

REPORT OF DEPUTY CHIEF EXECUTIVE & CORPORATE DIRECTOR FOR RESOURCES

AUDIT COMMISSION ANNUAL AUDIT LETTER 2009/10

1 PURPOSE OF THE REPORT

- 1.1 This report responds to the Audit Commission's Annual Audit Letter for 2009/10 (AAL). The Audit Commission will be present to discuss the AAL which is included with this item on this meeting's agenda.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
- i) Notes and comments on the Audit Commission's findings reported in the AAL
 - ii) Note, comment on and endorse the City Council's action plan to address the recommendations within the AAL (**Appendix 1**).

3 REASONS FOR CONSIDERATION

- 3.1 The Committee's terms of reference includes the duty to scrutinise the Council's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process. It also has further responsibilities to approve the Council's Statement of Accounts and to consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 3.2 External audit is an essential element of the governance framework, which gives an independent view of the stewardship and accountability roles of the City Council. The duties and powers of the external auditor are set out in statute and in the Audit Commission's statutory code of practice. The external auditor appointed for the City Council is the Audit Commission.
- 3.3 The Audit Commission's Code of Audit Practice requires its auditors to prepare an AAL and issue it to each audited body. The purpose of preparing and issuing annual audit letters is to communicate to the audited body and key external stakeholders, including members of the public, the key issues arising from auditors' work, which auditors consider should be brought to the attention of the audited body. The AAL covers the work carried out by auditors since the previous AAL was issued.
- 3.4 The format of the AAL allows auditors to draw out the progress achieved by audited bodies in addressing the concerns raised. The action plans produced in response to the audit recommendations (see below) provide details of the proposed response and it is important that the Audit Committee monitors progress against each task. Progress will be reported to the Committee as part of the Annual Governance Statement process. As an annual report, the AAL will draw out, for example, cases where insufficient action or progress has been achieved.

4 OVERVIEW OF WORK UNDERTAKEN

4.1 In summary, the AAL's key messages are:

- There is an unqualified opinion given on the financial statements and no significant weaknesses were identified in the authority's control arrangements.
- Satisfaction with the Council's conclusion that it has pursued recovery as far as possible in respect of the individual cases highlighted in the Audit Commission public interest report in relation to housing allocations.
- Concern that safeguards should be built in to protect value for money when assimilating repairs and maintenance in the management agreement with NCH.
- The City Council has adequate processes in place to manage resources and deliver value for money.
- The audit fee to cover the core work was £388,099.

4.2 The AAL contains ten recommendations. These recommendations and the Council's associated action plan are set out in **Appendix 1**.

5. BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING EXEMPT OR CONFIDENTIAL INFORMATION

Annual Audit Letter 2009/10

6. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

None

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Audit Commission AAL Recommendation – City Council Actions

AAL RECOMMENDATION	SUMMARY OF RESPONSE AND ACTIONS	BY WHEN	BY WHOM
<p>Monitor implementation of the IFRS work plan to ensure that the IFRS transition is smooth and timely. Determine IFRS accounting policies and ensure these are adopted ahead of the 2010/11 financial statements being prepared.</p>	<p>CONTEXT The City Council's plans for the adoption of IFRS and the impacts of that adoption have been discussed at Audit Committee meetings, where final accounts issues have been presented. As the Council finalises the restatement of its 2009/10 balance sheet (a task which marks the end of the preparatory work) this new statement will be presented to the Audit Committee with explanatory notes. This will facilitate detailed discussion on the impacts of IFRS on the Council's accounts and the approaches towards the implementation that are being recommended.</p> <p>ACTION: 1.1 Restatement of 2009/10 balance sheet 1.2 Report to February Audit Committee</p>	28/2/11	Head of Strategic Finance
<p>Improve operation of the current process for identifying related parties by ensuring that all members and senior officers respond to requests for information. Consider appointing a senior officer to oversee this exercise.</p>	<p>CONTEXT: Although the response rate for 2009/10 was poor, this had not been the case in previous years. The key difference was that in previous years a senior colleague was involved in advising respondents and chasing missing responses. Therefore, for 2010/11, the Head of Strategic Finance will adopt the role of key contact and communicate details of this requirement to all possible respondents. The guidance will also be rewritten to make it easier to complete the forms.</p> <p>ACTION: 2.1 Rewriting of the guidance 2.2 Communication of requirements to relevant parties 2.3 Follow up activities complete</p>	<p>2.1 31/01/11 2.2 31/03/11 3.3 31/05/11</p>	Head of Strategic Finance

AAL RECOMMENDATION	SUMMARY OF RESPONSE AND ACTIONS	BY WHEN	BY WHOM
<p>Continue to closely monitor reserves to ensure these are maintained at an appropriate level.</p>	<p>This activity is already undertaken on a regular basis. The requirement to monitor the level and proposed use of reserves is central to the Council's financial control regime and output is reported directly to the Chief Finance Officer. Earmarked reserves are regularly monitored to ensure an accurate record of purpose and commitment is maintained; this process has recently been strengthened by transferring the management of earmarked reserves away from departmental finance teams to the Head of Strategic Finance. The level of the Council's unearmarked reserve is also carefully monitored to ensure that it remains above required levels, as evaluated through the application of detailed risk assessments of the Council's key financial activities.</p> <p>ACTION:</p> <p>3.1 Maintain close scrutiny of forecast outturn.</p> <p>3.2 Ensure appropriate follow through of proposed management activity.</p> <p>3.3 Refresh records of purpose for all earmarked reserves.</p> <p>3.4 Ensure monitoring records contain up to date records of commitments against reserves.</p>	<p>Ongoing</p>	<p>3.1. 3.2 Deputy Chief Executive & Corporate Director of Resources</p> <p>3.3 & 3.4 Head of Strategic Finance</p>
<p>Ensure that the capital programme for 2010/11 to 2012/13 is affordable. Address overspends on the 2010/11 capital programme.</p>	<p>Current monitoring, including the latest forecasts of spend and financing (especially with regard to potential capital receipts) show a relatively small level of over-programming over the three years of the MTFP. It is anticipated that, with robust management of the level of costs and their timing, that the capital programme for 2011/14 falls within affordable limits.</p> <p>ACTION:</p> <p>4.1 Maintain scrutiny of spend and funding</p> <p>4.2 Deliver regular, accurate and complete monitoring statements.</p>	<p>31/3/11</p>	<p>4.1 Deputy Chief Executive & Corporate Director of Resources</p> <p>4.2 Head of Strategic Finance</p>

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<p>The Council should ensure that the management agreement with NCH provides sufficient safeguards around the repairs and maintenance service to enable the Council to demonstrate that it is achieving value for money on an ongoing basis.</p>	<p>The Council continues to work closely with NCH over all aspects of this arms length company's business. Sound financial management is at the core of this relationship and the requirement to provide excellent value for money is even more important in the current context. The management agreement that results from this work will provide the required safeguards.</p> <p>ACTION: 5.1 Finalise discussions on refreshed management agreement</p>	31/12/11	Corporate Director for Development
<p>Continue development of arrangements to challenge service provision that cover value for money and effectiveness.</p>	<p>The integration of performance and financial data within business plans and the medium term financial planning process provides a clear emphasis on costs, value and performance – both across time, relative to other organisations and from the perspective of service users. This process will continue to be strengthened as the Council continues to work within the difficult financial environment.</p> <p>ACTION: 6.1 Complete review and redesign of standard integrated reporting.</p>	Ongoing	Director of Strategic Finance
<p>Review my feedback from the Serving Nottingham Better review and, where appropriate, use this to inform the Council's workplace strategy and operating model.</p>	<p>The outputs from this review will continue to be applied in the development of the Council's workplace strategy and operating model. These projects are just two of the many within the Transformation Portfolio.</p> <p>ACTION: 7.1 Continue to manage process via Transformation Board</p>	Ongoing	Deputy Chief Executive & Corporate Director for Resources
<p>Develop and implement an action plan to improve ICT service management that promotes good practice as set out in the IT infrastructure library issued by the Office of Government Commerce.</p>	<p>The City Council has embarked on an improvement programme to adopt best practices as described within the ITIL framework issued by the OGC. This has included the implementation of incident management, service request management, and project delivery management. The Council is currently preparing for implementation of change management. If resources are available it is anticipated</p>	31/3/11	Director for Information and Technology

AAL RECOMMENDATION	SUMMARY OF RESPONSE AND ACTIONS	BY WHEN	BY WHOM
	<p>that there will be further development of service request management and development of configuration and problem management.</p> <p>ACTION:</p> <p>8.1 Complete implementation of change management</p> <p>8.2 Identify resourcing requirements regarding further development of Service Request Management and development of Configuration and Problem Management.</p> <p>8.3 Complete proposals regarding further development of Service Request Management and development of Configuration and Problem Management.</p>		
<p>Closely monitor financial performance for the 2010/11 financial year. Ensure that overspending is managed to minimise the impact on general fund reserves.</p>	<p>Financial performance is monitored closely, with regular reports to various managers, management teams, the Corporate Leadership Team and the Executive Board. The monitoring process focuses on forecasting outturn for all activities, identifying those areas where significant variances are forecast and detailing the management action that is being taken to contain that variance. The overall impact of the outturn forecast on the unearmarked reserve is also reported.</p> <p>ACTION:</p> <p>9.1 Maintain close scrutiny of forecast outturn.</p> <p>9.2 Ensure appropriate follow through of proposed management activity.</p>	<p>Ongoing</p>	<p>9.1 Director of Strategic Finance</p> <p>9.2 All Corporate Directors</p>
<p>The Council needs to satisfy itself that future changes to the Council's medium-term financial plan result in balanced budgets for future financial years that are realistic and affordable.</p>	<p>The Council's medium term financial planning processes involve portfolio holders, other councillors, corporate directors, directors and other budget holders in detailed work to identify the required content of budgets and the risks associated with any approved changes. These financial requirements and the associated risk assessments are compared against known funding and estimates of future funding in order to assess the robustness of the budget.</p>	<p>28/02/11 (to inform the MTFP approval)</p>	<p>DCEX/Corporate Director for Resources</p>

AAL RECOMMENDATION	SUMMARY OF RESPONSE AND ACTIONS	BY WHEN	BY WHOM
	ACTION: 10.1 Complete a comprehensive risk assessment for the 2011/12 budget including a risk assessment of strategic choice proposals, budget assumptions, demographics and other issues to inform the required level of general reserves		