

NOTTINGHAM CITY HOMES

REPORT OF THE CHAIR OF THE AUDIT COMMITTEE

THE BOARD
24 SEPTEMBER 2009

AUDIT COMMITTEE ANNUAL REPORT – 2009

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.
- 1.2 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 as well as any significant matters arising from audit or inspection.
- 1.3 At its meeting on 7 September 2009 the Audit Committee reviewed the Annual Report and agreed the contents as an accurate reflection of the work of the Audit Committee during 2008/09 for presentation to the Board.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Board note the Audit Committee Annual Report 2009.

3 REPORT

3.1 Meetings and Attendance

The Audit Committee has met 5 times since the 2007/08 Annual Report was presented to the Board in July 2008. Attendance at meetings was as follows:

	Sept	Dec	March	May	July	Sept
Anne Dean (Chair)	✓	✓	✓	✓	✓	✓
Valarie Schneider	✓	✓	✓	✓	✓	✓
Harry Everington	✓	✓	✓	✓	✓	X
Peter Linford	✓	✓	✓	✓	✓	✓

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

- 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 is hoping to address this during the current Governance reorganisation.

Existing Members remain committed to improving their knowledge and expertise in relation to the areas of responsibility monitored by the Committee. Examples of this in 2008/09 include:

- Attending a half day risk management training session with other Board members in May;
- Requesting additional information and training on the format and the contents of the Company's financial statements; and
- Highlighting Anti-Fraud and Corruption training as a key requirement in 2009/10.

- 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.

3.4 Internal Audit

TIAA Limited provide the Company's internal audit service and presented the following audit reports to Members during the year as part of their ongoing Strategic Audit Plan:

- Governance Anti Fraud;
- Budgetary Control;
- Payments, Payroll and Income;
- Allocations and Lettings;
- Gas Safety;
- Rent Collection;
- Payments;
- Risk Management;
- Contract Services – Service Delivery;
- Contract Services – Purchasing Arrangements;
- Governance Review – Half Year Assurance Update;
- Asbestos Arrangements;
- IT Security – Management Control;
- Service Charge Arrangements;
- Rent Setting and Collection TBC;
- Payments, Payroll and Income TBC;
- IT Security – Network Controls TBC; and
- Payroll TBC.

TIAA also provided 2 follow up reports which reviewed senior management's progress in implementing actions agreed by managers in

response to 2008 and 2009 audit report recommendations.

TIAA's 3 year Audit Strategic Plan for the period April 2008 to March 2011, including the updated 2009/10 Annual Audit Plan, was approved by Members in March and all reviews are on course to be completed within the agreed timescales.

3.5 External Audit

Grant Thornton UK LLP provided the Company with external audit services during 2008/09. The Committee approved the Engagement letter between NCH and Grant Thornton at its meeting of 10th June 2008 and subsequently, following 2008/09 accounts audit fieldwork, received the 2008/09 Management Letter in July 2009.

Grant Thornton gave an unqualified audit opinion in relation to NCH's 2008/09 Financial Statements stating that they give a 'true and fair view of the state of the Company's affairs' for the year ended 31st March 2009.

In accordance with s485(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting to be held on 24th September 2009.

3.6 Auditor Register

The Audit Committee considers the recommendations included in all internal and external audit reports and monitors the progress made in implementing management actions, agreed in response to those recommendations, on a quarterly basis through the review of the Audit Register.

Progress in implementing newly raised audit recommendations has been vastly improved with a significant number of recommendations being fully implemented in advance of the associated reports being updated onto the Audit Register.

However, a number of recommendations still outstanding have gone long past their original target dates and were raised in reports provided by City Audit Services who are no longer the Company's Internal Auditors (ceased on 31 March 2008). The Committee recognises however, that due to the level and number of services and systems provided to the Company by the City Council, progress with some recommendations has been inhibited by reliance on the City Council's ability to support and implement change.

The Committee is committed to ensuring that responsible officers take ownership of the actions required to implement audit recommendations, notably those which remain outstanding well past their original target dates, and hence remove them from the Audit Register.

3.7 Internal Control Framework and Fraud

The Audit Committee is charged with assisting the Board in fulfilling its statutory obligations, which includes 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 limited number of items reported on the Fraud Register during the year.

In December 2008 members were presented with the Company's newly-established Anti-fraud and Corruption Framework developed to deter theft, fraud and corruption from both inside and outside the organisation. The Framework includes guidance for employees designed to encourage the prevention of fraudulent activity as well as promote detection and provide clear responsibilities for investigation. Following approval by the Committee the Framework was communicated to NCH staff and made available on the intranet site.

3.8 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 arrangements.

Following approval of the Company's Risk Management Framework in May 2008 the Audit Committee has been responsible for reviewing the Corporate Risk Register and associated reports from the Company Secretary on a timely basis. The Committee reviewed a revised Framework in May 2009, recommending it for approval by the Board.

The Committee is satisfied that the Company has adequate and effective controls and mitigating actions in place to manage the impact and likelihood of key risks that NCH is exposed to, down to an acceptable level.

3.9 Appendix A summarises all the reports presented to Audit Committee in 2008/09 as well as those senior managers who attended meetings during the year.

3.10 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 an overall system of internal control and risk management framework which are both adequate and effective. The Committee is also satisfied that internal and external audit arrangements are working effectively and comply with the requisite standards.

Following the implementation of the Company's revised Governance arrangements, the newly formed Finance and Audit Committee shall monitor management's progress in the following key areas going forward:

- Timely implementation of actions agreed in response to audit recommendations;
- Controlling key risks facing the Company (included in the Corporate Risk Register) and the work of the Risk Management Panel;

- Identifying, documenting and responding to instances of Fraud;
- Revising Board and Committee membership to address the lack of finance expertise; and
- Establishing new and more detailed 'fit for purpose' Committee Terms of Reference following Governance re-organisation.

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 – 29th September 2008, 9th December 2008, 9th March 2009, 11th May 2009, 20th July 2009 and 8th September 2009 and the associated papers.

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DATE: 17 September 2009

Standing items - Quarterly:

- Welcome, Introductions, Chairs' Announcements and Apologies
- Declarations of Interest
- Minutes of previous meeting
- Matters arising
- Audit Register
- Final Audit Reports
- Fraud Register

Other items that are tabled annually:

- Initial Internal Audit Plan
- Risk Management and the Risk Management Framework
- External Audit Annual Plan
- External Audit Key Issues Memorandum (Management letter)

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

- Appointment and Remuneration of Internal Audit
- Appointment and Remuneration of External Audit
- External Audit Engagement Letter
- Review of Audit progress against the Annual Audit Plan
- Corporate Risk 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:

ATTENDEES	COMPANY - POSITION
Julie Crook	NCH – Director of Finance, ICT & Governance
Alison Mapp	NCH – Company Secretary
Andrew Fife	TIAA Limited – Audit Director
Karen Jamieson	TIAA Limited – Audit Manager
Kathryn Godfree	Grant Thornton UK LLP – Engagement Partner