independent assessment of the Chair undertaken annual by an external examiner. Review of skills in 2015 lead to the recruitment of Board Members with specific skills in order to ensure capability of providing strategic direction and challenge. There is a comprehensive induction process for Board Members. 	MED	N/A	MED

Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR001b	NCH lacks the knowledge, resources and procedures required to ensure that the statutory and operational requirements of running a company are complied with.	HIGH	<ul style="list-style-type: none"> a. NCH has a Company Secretary with clear accountability to the Board. b. NCH supported by comprehensive Standing Orders: Part 1 Governance, Part 2 Financial Regulations and Part 3 Tender and Contracts Procedures are in place. 	LOW	N/A	LOW
CRR001c	Present governance arrangements are insufficient to ensure compliance with the HCA's regulatory framework.	LOW	<ul style="list-style-type: none"> a. 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. b. Board, EMT and staff training undertaken with regard to governance compliance 	LOW	N/A	LOW
CRR001d	NCH management structure may have neither the competence or capacity to manage its 2 new subsidiaries.	MED	<ul style="list-style-type: none"> a. 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; b. External expert training provided on the responsibilities of directors in running the new subsidiaries; c. Project to create the new subsidiaries reviewed our compliance for the HCA requirements and introduced new Mems and Arts and Inter-company agreement and updated policies to be relevant to the new Group 	LOW	N/A	LOW
CRR001e	Mismanagement of funding allocated to NCH, including poor financial management or failure to follow financial regulations.	HIGH	<ul style="list-style-type: none"> a. Robust and regularly reviewed Financial Regulations. b. Specific and separate business units and income codes established and used on the ORACLE ledger system. c. Monthly budget management reports issued to Tier 3 Managers, Directors, and EMT (Board 1/4ly). d. Robust and integrated Team Planning and budget setting process. 	MED	N/A	MED

CRR003	HEALTH AND SAFETY		
A failure to manage risk, comply with statutory requirements or plan effectively for emergencies results in injury, ill-health, legal action or inability to deliver services			
			<p>Commentary: The main internal control is maintenance of a health and safety management system to OHSAS 18001: this management system was independently audited in September 2016. The outcome was very positive with no non-conformances, observations or recommendations made, save for three positive comments relating to our H&S culture, construction H&S controls and new learning management system. Copies of the audit report are available on request.</p> <p>The main action to reduce risk CRR003a is to publish an integrated procedures manual that will allow managers to better understand and perform their role, and to collate the company's top level risk assessments. This project is approximately 6 weeks behind target, but will be completed this financial year.</p>

Sub-Risks:

Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR003a	Employees or residents are injured as a result of the company's activities, resulting in lost time and employer's / public liability claims.	HIGH	<ul style="list-style-type: none"> a. Health and safety management system in place certified to OHSAS18001. b. Fire Risk Management System to PAS 7. c. Health & Safety Committee and Fire Risk Management Groups; Corporate Risk Management Group monitors employer's and public liability claims. 	MED	Review all risk management procedures (including H&S, Fire & Emergency Control) & develop integrated procedure manuals (28% complete)	LOW
CRR003b	NCH fails to meet its statutory health and safety and fire safety obligations (including gas servicing), resulting in prosecution or public censure	HIGH	<ul style="list-style-type: none"> a. Continued full certification to OHSAS18001 standard: the 18001 process requires that we keep a register of legislative requirements, and self-certify compliance with them. This is independently verified by the 18001 auditor. 	LOW	N/A	LOW

CRR004	BUSINESS CONTINUITY		
A failure to plan effectively for emergencies results in threats to residents' welfare, loss of homes or a temporary inability to deliver services			
			<p>Commentary: We have an emergency control management system, emergency plan and risk mitigation plan in place. The emergency plan is regularly tested (once every 2 months), and we currently maintain a 24/7 emergency response team. The risk mitigation plan is due to be reviewed later this year.</p> <p>Critical NCH services (those required by the NCC Major Incident Plan) have conducted Business Impact Analyses (BIA's) which are assessments of their business continuity capacity, and Nottingham and Call and the Customer Services Centre have emergency backup centres (although these are being reviewed as part of the accommodation strategy).</p> <p>All NCH services are being asked to complete BIAs this year. This action was originally planned for 2015, but was postponed due to lack of resources. The BIA system has been reviewed and improved, and appointments have been made with all services to complete their BIAs by end November 2016. This will complete the outstanding internal audit recommendations in this area.</p>

Sub-Risks:

Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR004a	Business continuity risks are not recognised or managed, resulting in business disruption following an unexpected event.	HIGH	a. Emergency Control Management System and NCH Emergency Plan	HIGH	a. Ensure all service areas have an updated [business continuity] business impact analysis (53% complete)	LOW

Reference	Description	Original Risk	Internal Controls	Current Risk	Further Action	Target Risk
CRR004b	NCH fails to plan for and resource its response to emergencies, resulting in poor response, increased risk to employees and customers and reputational damage	HIGH	<ul style="list-style-type: none"> a. Emergency Control Management System includes NCH procedures for managing business continuity b. Trained out of hours Emergency Response Team available to respond to emergency incidents - contactable via NOC 24/7 service c. Regular testing of emergency plan with NOC and out of hours response team. 	MED	<ul style="list-style-type: none"> a. Train in hours housing services teams in emergency response and provide emergency response equipment (50% complete). b. Arrange credit card accessible to out of hours responders (0% complete). c. Develop and test a suite of emergency response guides to supplement the various scenarios in the Emergency Control Management System (28% complete) 	LOW
CRR004c	Strike or other industrial action (e.g. fuel strikes) reduces or prevents NCH service delivery.	HIGH	<ul style="list-style-type: none"> a. Continue with effective and meaningful consultations with Unions at each level to maintain good industrial relationships b. Annual review of relevant people policies with Trade Unions to ensure compliance 	LOW	N/A	LOW

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Appendix 3: Extract from Risk Management Framework; moving risks between registers

5.4.4 Sub-risks are likely to change relatively quickly according to changing circumstances, and may also change in their importance to our organisation. A process is therefore required to review sub-risks and move them between registers as appropriate. Risk registers are therefore created in the same format at all levels, including the Corporate Risk Register, directorate and team plan registers; each register will contain the same nine risks, ensuring that all risks in each register align to our corporate objectives. Sub-risks will differ in each register, but can easily be moved 'up' or 'down' between registers according to their importance to the organisation and the desired level of control.

5.4.5 Authority to move risks between registers is as follows:



figure 3: authority to transfer risks between registers

- **Audit Committee** may transfer risks from the Corporate Risk Register to directorate risk registers, and accept or reject recommendations that risks are moved from directorate risk registers to the Corporate Risk Register.
- **Service Directors** may recommend that risks are moved from their directorate registers to the corporate register, transfer risks from their directorate risk register to team plan registers, and accept or reject recommendations that risks are moved from team plan risk registers to their directorate risk register.
- **Team Plan Authors** may add or remove risks on their team plan risk registers, or recommend that risks are moved from / to their team plan register to the appropriate directorate risk register.

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FINAL INTERNAL AUDIT REPORT

Temporary Accommodation Service – Highwood House

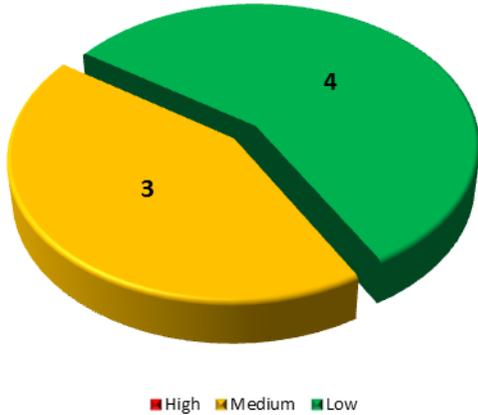
ITEM 3.1 (i)
Nottingham City Council
Internal Audit



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Distribution List	
Issue Date:	15 th August 2016
Issued to:	Richard Holland, Assistant Director Housing Operations
Copied to:	Gill Moy, Director of Housing & Customer Services Andrew Miller, Temporary Accommodation Manager Darren Phillips, Assistant Director of Finance and Procurement

Contact Details:		
Head of Internal Audit	Shail Shah	Ext 64245
Audit Manager	Simon Parsons	Ext 64246
Principal Auditor	John Slater	Ext 64239
Senior Auditor - Contractor	Graham Jordan	Ext 64235

<p>Organisation: Nottingham City Homes (NCH)</p> <p>Previous Audit:</p> <p>This is the first internal audit of Highwood House since Nottingham City Council Internal Audit Services were contracted by Nottingham City Homes in 2014.</p>	<p>Overall Opinion: Significant Assurance</p>		<p>Direction of Travel: Not applicable with a first review.</p>								
<p>High Priority Recommendations</p> <p>There are no high priority recommendations.</p>		<p>Scope and Approach: The agreed scope for the audit covered the following aspects of the system:</p> <ul style="list-style-type: none"> • Receipting of income; • Cash handling & Transportation; • Security of Cash; • Debt management; • IT controls over access to the financial information System; • Management of Household Support Grants. <p style="text-align: center;"><u>Summary of the recommendations by priority</u></p>  <table border="1" style="margin-top: 10px;"> <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>4</td> </tr> </tbody> </table>		Priority	Count	High	0	Medium	3	Low	4
Priority	Count										
High	0										
Medium	3										
Low	4										

Introduction and Background

- 1.1 Nottingham City Homes (NCH) is the Arms-Length Management Organisation (ALMO) that manages over 26,000 homes and approximately 1000 leasehold properties on behalf of Nottingham City Council (NCC). It is responsible for the day to day management of the homes including services such as tenancy management, rent collection and repairs. NCH also provides other services such as Nottingham on Call, Payment collection etc.
- 1.2 Nottingham City Council (NCC) and NCH commenced a Statement of Service Delivery in November 2014 for the provision of Emergency Temporary Accommodation for Statutorily Eligible, Homeless and Priority Need Families within the City of Nottingham at Highwood House.
- 1.3 NCC provide a Household Support Scheme for client’s when they move out of Highwood House into permanent accommodation and NCH manage this on behalf of NCC with an annual summary report of what has been provided, following periodic contact as and when required. The NCC procurement process in the financial information system, Oracle, provides both parties with the costs of the goods provided.
- 1.4 As part of the 2016/17 Audit Plan and, within the agreed scope, we have undertaken a review of the following specific aspects of the system:
 - The income-related processes at Highwood House, in particular, occupancy, receipting, cash collection, monitoring and reporting systems; and
 - The administration and management of Household Support Grants by NCH, on behalf of NCC.
- 1.5 The risks associated with income collection come under 2 different categories; occupancy debt collection and security of cash.
 - Occupancy Debt Collection
 - Fraud;
 - Inefficiency of income collection;
 - Cash collection rather than use of debit/credit cards;
 - Inadequate receipting;
 - Occupancy and profitability not being maximized;
 - Policies & procedures not in place;
 - Security of Cash
 - Fraud;
 - Inadequate cash receipting;
 - Transportation of cash;
 - Banking arrangements;
 - Unsecured and/or excessive amounts of cash held on premises;
 - Inadequate staff guidance;
 - Health & Safety at Work Act 2015, in particular, staff safety;
 - Insurance of cash, valuables and any personal injuries suffered by staff.

- 1.6 The risks associated with Household Support Grants include:
- Fraud;
 - Misuse of resources;
 - Inadequate management, monitoring and reporting;
 - Reputational damage.

Key Findings

- 1.7 Rent accounts are maintained on the Northgate Housing system.
- 1.8 Generally, the processes were found to be well managed, monitored and reported. The processes are supported with documented flow-chart style guidance notes, although some minor changes were found to be required to bring them up to date.
- 1.9 Occupancy of the 29 flats within Highwood House is dependent on families being referred by the NCC Housing Aid Team as they are informed by Highwood House on a daily basis whether there is accommodation available. NCC has a duty on referral to provide accommodation to those clients who have, or appear to have, met the statutory requirements under Part VII of the Housing Act 1996.
- 1.10 If a client does not have the ability to pay the rent from their resources then a Project Worker supports them with an application for housing benefit but a decision can take up to 8 weeks, or longer in some cases. During this period there is a risk that the rent debt accrued by such clients will not be paid through housing benefit, if the client's application is not fully paid or is turned down. Additionally a small proportion of the rent charged is ineligible for housing benefit.
- 1.11 The receipting process is relatively straightforward as the majority of clients do receive housing benefits and arrears of income and subsequent benefit payments are received directly on the Northgate Housing system.
- 1.12 Some clients do pay part or all of their rent in cash at Highwood House, along with cash collected for services not covered by housing benefit, i.e. utilities and laundry, it is receipted, handled and stored securely before the contracted company (G4 Security) collect the cash each month. A walkthrough of cash received on 17th June 2016 verified that only two amounts of cash had been received and they were verified to the income receipt sheet and banking record held in the safe.
- 1.13 Access to the cash box and safe are as secure as one could expect in such a relatively small complex, with a busy front office environment and only the Manager, 4 Project Workers, the Caretaker and 2 cleaners working in or visiting the office. There is only one key for the safe, which is held by one Project Worker or, in her expected absences, the Manager, so the lack of a spare key needs to be rectified in case of unexpected absences, emergency or loss.

- 1.14 There are two sets of secure doors to reach the office and, whilst the cash box is visible when in use, it is kept in a locked drawer and minimal amounts are held in it as cash is regularly transferred to the safe, which is out of client/visitor sight in a back room. CCTV covers the reception area, lifts and exterior doors.
- 1.15 Monitoring and reporting cash received and other income is by way of several spreadsheets that are matched to the reports extracted from the Northgate system each Sunday evening. Individual rent statements are prepared from the Northgate download and given to each client.
- 1.16 On analysing a download from Northgate of current and former clients’ rent account balances, as at 26th June 2016:
 - The current 29 client’s rental situations did not raise any issues other than the debts of 4 client’s being in excess of £1,700 but the manager explained the situation of each where decisions were due from housing benefit and another that eviction proceedings were due to be underway.
 - Detail for former clients are shown in Table 1.

Table 1. Analysis of former client rent accounts

Balance	Address Known	Number of clients	Total Value	Range	Comments
Zero		10	0		no further action needed
Credit	No	3	£86.26 cr	£7.84 cr - £70.26 cr	See Note 1
Credit	Yes	23	£1,074.63 cr	£0.05 cr - £221.72 cr	
Debit	No	7	£2,764.18	£7.01 - £1,704.20	
Debit	Yes	39	£15,129.57	£0.02 - £4,376.62	

Note 1. The manager expected these amounts would be appropriated by NCC, but we advised that such monies need to be ring-fenced in the accounts, bearing in mind that the former client could make contact at any time to reclaim the amount owed to them;

- 1.17 The NCH Executive Assistant confirmed that former clients’ rent account balances are accounted for within the Northgate system and further confirmed that:
 - Credit balances are offset against any other client tenancy debts that former clients of Highwood House may have or are transferred to their new Council Tenancy if they have one; and
 - Debit balances become part of the debt escalation recovery process as, prior to the introduction of Northgate, they would have been dealt with as part of sundry debtors.

- By monitoring the processes holistically in the Northgate system, the likelihood of debt recovery is enhanced due to the joined-up approach.
- Whilst former clients of Highwood House are prompted to clear any outstanding debts prior to signing a tenancy agreement, NCC have a legal duty to permanently house most Highwood House clients and the presence of a debt will not override that duty.
- Provisions in the Council's tenancy agreements compelling tenants to pay former tenancy arrears, or be in breach, will not apply to debts incurred under a licence agreement, such as the one issued for residing at Highwood House. The client debt from their Highwood House residency will be visible to NCH staff and affect the overall indebtedness field in Northgate so settlement can be sought from those who become Council tenants. It cannot, however, be enforced with possession action for breach of tenancy. NCH will seek to amend this tenancy clause to include debts incurred under a licence agreement in a future rewrite and reissue.
- There is no contact between any councils on the levels of debt clients/tenants may have left behind that can factored into the considerations when offering a tenancy. There are data protection issues that may need to be overcome but it needs to be discussed by management as to whether NCH feel it worthwhile engaging with other Social Housing providers to help each other recover arrears and be aware of previous financial issues before offering tenancies. We identified only 1 such case with low level arrears.

1.18 The former clients spreadsheet would benefit from having additional information to aid management in dealing with the remaining debit, credit or zero balances, e.g.:

- A column stating the client's departure date to indicate the age of debts outstanding;
- All of the information be sortable by the departure dates to maintain a consecutive timeline following each departing client; and
- Insertion of a "Notes" column to record the actions being taken either on recovery or repayments.

1.19 The management, monitoring and reporting of the Household Support Grants (HSG) was found to be good; with spreadsheet information on each client denoting how much had been provided for each type of household item they were entitled to and IT access limited to the Manager of Highwood House and the 4 Project Workers. A summary of the scheme is shown in Table 2.

Table 2. Summary of Household Support Grants provided 2014-2016

Year	Paid to Former Residents	Admin charge Paid to NCH	Total Paid by NCC
2014-15	£40,896	£2,809 (77 cases @ £12.16 x 3 hours each case).	£43,705
2015-16	£34,859	£3,181(70 cases @ £15.15 x 3 hours each case)	£38,040

- 1.20 The spreadsheet analysis of the HSG could benefit from an analysis by year as the latest tab of the sheet covers 2012-2017. We also suggest that the spreadsheet would be improved by an analysis of how many of each household item are being provided for the money spent as, for the purposes of compiling the end of year return to NCC, the manager had conducted this task manually.
- 1.21 We noted that 3 clients had been accommodated at Highwood House more than once since 2012.
- A client had received goods in September 2014 totalling £773 but they are yet to have the assessment of needs discussion to ascertain whether they are to request more goods; and
 - A client did not request any goods following their previous residency in October 2012 and are yet to have their assessment of needs discussion.
 - A client had been provided with goods totalling £915 in March 2014 yet on their assessment form after becoming clients of Highwood House again recently, they have not declared their previous residency and stated that they will need furniture should they be re-housed by NCH. There is the possibility that the previous goods provided are in storage but that needs to be ascertained bearing in mind their statement that they will need furniture in a new home.
- 1.22 The question of whether they should be provided with any further goods from the grant scheme arose and the Manager's initial view was that they should not be. However, we noted that the HSG policy guidance provided by NCC does not cover this issue and so any course of action could potentially lead to criticism or dispute.
- 1.23 The Manager requested guidance from the NCC Household Support Grant contact on this, i.e. how many times can goods be provided before the line is drawn and no more goods are provided to clients who are sent to Highwood by Housing Aid. At the time of this report, no response has been forthcoming from NCC but the Manager of Highwood House needs to have direction as the decision will set a precedent.

1.24 This issue only arose from a discussion on possible scenarios and purely on the basis of the Manager recognising the clients’ names when scrolling through the current spreadsheet and requesting the assistance of colleagues. All new clients need to be cross-referenced to previous clients to identify issues including previous HSG.

Opinion

1.25 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.

Summary of Recommendations

- 1.26 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.
- 1.27 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	4
Total	7

Added Value

1.28 We have highlighted the need for a review of debt management incorporating tenancy agreements, Northgate processes to be incorporated in the process guidance notes for staff and clarification of the Household Support Grant protocol. We have suggested that the Manager needs to obtain support and advice when making decisions to ensure that they are appropriate.

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
2016-17 01	Provisions in the NCC Tenancy Agreement compelling tenants to pay former tenancy arrears, or be in breach, do not apply to debts incurred under a licence such as the one issued for residency at Highwood House. <u>Risk</u> Financial loss.	NCH should seek to amend the tenancy clause to include debts incurred under a licence agreement in a future rewrite and reissue of the Tenancy Agreement.	Medium	To be amended when the tenancy agreement is reviewed in the next 12 months	William Morrill South Regional Housing Manager August 2017
2016-17 02	There is no contact between councils on the levels of debt clients may have left behind that can be factored into the considerations when offering a tenancy agreement. <u>Risk</u> Financial loss.	NCH Management should investigate whether other Councils/Social Housing providers can help each other to recover arrears or be notified of debts outstanding from former residents of each organisation.	Low	At the point of application for rehousing applicants are asked to provide details of former addresses for the last 5 years. They are also asked for details of any current and former tenant arrears. References will be requested where appropriate with applicants transferring from other landlords. Those deemed as having unacceptable behaviour (including arrears) may be refused access to the housing register.	Paul Stanley Head of Lettings and Housing Options Completed 22/07/16
2016-17 03	The Household Support Grant policy guidance provided by NCC does not cover repeat applications and so any course of action could potentially lead to	The Manager of Highwood needs to have direction from NCC on what the protocol for repeat applications for	Medium	NCC Commissioning Team has amended the guidance notes to make it clear that use of the fund for people	Andrew Miller Temporary Accommodation Manager

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
	criticism or dispute. <u>Risk</u> Ineffective use of budget .	Household Support Grant including maximum number of applications with timescale.		who have previously benefited from it is at the discretion with the provider (Alan Lowen 29/7/16)	Completed
2016-17 04	The issue of repeat applications for Household Support Grant arose from an ad hoc review prompted by the audit. <u>Risk</u> Ineffective client support.	All new clients need to be cross-referenced to previous clients to identify issues including previous Household Support Grant.	Medium	All new residents of Highwood are now being checked for previous HSG applications on Highwood's database.	Andrew Miller Temporary Accommodation Manager Completed
2016-17 05	There is only one key for the establishment's safe, which is held by one Project Worker or, in her expected absences, the Manager. The lack of a spare key needs to be rectified in case of unexpected absences, emergency or loss. <u>Risk</u> Financial loss. Business process discontinuity.	At least one spare key should be cut and retained securely by the Highwood House Manager.	Low	Manager has a new safe key.	Andrew Miller Temporary Accommodation Manager Completed
2016-17 06	The income-related processes are supported with documented flow-chart style guidance notes. Some minor changes were found to be required to bring them up to date and the introduction of Northgate has introduced some key changes. <u>Risk</u> Failure to consistently meet service needs.	The guidance notes and flow charts should be updated to reflect current practices, Northgate in particular.	Low	Flow charts have been updated by Louse Painter (27/7/16).	Andrew Miller Temporary Accommodation Manager Completed

Ref	Finding and Risk	Recommendation	Priority	Management Response	Responsibility and Target Date
2016-17 07	<p>Information extracted from Northgate is a valuable new tool for the Highwood House Manager and Project Workers but further value could be gained with additional information.</p> <p><u>Risk</u> Inefficient business processes.</p>	The Highwood House Manager should discuss, with the NCH Executive Assistant, the additional beneficial information that could be provided from Northgate for monitoring and reporting purposes.	Low	Manager will meet with Mark Lawson to discuss addition information.	<p>Andrew Miller Temporary Accommodation Manager</p> <p>30/9/16</p>

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
- It is expected that management will respond to this draft report within 10 working days of receipt.
- 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:

High Assurance	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
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.

Key to Opinion & Direction of Travel					
Overall Opinion			Direction of Travel		
High Assurance		Limited Assurance		Improving	
Significant Assurance		No Assurance		No changes	
				Deteriorates	

FINAL INTERNAL AUDIT REPORT

Repairs Service – Stores

ITEM: 3.1 (ii)
Nottingham City Council
Internal Audit



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Distribution List	
Issue Date:	22 September 2016
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<p>Organisation: Nottingham City Homes (NCH)</p> <p>Previous Audit:</p> <p>This is the first internal audit of the Repairs Service – Stores since Nottingham City Council Internal Audit Services were contracted by Nottingham City Homes in 2014.</p>	<p>Overall Opinion:</p> <p>Significant Assurance</p>		<p>Direction of Travel:</p> <p>Not applicable with a first review.</p>
		<p>Scope and Approach: The agreed scope for the audit was to review the stores process within Nottingham City Homes to ensure that appropriate process and reporting mechanisms are in place.</p>	
<p>High Priority Recommendations</p> <p>There are no high priority recommendations.</p>		<p style="text-align: center;"><u>Summary of recommendations by priority</u></p> <p style="text-align: center;">No recommendations were made.</p>	

Introduction and Background

- 1.1 Nottingham City Homes (NCH) is the Arms-Length Management Organisation (ALMO) that manages over 26,000 homes and approximately 1000 leasehold properties on behalf of Nottingham City Council (NCC). It is responsible for the day to day management of the homes including services such as tenancy management, rent collection and repairs. NCH also provides other services such as Nottingham on Call, Payment collection etc.
- 1.2 An audit review of the stores management arrangements was initially scheduled for quarter two in the 2015-16 Internal Audit Plan but, as the area was under a transformation process, the review was deferred until quarter two in 2016-17 in order to assess the new arrangements.
- 1.3 The risks associated with the process include:
 - Poor access control to the stores system (DATASTOX)
 - Incomplete or inaccurate records
 - Poor stock management
 - Over or under stock issuing
 - Errors or omissions in recording stock issues and receipts
 - Stock hoarding by operatives
 - Fraud and theft

Key Findings

- 1.4 The Fleet & Facilities Manager confirmed that, whilst the 14 stage implementation plan is not fully in place, there is an expectation for it to be operational in the near future. The transformation process is outlined thus:

Stores - Prior to the start of the project the stores operated a traditional counter collection service with a limited focus on its customer and the needs of the business. The service operated an imprest stock system which included the need for the stockholder to collect their replacement stock from the counter, in effect, the business worked around the stores - not the stores working for the business.

Stores Delivery Hub – The fundamental change is to move the service into a more supportive role that efficiently meets the needs of its customers. As the name suggests, the service is moving towards delivering stock to its point of use by:

- Delivering stockholders replacement imprest stock direct to their vehicle;
- On request, deliver requisite materials direct to void properties; and
- Reduce the need for craft workers to collect stock direct from the stores counter.

The implementation plan requires the modernisation of stock held, identification and implementation of a system which isolates stock no longer required in the long-term, ensuring that it is not replenished. Moving that stock both into another “stock holding point” cost code makes it easier to account for and it has been physically separated into another area within stores.

Store persons were heavily involved in re-designing the location of the stock, stock levels and separation.

- 1.5 Non-replenished stock is for homes where the occupier has declined to have any improvements, i.e. new kitchen, bathroom plumbing or electrics and means that e.g. damaged door fronts/units/suites can be replaced and continue in use and as a consequence, saves NCH paying for a full replacement until the property is void.
- 1.6 With regards to stock that is “live”, the ROCC system will incorporate an automated ordering system that will minimise overall stock values while ensuring the needs of the customers are met by having sufficient stock supplied to the field operatives.
- 1.7 The processes for managing stock were found to be robust and thorough. The Acting Stores Manager provided detailed information that verified the internal controls and checks in place on stock recording, monitoring and reporting. This consisted of a series of flowcharts illustrating the various processes, on which we completed walkthrough testing by referring to the ROCC stock management system, electronic files and emails.
- 1.8 Examples of controlled processes are:
 - Stock levels were assessed and settled as part of the 14 point stock transformation process. In order to streamline the ordering and volume of stock proactively there is an ongoing process through the monitoring of actual stock usage and dialogue with the field operatives. An example of the plastering team stock assessment process and stock levels was provided to illustrate.
 - Delivered items are checked and quantified to the purchase order and delivery note as soon as possible after delivery, with any discrepancies being immediately notified to suppliers. Timing can be an issue and it may not be logistically possible to check the stock on delivery due to the volume of stock, the number of vehicles waiting to offload, and supplier drivers’ time constraints.

- The Acting Stores Manager conducts formal monthly meetings, i.e. including a specific agenda and minutes, with suppliers to deal with any ongoing and general issues. This includes monitoring via a report of each supplier's performance in terms of actual delivery days compared to the expected number of days. Some issues can also be dealt with on an ad-hoc basis.
 - Ongoing audits of stock held in vans, compared to the levels recorded on the ROCC system with discrepancies followed up and reported to the Acting Stores Manager and the operatives Team Manager.
 - All staff involved in the process have access to flowcharted guidance notes to refer to when considering the steps and protocol involved.
- 1.9 Access to the stock control system (and other systems, e.g. hand-held Datastox machines that allow the 9 storekeepers to update and monitor stock held centrally and on NCH operatives vans) is limited to and controlled by a select few managers but there is an audit trail in the system to identify any changes made, when and by whom.
- 1.10 The roles and responsibilities of each team member are clear, supported by structured folders and the flow-charted file notes for new and existing staff to access if required.
- 1.11 We are satisfied that the controls set out within the new arrangements would highlight any significant level of theft from NCH stores (including vehicle imprests) and limit the opportunity for fraud.
- 1.12 The value of stock held at the 2015-16 year end was £822k and the value of stock on the day of the audit visit was confirmed as:

Description	Value
Live stock	£386,189.81
Non-replenished Stock (formerly known as Obsolete)	£102,078.31
Stock in Vans, live	£212,867.79
Stock in Vans, non-replenished	£28,065.01
Total Value of stock as at 16 th September 2016	£729,200.92

- 1.13 At the time of audit the automatic ordering process was not fully operational and issues were being proactively dealt with by Fleet & Facilities Manager and IT on a supplier by supplier basis.

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. This reflects generally satisfactory controls with a part of the system not yet fully operational.

Summary of Recommendations

- 1.15 There are no recommendations arising from this review.

Added Value

- 1.16 Whilst there are no formal recommendations, minor suggestions were made during the audit review in terms of:
- Rewording and reshaping some of the flowcharts; and
 - Formalising some staff roles and responsibilities.

Levels of Assurance

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

High Assurance	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
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.

FINAL INTERNAL AUDIT FOLLOW-UP REPORT

Equality & Diversity

ITEM: 3.1 (iii)
Nottingham City Council
Internal Audit



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Distribution List

Issue Date:	5th September 2016
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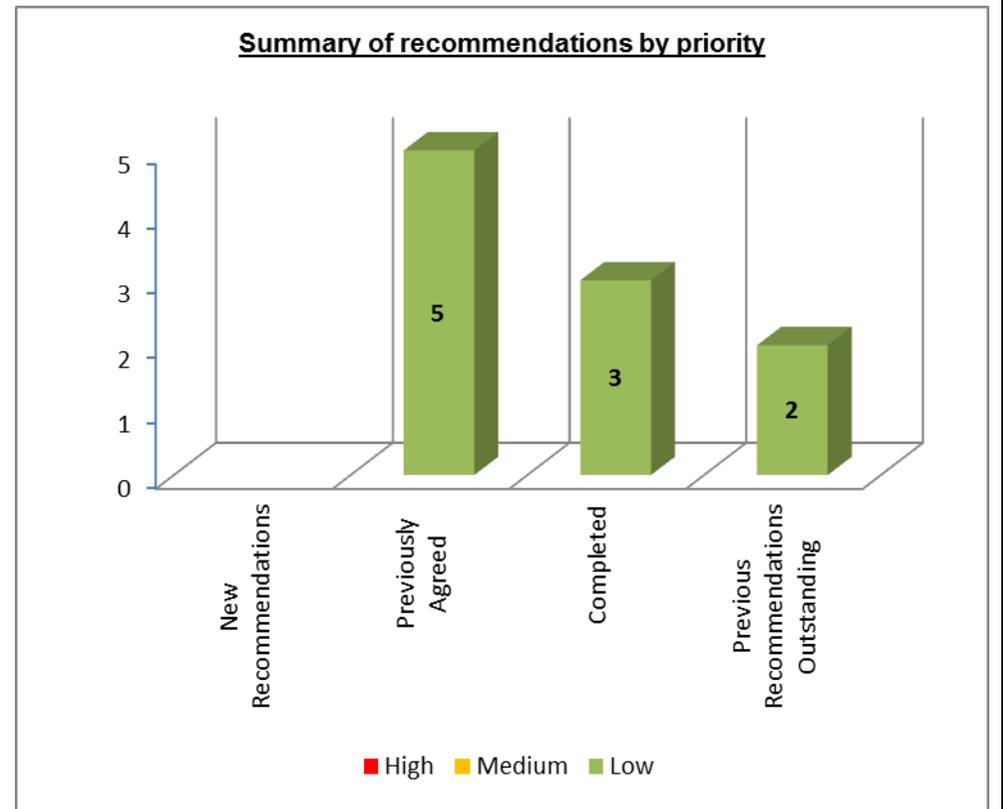
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Executive Summary

<p>Organisation: Nottingham City Homes</p>	<p>Overall Opinion: Significant Assurance</p>	<p>Direction of Travel: Improving </p>
<p>Previous reviews: 16th December 2015</p>	<p><u>Scope and Approach:</u> Review the implementation progress of agreed recommendations made at our previous audit</p>	

High Priority Recommendations
None to report



Introduction and Background

- 1.1 We have undertaken a review of an audit carried out as part of the 2015/16 Internal Audit Plan on Equality & Diversity. Five recommendations were made in the original report; three referred to the quality of data available from the Learning Management System (LMS), whilst the remainder concerned out of date information on the website and the lack of guidance notes for the E&D function. It is pleasing to note that the majority of actions have been completed or are in process.

Key Findings

- 1.2 Our previous audit found that training data extracted from the LMS was unreliable and unclear. Completion of courses containing elements of E&D training were difficult to identify, data was incomplete and did not reconcile to other training records and duplicate records existed. We have been informed that a project to overhaul and maximise the use of the whole LMS is currently taking place with Fire Training one of the first areas reviewed. This is an ongoing project with E&D training scheduled to be considered in the early part of 2017. The Learning & Development Team have investigated and removed the duplicate records identified.
- 1.3 The original audit found that recruitment records of new starters did not reconcile to the number of induction course attendees recorded. The Learning & Development Team have implemented a manual system to ensure completed inductions are recorded on the LMS system. In future, it will be possible to generate reports from LMS on completed inductions. No new testing on LMS was carried out.
- 1.4 Since the issue of our original report the website and intranet pages have been reviewed and updated. Content has been slimmed down and up to date information uploaded, including the E&D Strategy 2016-18 and the 2016 Social Housing Equality Framework Report. One incorrect link was found and the Acting E&D Lead will be rectifying this.
- 1.5 Our previous audit highlighted that guidance notes are not available for the E&D Team. We have been advised that the creation of these has been postponed until a permanent E&D Lead is in post.

Opinion

- 1.6 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. Overall, we are able to give **Significant Assurance** on the controls.

Summary of Recommendations

- 1.7 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.
- 1.8 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	New Recommendations	Previous Recommendations	Completed	Previous Recommendations Outstanding
High	0	0	0	0
Medium	0	0	0	0
Low	0	5	3	2
Total	0	5	3	2

- 1.9 The following table shows the original findings, recommendations and management response together with our current findings:

	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
01	<p>On conducting a re-sort of spreadsheet data, extracted from LMS and provided to audit by the Interim E&D Lead, for the period September 2014 to September 2015, it was not explicit in the course descriptions which one's contained E&D elements and, by re-sorting the "Completion Date", "User's Full Name" and their "User Position" columns, of the 410 courses, there are:</p> <ul style="list-style-type: none"> • 88 without a user's full name; • 18 without a user position but with a user's full name; • 69 without a user's full name but with their user position; and • 19 where the only cells completed were in the "Completion Status" and "Completion Date" columns. 	<p>The data relating to Equality & Diversity in the LMS system needs to be updated and cross-referenced to ensure it is fully complete and accurate.</p>	Low	<p>Agreed Carol Aaron/ Anita Hodson April 2016</p>	<p>There is an ongoing project to improve data quality and reporting capabilities in LMS generally.</p> <p>A meeting to consider E&D training specifically is scheduled in the new year.</p> <p>Action ongoing</p>	

	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
02	There are several duplicate courses on the Spreadsheet of completed courses allocated to "CL" where he is recorded as having completed 4 courses twice; some have the same completion date and all have different user positions?	The course data relating to "CL" needs to be reviewed and corrected.	Low	Agreed Carol Aaron/ Anita Hodson April 2016	Duplicate entries have been removed.	Implemented
03	On comparison of recruitment statistics provided by the HR Recruitment Manager and the Interim E&D Lead, there is a significant disparity between the number of new recruits (152) and the number of new recruits attending induction courses (30).	The statistics relating to the number of induction courses and attendees over the corresponding period of the recruitment statistics need to be verified as correct in LMS.	Low	Agreed Carol Aaron/ Anita Hodson/ Claire Stephens April 2016	A manual system has been created to ensure completed inductions are recorded correctly on LMS.	Implemented
04	The NCH website provides a variety of information on Equality & Diversity but there are anomalies and some of the information is not as recent as one would expect, e.g.:	The NCH Website information and format relating to Equality & Diversity needs to be reviewed, re-aligned, updated or removed as some would appear to be no longer relevant.	Low	Agreed Anita Hodson June 2016	The intranet and website pages have been reviewed and updated.	Implemented

	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
	<ol style="list-style-type: none"> 1. The link to the Employee Umbrella Group and Forum "What we've been doing Recently" page was last updated 17th August 2012. 2. The E&D "How Are We Performing" page provides statistics on "Overall tenant satisfaction with services delivered" from 2008-2013. 					
05	<p>At the time of audit, guidance notes were not held by the E&D Team</p> <p>The lack of such notes has contributed to some of the gaps in information that had previously been published on the NCH Website.</p>	<p>Staff guidance notes need to be produced and available for reference to any member of staff involved in the Equality & Diversity process.</p>	Low	<p>The range of guidance notes will be established by the E and D Manager and compiled over the next 9 months.</p> <p>Anita Hodson</p> <p>September 2016</p>	<p>We have been advised this is awaiting recruitment to the permanent E&D Lead post.</p> <p>Outstanding</p>	

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:

High Assurance	High assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed. Our work found some low impact control weaknesses which, if addressed, would improve overall control. These weaknesses are unlikely to impair the achievement of the objectives of the system.
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.

Key to Opinion & Direction of Travel					
Overall Opinion			Direction of Travel		
High Assurance		Limited Assurance		Improving	
Significant Assurance		No Assurance		No changes	
				Deteriorates	

FINAL INTERNAL AUDIT FOLLOW-UP REPORT

Right To Buy (Cost floor)

ITEM: 3.1 (iv)
Nottingham City Council
Internal Audit



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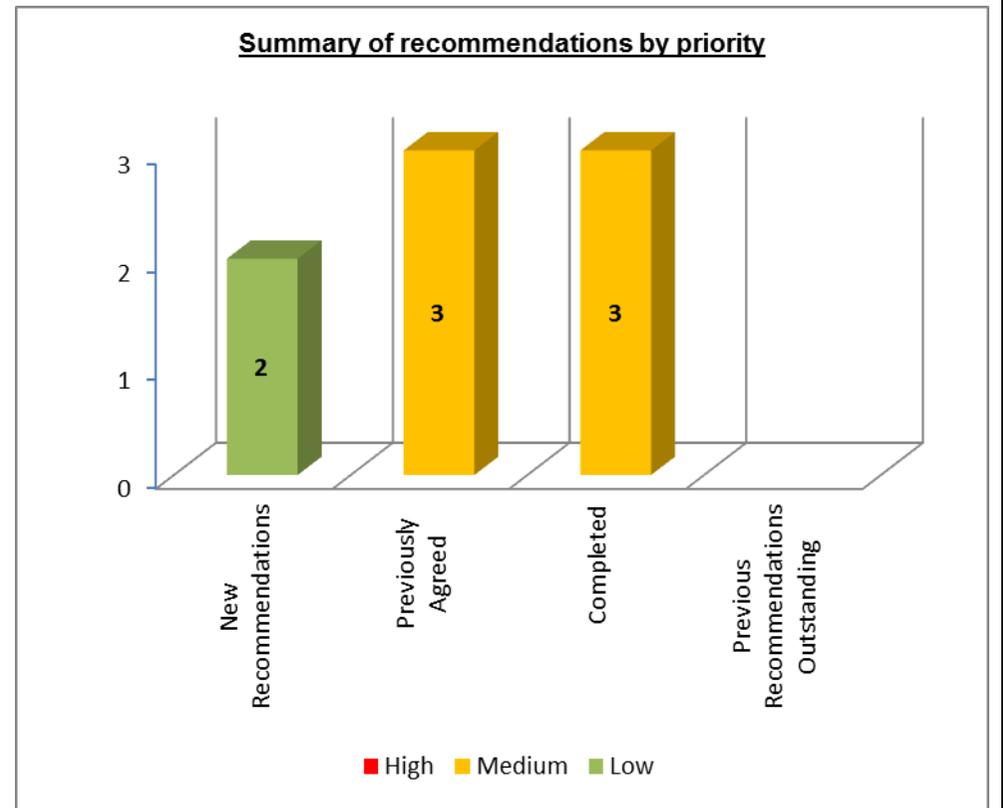
Distribution List	
Issue Date:	6 th September 2016
Issued to:	Kay Frankson – Head of Rents Jonathan Shaw - Director of Investment & Business Services Gill Moy - Director Housing Services
Copied to:	Richard Holland – Assistant Director Housing Operations

Contact Details:		
Head of Internal Audit	Shail Shah	Ext 64245
Audit Manager	Simon Parsons	Ext 64246
Principal Auditor	Jane Buck	Ext 64238
Auditor	Dawn Bond	Ext 64955

Executive Summary

<p>Organisation: Nottingham City Homes</p>	<p>Overall Opinion: Significant Assurance</p>	<p>Direction of Travel: Improving </p>
<p>Previous reviews: 7th July 2015</p>	<p><u>Scope and Approach:</u> Review the implementation progress of agreed recommendations made at our previous audit</p>	

High Priority Recommendations
None to report.



Introduction and Background

- 1.1 We have undertaken a review of an audit carried out as part of the 2015/16 Internal Audit Plan on the cost floor calculations involved in the Right To Buy process. Three recommendations were made in the original report concerning the interpretation of legislation, the correct calculation of qualifying repairs and management review. It is pleasing to note that all previous recommendations have been actioned and whilst two new recommendations have been made, these are minor.

Key Findings

- 1.2 Our previous audit found that an incorrect interpretation of legislation was resulting in cost floor calculations being understated. NCC Legal Team has been consulted and confirmed the correct interpretation. The NCH Cost Floor Guidance document has been amended to reflect this. During the follow up it was discovered that the guidance was in draft version following the departure of the Leaseholder Manager. This has now been provided to NCH document control for finalising and uploading to the document management system. A new process flow chart has also been created. It was noted that the pro forma for calculations contains a note to 'Minus £5500' although the example case viewed had the correct calculation. We recommend this note is investigated and removed if unnecessary. No further sampling of cases took place.
- 1.3 The original audit report noted that incorrect calculations had been made concerning the qualifying period for repairs. This, with the misinterpretation of legislation, resulted in a recommendation that a system of management review be instigated. It has been confirmed that the Leasehold Manager undertook periodic spot checks of calculations and that whilst this post is vacant, the Head of Rents is carrying out the checks. However, it could not be confirmed that checks are recorded and it is recommended that sampled cases are dated and signed.

Opinion

- 1.4 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. Overall, we are able to give **Significant Assurance** on the controls.

Summary of Recommendations

- 1.5 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. We have included a further two recommendations which have arisen from our current review.
- 1.6 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	New Recommendations	Previous Recommendations	Completed	Previous Recommendations Outstanding
High	0	0	0	0
Medium	0	3	3	0
Low	2	0	0	0
Total	2	3	3	0

- 1.7 The following table shows the original findings, recommendations and management response together with our current findings:

	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
01	<p>Our testing of 5 RTB applications received in December 2014 & March 2015 found that the calculation of Relevant costs was incorrect in all cases examined.</p> <p>The Housing (Right to Buy)(Cost Floor) (England) Determination 1998 Appendix A para 5.1 states that "..... the amount to be treated as relevant for the purposes of section 131 (1) shall be the aggregate of the costs incurred by the landlord in respect of - (d) works of repairwhere the aggregate of the costs of such works exceed the sum of £5,500".</p> <p>In four of the sample cases the repairs total had been reduced by the sum of £5,500, thereby understating the Cost-floor figure. In 1 case the repairs total was under £5,500 but had not been excluded</p>	<p>The interpretation of para 5.1 of the Housing (Right to Buy)(Cost Floor) (England) Determination 1998 Appendix A should be raised with the legal team or the appropriate Government department to ensure the cost-floor calculation is correct.</p>	Medium	<p>NCH's Leaseholder Team produce cost floors according to a set of guidance notes that was supplied by NCC's Right to Buy section. This was also agreed and discussed at the meeting between Benjamin Chilvers (NCH), Kim Tokelove (NCC), Jon Short (NCH) and Neville Kerby (NCC) on 16/06/15. It appears that the direction given by NCC to omit the first £5,500 of repairs costs in all cases was wrong.</p> <p>Our response is that these guidance notes will now be amended in light of the fresh interpretation by NCC Audit, which has been confirmed by NCC Legal.</p> <p>10/07/2015 Kay Gott</p>	<p>Legal advice has been received and the guidance document updated.</p>	<p>Implemented</p>

	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
	from the cost-floor figure. <u>Risk</u> Incorrect cost floor figure affects the amount of RTB discount					
02	Our testing of 5 RTB applications received in December 2014 & March 2015 found that the calculation of Relevant costs was incorrect in 4 of the cases examined. The Housing (Right to Buy)(Cost Floor) (England) Determination 1998 Appendix A para 4 defines the qualification period for repairs. The calculated figure had omitted a full year of repairs in each case and in consequence had understated the cost-floor figure. <u>Risk</u> Incorrect cost floor figure affects the amount of RTB discount	The correct calculation of the Housing (Right to Buy)(Cost Floor) (England) Determination 1998 Appendix A para 4 regarding the qualifying period for repairs should be introduced immediately	Medium	This error was caused by mis-interpretation of the guidance document used to produce the cost floors. It will be addressed with the individual concerned and a system of management review will be introduced to ensure this mistake isn't made again in future. 10/07/2015 Kay Gott	Spot checks by management take place on calculations produced.	Implemented

	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
03	<p>Our testing has found an unsatisfactory level of mistakes coupled with mis-interpretation of legislation. Consequently, the Right-to-Buy calculation may have been significantly affected.</p> <p><u>Risk</u> Incorrect cost floor figure affects the amount of RTB discount</p>	<p>The correct calculation of the Housing (Right to Buy)(Cost Floor) (England) Determination 1998 Appendix A para 4 regarding the qualifying period for repairs should be introduced immediately The Cost-floor calculation should be subject to periodic management review to ensure process is operating satisfactorily</p>	Medium	<p>The misinterpretation and data entry errors highlighted will be addressed by a new system of management review.</p> <p>10/07/2015 Kay Gott</p>	As 02 above	Implemented
New Recommendations						
04	<p>It was noted that the pro forma used to calculate the cost floor contains a note to 'Minus £5500' after the total.</p> <p><u>Risk</u> Incorrect cost floor figure affects the amount of RTB discount</p>	The pro forma should be reviewed and the note removed.	Medium	n/a	n/a	<p>The pro-forma will be amended to remove the "minus £5,500" after the total to avoid any incorrect calculations.</p> <p>Kay Frankson 9.9.16</p>
05	Spot checks by management on calculations take place, however, these are not recorded.	Managers should record when calculation reviews take place.	Low	n/a	n/a	A record will be kept of all spot checks carried out by

	Finding Risk	Recommendation	Priority	Previous Management Response and responsibility	Current finding and Recommendation	Latest Response, Responsibility and Target Date
	<p><u>Risk</u> Management review is not recorded</p>					<p>management on the cost floor calculations. Kay Frankson 9.9.16</p>

Client Responsibilities

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

NOTTINGHAM CITY HOMES**AUDIT COMMITTEE
12 OCTOBER 2016****REPORT OF THE ASSISTANT DIRECTOR OF
FINANCE AND PROCUREMENT****OUTSTANDING AUDIT RECOMMENDATIONS****1. SUMMARY**

- 1.1 To ensure that management actions agreed within final audit reports are implemented within agreed timescales, progress updates are obtained from responsible officers on a quarterly basis and documented, alongside the related recommendations, on the Company's Audit Recommendations Register. The Audit Register is reviewed by EMT on a quarterly basis.
- 1.2 The Audit Committee is required to oversee the timely implementation of all actions agreed by management in response to 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 34 audit recommendations of which 24 are still outstanding. A summary of the status of all audit recommendations, which were outstanding at the time of the previous Audit Committee meeting, is attached as Appendix 1.

2. RECOMMENDATIONS

It is recommended that Members:

- 2.1 Review the report and confirm they are satisfied with the progress made by management in implementing agreed actions.

3. REPORT

- 3.1 A summary of the Audit Register was provided to Audit Committee Members on 11 July and included a total of 35 recommendations. Of these recommendations 15 of the agreed management actions were logged as complete, leaving 20 outstanding.
- 3.2 The latest version of the Audit Register includes an additional 14 audit recommendations which, as per the respective Internal audit reports received by the Audit Committee at the previous meeting, were yet to be implemented:
 - Procurement Forward Planning: (1);
 - Health & Safety: Fire Inspections (3);
 - Fleet Vehicles (4);
 - Leaseholder service charges (4); and
 - RSM (External Auditors) – Final Audit Findings Report (2).
- 3.3 Progress made by responsible officers in implementing audit register recommendations has been reasonable and of the total of 34 recommendations included on the register, 10

have been fully implemented. Of the 24 recommendations still outstanding, 21 have gone beyond the original target dates agreed for their implementation.

- 3.4 There is one internal audit recommendation which was assigned as a high priority and which is still outstanding. Details of this recommendation, agreed management actions and target date for implementation are included in Appendix 2.

4. FINANCE, LEGAL AND RISK IMPLICATIONS

4.1 Financial Implications

None noted.

4.2 Legal Implications

None noted.

4.3 Risk Implications

- 4.3.1 Recommendation R1 remains the only one raised by the Company's previous internal auditors BDO LLP. All subsequent recommendations were raised by Nottingham City Homes' (NCH) current auditors – Nottingham City Council (NCC) Internal Audit Services. The priorities assigned to recommendations are defined as follows;

BDO LLP (R1)

- (3) Low – Those that failure to address would result in a minor risk to the organisation arising or continuing or relate to moderate best practice improvements.

NCC IAS

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

- 4.3.2 The 24 outstanding internal audit recommendations included on the Audit Register are split into the following priorities:

Priority Assigned by Internal Audit	Number of Recommendations
High Priority	1
Medium Priority	16
Low Priority	6
No priority assigned	1
TOTAL O/S AUDIT RECOMMENDATIONS	24

- 4.3.3 None of the outstanding audit recommendations are deemed to significantly affect the 'impact' or 'likelihood' risk factors of any of the risks established in the Company's Corporate Risk Register.

5. IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES

5.1 The consistent application of recognised control procedures and a robust internal system of control underpins the achievement of the Company's objectives.

6. EQUALITY & 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. BACKGROUND MATERIAL AND PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

7.1 NCC Internal Audit Services Internal Audit reports (see paragraph 3.2).

7.2 Outstanding Audit Recommendations: Summary – Appendix 1.

7.3 Outstanding Audit Recommendations: High Priority Recs – Appendix 2.

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DATE: 30 September 2016

AUDIT RECOMMENDATIONS REGISTER SUMMARY - APPENDIX 1

Audit Report	Date of Issue	References	Recommendations / Agreed Management Actions				Priority of O/S Items		
			Total	Complete	Outstanding	O/S & Past Target Date	Hi (1)	Medium (2)	Low (3)
IT SECURITY & MOBILE TECHNOLOGY	MAY 2013	1	1	-	1	1	-	-	1
IT: SYSTEMS ADMIN & ASSET MGT	SEPTEMBER 2014	2 to 4	3	-	3	3	-	2	1
GOVERNANCE & FRAUD	SEPTEMBER 2014	5	1	1	-	-	-	-	-
PROCUREMENT & CONTRACTS	DECEMBER 2014	6	1	-	1	1	-	1	-
BUSINESS CONTINUITY	JANUARY 2015	7 to 10	4	-	4	4	-	3	1
RENT ARREARS & MANAGEMENT	SEPTEMBER 2015	11 to 12	2	-	2	2	-	2	-
ICT: ROCC ACCESS CONTROLS	SEPTEMBER 2015	13 to 14	2	-	2	2	-	-	2
EQUALITY & DIVERSITY	DECEMBER 2015	15 to 17	3	3	-	-	-	-	-
HR: PAY POLICY COMPLIANCE	DECEMBER 2015	18 to 20	3		3	3	-	3	-
LATEST AUDIT REPORTS AND OUTSTANDING RECOMMENDATIONS (PRESENTED AT JULY 2016 AUDIT COMMITTEE)									
PROCUREMENT F'WD PLANNING	JUNE 2016	21	1	-	1	1	-	-	1
H&S: FIRE INSPECTIONS	JUNE 2016	22 to 24	3	2	1	-	-	1	-
FLEET VEHICLES	JUNE 2016	25 to 28	4	3	1	-	1	-	-
LEASEHOLDER SERVICE CHARGES	JUNE 2016	29 to 32	4	-	4	4	-	4	-
EXTERNAL AUDIT – MGT LETTER	JULY 2016	33 to 34	2	1	1	-	N/A	N/A	N/A
TOTALS			34	10	24	21	1	16	6

AUDIT REGISTER – HIGH PRIORITY AUDIT RECOMMENDATIONS

Audit & Date of Issue	REF	Recommendations	Priority	Initial Target Date	Agreed Mgt Response	Current Status	Responsible Officer (Revised Date)
FLEET VEHICLES JUNE 2016	26	NCH needs to consider the requirements of the Service Level Agreement with NCC in relation to safety checks, coupled with the risk and cost implications.	HIGH	December 2016	Prior discussions held amongst the NCH Management Team to include a review of the current SLA as a service initiative as part of the 2017/18 Fleet & Facilities team plan. A review of the vehicle service/safety check frequency will be conducted with NCC.	Initial meetings held with NCC to provide options based on cost and service delivery level including removing 6 monthly safety checks from the SLA.	Richard Davison – Fleet & Facilities Manager. (December 2016)