

Nottingham City Homes
Audit Strategy Document
For the year ending 31 March 2008

Last updated 4 June 2008

Grant Thornton UK LLP
Chartered Accountants
UK member of
Grant Thornton International

Our Ref JJ/KB
Your Ref

The Audit Committee
Nottingham City Homes
14 Hounds Gate
Nottingham
NG1 7BA

4 June 2008

Dear Sirs

**NOTTINGHAM CITY HOMES (THE COMPANY) AUDIT STRATEGY DOCUMENT FOR THE YEAR
ENDING 31 MARCH 2008**

This Audit Strategy Document (ASD) has been prepared in order to highlight the key elements in the proposed strategy for the audit of Nottingham City Homes for the year ending 31 March 2008. The purpose of the document is further detailed in Section 1.

We look forward to the forthcoming audit and working with the Finance Team, the Audit Committee and the Board.

Yours faithfully

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Grant Thornton UK LLP

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Contents

1	Engagement terms and objectives	1
2	The Company	3
3	Our audit approach	4
4	Logistics	7

Appendices

A	Quality assurance, independence, communication with audit committee and roles and responsibilities
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1 Engagement terms and objectives

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

1.1 Engagement terms

Our engagement letter dated 1 May 2008 sets out our terms of reference as auditors and has been provided to the Board.

The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of the Company for the year ending 31 March 2008.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) (ISAUK) 260.

1.2 Engagement objectives

Our engagement objectives are as follows:

- to audit the financial statements of Nottingham City Homes
- to produce a concise and constructive report of key issues to the Board
- to draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

1.3 Ethical standards

We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's (APB) Ethical Standards, effective for years commencing 15 March 2004. We

have also adopted policies to comply with the IFAC Code of Independence.

We have considered our independence and objectivity in respect of the audit for the year ending 31 March 2008 and do not believe there are any matters which should be brought to the attention of the Board. Further details on our independence and robustness are set out in [Appendix A](#).

1.4 Communication of adverse or unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the business. Such communication will be made either informally or via an audit progress memorandum.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with the division, company and group management and documented for the Audit Committee's consideration.

1.5 Other matters

We set out further information in [Appendix A](#) covering:

- roles and responsibilities of the board and audit committee.

- audit quality assurance.
- communication with the audit committee.

1.6 Confidentiality

This document is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Company arising under our audit engagement letter.

The contents of this Audit Strategy Document should not be disclosed to third parties without our prior written consent.

2 The Company

2.1 Background information

Nottingham City Homes (NCH) is an Arms Length Management Organisation (ALMO), managing approximately 30,000 rented and leasehold homes on behalf of Nottingham City Council (NCC). It became operational on 1st April 2005, transferring over 1400 staff, including the repairs team, from Nottingham City Council.

The Audit Commission's inspection report, dated March 2006, rated NCH as One Star with uncertain prospects for improvement. A re-inspection is anticipated later this year.

2.2 Recent events

Events during the year included:

Event

Company wide restructure

Successful outcome to NCC Property Services tender

CLG confirmation of full bid funding of £165m for Decent Homes (subject to Inspection)

Completion of Mock Inspection ahead of Audit Commission re-inspection in November 2008

2007/08 Performance report highlights improvements in most KPI's

2.3 Forecast results

The Company's forecast results for 2007/08 indicate a deficit for the year of £268k against an original budgeted surplus of £51k. This reflects costs relating to the staff restructure (£500k allocated from the HRA) and overspends in Property Services (relating to the tender and delays in implementing the restructure). Savings have been experienced in other parts of the business, the most significant of which are due to recruitment delays compared to budget expectations.

3 Our audit approach

ISAUK 260 requires communication of:

- our concept of materiality and its application to the audit approach
- the way we propose to address the risk of material misstatements
- our assessment of and reliance on internal controls.

3.1 Audit strategy

We will be working closely with the Finance Team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the Company's staff. Our audit will be planned on an individual task basis at the start of the audit, and timetables agreed with all staff involved.

In summary our audit strategy comprises:

- updating our understanding of the business through discussions with management and a review of the management accounts
- assessing the audit risk and, based on that assessment, developing and implementing an appropriate audit strategy

- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the financial statements
- reviewing material disclosure issues in the financial statements
- verifying all material balance sheet accounts and performing a substantial analytical review of income and expenditure streams.

3.2 Our audit approach

Our audit approach is based on an assessment of the audit risk relevant to the individual financial statement assertions. Areas of potentially high audit risk in terms of susceptibility to material misstatements are categorised as **critical**. It is in these areas that we focus much of our audit effort. Our work in other areas will typically be proportionately lower than for critical areas.

Critical areas are those where the susceptibility of an assertion to material misstatement, whether through complexity of transaction or accounting treatment, is judged as high.

Not critical areas are those that are material in size or by nature but where the susceptibility to material misstatement is lower.

ISAUK 315 requires the auditor to evaluate the design of an entity's controls, including relevant control activities, in relation to risks which could lead to material misstatement and determine whether they have been implemented. The auditor is required to make this assessment not only of the controls at the operational level, but also at the level of the control environment.

3.3 Critical areas

The critical assertions for the Company are deemed to be

	Completeness	Existence/ Occurrence	Valuation - Gross	Valuation - Net	Rights & Obligations	Cut-off	Presentation & Disclosure
Intangible Assets/Pension liability		✓					✓
Cash at Bank							✓
Expenditure		✓					

In summary, we will adopt the following approach to the above areas:

- Intangible Assets/Pension liability: Review in year transactions against supporting documentation, including the agreement with the Council relating to the funding of the pension liability created on the transfer of staff to NCH. Review disclosure in the accounts of the pension liability and the treatment of goodwill. Assess NCH justification for carrying pension related goodwill on the balance sheet against FRS 11 criteria.
- Cash at Bank: Review treatment of NCH's cash deposits with the Council and assess appropriateness of disclosure in the financial statements.
- Expenditure: Sample testing of expenditure to ensure that expenditure represents valid costs of NCH and has not been incorrectly coded on the combined Council finance system.

3.4 Reliance on internal audit

We have reviewed the reports of internal audit to enhance our knowledge of the business.

3.5 Internal controls

We are required to evaluate the design of an entity's internal controls over risks which could lead to material misstatement in the financial statements and determine whether they have been implemented. Emphasis is placed on identifying and obtaining an understanding of control activities that address the areas where we consider material misstatements are more likely to occur.

Our audit is not designed to test all internal controls or identify all areas of control weakness. In consequence, our work cannot be relied upon necessarily to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might develop. However, where, as part of our audit, we identify any control weaknesses, we will report these to the Company.

This phase of our audit has already been undertaken as part of an audit visit at the end of January 2008. A number of control weaknesses have been identified as a result of our work and have been discussed with management. Formal recommendations will be included in our final management letter.

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

ISA 320 Audit Materiality

3.6 Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the planning stage to ensure that an appropriate level of audit work is conducted. It is also considered at the reporting stage in order to assess the impact of an item on the financial statements. Any identified errors greater than 2% of materiality will be recorded on a schedule of potential misstatements, assessed individually and in aggregate, discussed with you and, if not adjusted, signed off by you as immaterial as part of your letter of representation to us.

An item of low value may be judged material by its nature (eg directors' emoluments), and an item of higher value may be judged not material, if it does not distort the truth and fairness of the financial statements.

4 Logistics

4.1 Timetables and milestones

The following proposed timetable and deadlines have been set:

Event	Date
Interim review and auditCARE	January 2008
Commence fieldwork	16 June 2008
Manager visit to review work	24 June 2008
Director visit to review work	25 June 2008
Clearance meeting to discuss our findings	25 June 2008
Key issues memorandum - draft to management	2 July 2008
Report to Audit Committee	14 July 2008

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

4.2 Engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
Julie Jones	Audit director	T: 0121 697 6058 E: julie.jones@gtuk.com
Kyla Bellingall	Audit manager	T: 0121 697 6082 E: kyla.bellingall@gtuk.com
Clare Gillbe	ICA	T: 0121 697 6000 E: clare.gillbe@gtuk.com

4.3 Fees

Our fee of £18,450 (excluding VAT and expenses) is consistent with our proposal per our tender document from May 2007.

The proposed fee is on the basis that:

- draft statutory accounts are presented to us by 16 June 2008 for audit, subject only to routine audit adjustments;
- supporting schedules for all figures in the accounts are supplied on 16 June 2008;
- all books and records are made available to us;
- a trial balance together with reconciled control accounts are presented to us by 16 June 2008;
- your staff are available to help us locate information and to provide explanations as required; and
- all deadlines agreed with us are met.

Our ability to deliver the services outlined to the agreed timetable and fee will depend upon these schedules being available/tasks being completed by the due dates in the agreed form and content. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

Any work outside the scope of this proposal such as completing tax and account analysis schedules will be billed separately after discussion with you.

4.4 Billing and payment schedule

Our billing and payment schedule, which reflects when we will carry out the work, will be as follows:

Billing date	%	Amount including VAT £000
February 2008	35%	6,500
June 2008	55%	9,950
July 2008	10%	2,000

Any additional costs will be billed as soon as they are agreed with the Company and these fees will be due when the fee notes are issued.

4.5 Information required

Lists of information to be prepared have been supplied to management.

A Quality assurance, independence, communication with audit committee and roles and responsibilities

(i) Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW.

We would be happy to discuss further the firm's approach to quality assurance.

(ii) Independence and robustness

To maintain our independence as auditors we ensure that:

- audit partners are rotated off the audit of a listed company every five years and audit managers every seven years
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Company
- our fees paid by the Company do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

(iii) Audit and non-audit services

No non-audit services have been provided to the Company during the year.

(iv) Communication with the Audit Committee

We welcome communication with the Audit Committee and as part of the audit process we propose discussing with them the scope of the audit in advance of the commencement of our work. In addition we also propose to meet with the Committee following the conclusion of our procedures in order to communicate the matters arising.

We would also welcome the Audit Committee's, and indeed the Board's input in relation to any areas of known concern within the Company.

We would also be interested to hear if there are other matters that the Audit Committee would like us to address and to understand more fully the Committee's expectations and requirements from the audit process.

(v) Roles and responsibilities

The directors are responsible for the preparation of the financial statements which show a true and fair view of the Company's affairs and for making available to us all the information and explanations we consider necessary.

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Legislation requires that the directors' report must contain a statement that, for each person who was a director when the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware
- he has taken all steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Legislation also requires that the Company maintains such books and records as will be sufficient to show the nature of all transactions and disclose, at any time, the financial position of the Company.

The Company's management is responsible for:

- the identification, assessment, management and monitoring of risk
- developing, operating and monitoring the system of internal control
- providing assurance to the Board that this has been done.

The Audit Committee is required to review the Company's internal financial controls. In addition, the Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established, as well as the conclusions of any testing conducted by internal audit.



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