

**NOTTINGHAM CITY HOMES****THE BOARD  
31 JULY 2008****REPORT OF THE CHAIR OF THE AUDIT  
COMMITTEE****AUDIT COMMITTEE ANNUAL REPORT 2007 - 2008****1 SUMMARY**

- 1.1 The Audit Committee is accountable to the board for the fulfilment of the responsibilities delegated to it as set out in the Committee's Terms of Reference. All Committee members share responsibility for its decisions and should act only in the interests of the Company and not on behalf of any subsidiary, constituency or interest group, putting the interests of the Company before their own.

The Audit Committee's Terms of Reference, as set out in the Company's Governance Standing Orders, require the production of an annual report which advises the Board on the effectiveness and adequacy of the internal control and risk management processes, and any significant matters arising from any external/internal audit, inspection, or other source.

**2 RECOMMENDATIONS**

- 2.1 It is recommended that the Board note the Annual Report.

**3 REPORT**

- 3.1 The Audit Committee has met 5\* times during the year and is now in its 4<sup>th</sup> year since the Company's incorporation. The attendance of non-executive Members in 2007/08 was as follows:

	Sept	Dec	March
Anne Dean (Chair)	✓	✓	✓
Margaret Pugsley	✓	✓	✓
Valarie Schneider	✓	✓	✓
Harry Everington		✓	✓

\* - the Quorum for the meeting, as per the Committee's Terms of Reference, was not met and hence the gathering did not constitute a Committee Meeting nor was it able to pass any resolutions.

A summary of other key attendees who were present at Audit Committee meetings during the year is shown in Appendix B.

- 3.2 The Audit Committee does not include a member with specific financial expertise. This makes it difficult for the Committee to fulfil its role effectively in terms of reviewing internal and external audit functions. The Committee has acknowledged the fact that it should have at least one member with recent and relevant financial experience and plans to

address this through revising Committee membership in the current financial year.

- 3.3 The Audit Committee is accountable to the Board for both the Internal and External Audit arrangements of the Company. The Committee has met with the Internal and External Auditors throughout the year to review their performance as well as monitor their independence, objectivity and the general effectiveness of the audit process.

#### Internal Audit

Nottingham City Council's in-house internal audit function provided this service during 2007/08. The 2007/08 annual plan was considered and adopted in June 2007 and progress against the plan, as well as the plan's constituent audit reports, were monitored and reviewed by the Committee on a quarterly basis.

The provision of internal audit services was tendered during the financial year and as a result the contract for audit services was awarded to TIAA Limited. The appointment and remuneration of the internal auditors were approved by 'Chair's Action' during the September 2007 meeting and subsequently their 2008/09 Annual Audit Plan was approved in March 2008.

#### External Audit

Baker Tilly UK Audit LLP provided the Company with external audit services during 2006/07. The Committee considered the 2006/07 Management Letter at its meeting in June 2007 having previously approved the external audit plan in January 2007.

The provision of external audit services was tendered during the 2006/07 financial year and subsequently the contract for audit services was awarded to Grant Thornton UK LLP by the Board in July 2008. The appointment and remuneration of the external auditors was considered during the September 2007 meeting.

The Audit Committee has considered all recommendations made in each internal audit report and the external audit management letter, as well as the respective management responses. The Committee monitors the progress made in implementing agreed management actions on a quarterly basis through a review of the Audit Register and the results are recorded in the appropriate minutes.

In the past the Audit Register has included a large number of management actions, in response to audit recommendations, which have not been implemented, and hence removed from the register, within the agreed target dates. However, the Committee has focused its attention on ensuring responsible officers are held accountable for outstanding management actions, notably by requesting attendance at meetings to explain delays in implementation, and subsequently performance has significantly improved.

- 3.3 Internal Control Framework and Fraud

The Audit Committee is charged with assisting the Board to fulfil its

statutory obligations including advising the Board on the adequacy and effectiveness of the Company's internal control systems

The Company's systems of internal control continue to function well and this is supported by the work of the internal and external auditors in addition to the lack of issues reported relating to Anti-Fraud and Corruption or under policies such as the Confidential reporting Code (Whistleblowing Procedure), during the year.

In April 2007 attendees were presented with the Company's newly-established Fraud Register created to record any incidences of fraud reported or discovered and to monitor the progress of such cases including conclusions reached. The newly created register included one fraud and no further frauds were reported to the Committee during the year. The report accompanying the Fraud Register highlighted the need for the development of an Anti-Fraud Strategy and Action Plan, which are currently being drafted.

#### 3.4 Risk Management

The Audit Committee is charged with assisting the Board to fulfil its statutory obligations including advising the Board on the adequacy and effectiveness of the Company's risk management framework.

In December 2007 the Interim Director of Finance presented a report setting out proposals for revitalising and developing risk management across the Company, including an assessment of training needs for managers.

However, there is still work to be done to ensure that all risk management processes are fully embedded in the work of the organisation and this will be one of the principal aims of work on risk management, including the reports and risk registers presented to the Committee, in the coming year.

#### 3.5 Conclusion

As a result of its work during the year the Audit Committee is not aware of any reason to believe that the Company does not have in place adequate internal audit arrangements complying with the requisite standards nor that there are any shortcomings in the level of co-operation with external audit. The Committee also believes that the company's systems of internal control and risk management framework are both adequate and effective.

The Committee will continue to monitor progress implementing the Risk Management Framework as well as strengthening both the Anti-Fraud and Corruption arrangements and corporate governance, notably:

- Focusing attention on the Key Risks facing the Company through the review of the Corporate Risk Register on a quarterly basis;
- Reviewing Directorate Risk Registers on a six monthly basis to confirm acceptance of the risks included in the registers as well as the actions in place to manage them;
- Monitoring the establishment and implementation of a Company

- Anti-Fraud Strategy and associated Action Plan;
- Revising the Committee's membership to address the lack of finance expertise; and
- Approving more detailed 'fit for purpose' Committee Terms of Reference supported by training on Member's responsibilities.

3.6 Appendix A shows the Audit Committee's work plan for the next 12 months.

#### **4 FINANCIAL & RISK IMPLICATIONS**

4.1 Any financial implication implied within this report has been budgeted for and were delivered within budget.

#### **5 IMPLICATIONS FOR NOTTINGHAM CITY HOMES OBJECTIVES**

5.1 The details within this report support the delivery of Nottingham City Homes' objectives.

#### **6 VALUE FOR MONEY & EFFICIENCY ISSUES**

6.1 All initiatives within this report ensure that value for money and any efficiency issues are considered.

#### **7 EQUALITY & DIVERSITY IMPLICATIONS**

7.1 There are no equality and diversity implications.

#### **8 BACKGROUND MATERIAL AND PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

8.1 Audit Committees – 2<sup>nd</sup> April 2007\* (see paragraph 3.1 above), 11<sup>th</sup> June 2007, 3<sup>rd</sup> September 2007, 3<sup>rd</sup> December 2007 and 3<sup>rd</sup> March 2008 and the associated papers.

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**DATE:** 24 July 2008

**AUDIT COMMITTEE**  
**WORKPLAN – July 2008 – March 2009**

<b>COMMITTEE DATE</b>	<b>AGENDA ITEM / REPORT**</b>	<b>PURPOSE OF REPORT</b>
<b>14<sup>th</sup> July 08</b>	2007/08 Accounts and Management Letter Report	Consider issues highlighted by Grant Thornton in their 2007/08 report.
	Audit Committee Annual Report	Review the report and agree the contents for presentation to the Company Board.
<b>15<sup>th</sup> Sept 08</b>	Internal Control Issues – Audit Register	Review progress of implementing recommendations from audit reports.
	Internal Audit Plan	Review progress with internal audits planned for the current financial year and approve revisions.
	Final Audit Reports	Agree of internal audit report recommendations and associated management responses/agreed action completed since last Committee.
	Corporate and Directorate Risk Registers	Quarterly/half yearly review in line with requirements of the Risk Management Framework.
<b>8<sup>th</sup> Dec 08</b>	Internal Control Issues – Audit Register	Review progress of implementing recommendations from audit reports.
	Internal Audit Plan	Review progress with internal audits planned for the current financial year and approve revisions.
	Final Audit Reports	Agree of internal audit report recommendations and associated management responses/agreed action completed since last Committee.
	Corporate and Directorate Risk Registers	Quarterly/half yearly review in line with requirements of the Risk Management Framework.
<b>9<sup>th</sup> Mar 09</b>	Internal Control Issues – Audit Register	Review progress of implementing recommendations from audit reports.
	2008/09 Internal Audit Plan	Review progress with internal audits planned for the current financial year and approve revisions.
	2007/08 Internal Audit Plan	Review and approve the plan in advance of the forthcoming financial year.
	Final Audit Reports	Agree of internal audit report recommendations and associated management responses/agreed action completed since last Committee.
	Corporate and Directorate Risk Registers	Quarterly/half yearly review in line with requirements of the Risk Management Framework.
	Annual Risk Management Review	To review the Risk Management Framework in advance of forthcoming financial year.

\*\* - all reports are to involve prior consultation with the Executive Management Team (EMT) with the exception of the Chief Executive's Bonus which will involve consultation with the Chair of the Board.

**Standing items - Quarterly:**

- Welcome, Introductions, Chairs' Announcements and Apologies
- Declarations of Interest
- Minutes of previous meeting
- Matters arising
- Outstanding Actions / Internal Control Issues - Audit Register
- Review of Audit progress against the Annual Audit Plan
- Final Audit Reports

**Other items that are tabled annually:**

- Initial Internal Audit Plan
- Risk Management and the Risk Management Framework/Strategy
- External Audit Annual Plan
- External Audit Management letter

**Other items that may arise from time-to-time:**

- Appointment and Remuneration of Internal Audit
- Appointment and Remuneration of External Audit
- Fraud Register

**Attendees**

- The following individuals, representing executive or senior management of their respective organisations, were in attendance at the Audit Committee during meetings in the year:

<b>ATTENDEES</b>	<b>COMPANY - POSITION</b>
Julie Crook	NCH – Director of Finance, ICT & Governance
Amanda Schofield	NCH – Director of Strategy & Partnerships
Jo Wileman	NCH – Director of Organisational Development
Gill Moy	NCH – Director of Housing Services
Steve Everson	NCH – Interim Director of Finance
David Angus	NCH – Interim Director of Property Services
Andrew Fife	TIAA Limited – Audit Director
Shail Shah	NCC – Head of Risk & Audit Services
Mick Ahern	NCC – Audit Manager
David Lewis	Baker Tilly Audit LLP - Partner
Adrian Wild	Baker Tilly Audit LLP - Manager
Julie Jones	Grant Thornton UK LLP - Director