

Progress report

February 2011

Nottingham City Council

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

1 This report sets out progress against the audit work included in our 2009/10 and 2010/11 audit plans. In carrying out our audit duties, we have to comply with the statutory requirements governing them, including the Audit Commission Act 1998 and the Code of Audit Practice (the Code).

2 The Code defines auditors' responsibilities in relation to:

- the annual financial statements; and
- the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources.

3 Our plans are subject to continuous review and refinement to take account of emerging risks, additional work specified by the Audit Commission or other regulators and changes in statutory or professional requirements.

Summary

2009/10 Audit

4 My 2009/10 audit is substantially complete. I issued an unqualified opinion on the Council's financial statements and an unqualified value for money (VFM) conclusion on 28th September 2010. The main findings from the audit were summarised in my Annual Audit Letter which was presented to members of this committee in December 2010.

5 All 2009/10 grant claims and returns have been certified and matters arising have been summarised in a separate report.

6 The audit remains open pending completion of my investigation into matters raised by a local elector. The audit cannot be certified as complete until the investigation has been concluded.

2010/11 Audit

7 All 2010/11 work is progressing according to plan. My team has commenced the review of your key financial systems and is working closely with officers to examine your arrangements for conversion to International Financial Reporting Standards (IFRS), including the re-statement of previous years' figures.

Audit update

Purpose

8 The purpose of this report is to provide the Audit Committee with an update on progress against our audit plans. It also seeks to highlight key emerging local and national issues and developments that may be of interest to members of the committee.

9 If you require any additional information regarding the issues included within this report, please contact your District Auditor or Audit Manager using the contact details in appendix 1.

2009/10 Audit

10 My 2009/10 audit is complete with the exception of my investigation of matters raised by a local elector. I summarised the key issues arising from my audit in the Annual Audit Letter, which was presented to members in December 2010.

11 I issued an unqualified opinion on the Council's financial statements and an unqualified VFM conclusion on 28th September 2010.

12 All 2009/10 grant claims have been certified. A report summarising the matters arising from my work is included as a separate item on the agenda for this meeting.

13 As reported to members at the last Audit Committee meeting, I am in the process of conducting an investigation into matters raised by a local government elector. The initial stage of the investigation, including interviews and review of relevant documentation, is nearing completion. I am currently considering the outcome of this initial stage within the context of my statutory duties and responsibilities. The audit cannot be closed until the investigation has been concluded.

Bridge Estate

14 I issued an unqualified audit opinion on the Bridge Estate charity accounts on 17 December 2010.

15 Matters arising from the audit were reported to the Audit Committee in my Annual Governance Report in December 2010. My report highlighted the need for greater involvement of the trustees, particularly in respect of the public benefit statement.

2010/11 Audit

16 The indicative fee letter for 2010/11 was issued on 9 March 2010 and agreed by the Audit Committee on 28 May 2010. The audit plan has now

been updated (see separate report on the agenda). Overall progress against the planned outputs in the indicative fee letter is set out in table 1 below.

Table 1: **Progress on 2010/11 work**

Area of work	Indicative date	Comments
Audit opinion plan	December 2010	Complete. Plan issued February 2011
Annual governance report	September 2011	Not yet due.
Opinion on the financial statements and VFM conclusion	September 2011	In progress. Our review of key financial systems commenced December 2010. Review of VFM arrangements is also in progress. Testing of the statement of accounts is due to commence in July 2011 but we are discussing with officers the potential to undertake early testing in some areas.
Use of Resources	September 2011	Cancelled. All work ceased following the government's announcement to abolish CAA in May 2010.
Final accounts memorandum	October 2011	Not yet due.
Annual Audit Letter	November 2011	Not yet due.

Communications with management and 'those charged with governance'

17 As part of my planning and risk assessment for 2010/11 I am required by professional auditing standards to seek certain information and assurances both from management and the Audit Committee. I have written to the Deputy Chief Executive and Chairman of the Audit Committee and copies of my letters are attached at appendix 2 for information. It is important that I receive a timely response to my enquiries.

Specific risks

18 The indicative fee letter and the updated audit plan identify a number of specific risks and set out the work I plan to carry out to address those risks.

Table 2 summarises progress made to date in those areas where work has commenced.

Table 2: **2010/11 specific risks**

Risk	Comments
International Financial Reporting Standards (IFRS)	<p>In progress.</p> <p>Our technical team has provided specialist support to review the Council's overall arrangements and specific accounting proposals for conversion to IFRS based accounts.</p> <p>We have been provided with detailed proposals for the principal IFRS work streams. These have been subject to consideration as to whether they, in principle, provide a sound basis for the restatement. Detailed proposals have been considered relating to:</p> <ul style="list-style-type: none">■ compensated absences;■ classification of leases, including consideration of embedded leases;■ classification of non-current assets; and■ accounting for capital grants. <p>Whilst there were a number of specific areas of detail still being finalised at the time of writing, we have not identified any significant concerns relating to the proposals at this stage.</p>

Audit fees

19 In December 2010 the Audit Commission published its annual consultation document on audit fees for 2011/12. The proposals include a rebate on the 2010/11 fees following the government's decision to abolish Comprehensive Area Assessment (CAA) in May 2010. For Nottingham this means that the proposed 2010/11 inspection fee of £16,630 will no longer be charged. In addition, there will be a further rebate of approximately £16,400 on the 2010/11 audit fee.

Other matters of interest

Audit Commission national reports

20 This section aims to give members of the Audit Committee an update on Audit Commission reports that may be of interest. More information and the full reports are available from the Audit Commission's web site www.audit-commission.gov.uk.

Proposed work programme and scale of fees 2011/12

Local government, housing and community safety - consultation document (December 2010)

21 The Audit Commission is consulting on its proposed work programme and scales of fees for 2011/12.

22 The announcement made on 13 August 2010 proposing the Commission's abolition implies (although it has still to be confirmed) that 2011/12 may be the Commission's final year in its current form. If so, this will be the last time it will publish a work programme and set scales of audit fees.

23 The Commission proposes to carry through its existing, pre-August, plans for fees that were part of a three-year programme to deliver cost cuts of about £70 million. These involve fee rebates for 2010/11 and lower fees for 2011/12.

A new approach to value for money Audit

Local government, housing and community safety (December 2010)

24 As reported in my 2009/10 Annual Audit Letter, from 2010/11 auditors of single tier, county and district councils, fire and rescue authorities and police authorities will give their statutory value for money (VFM) conclusion based on two criteria specified by the Commission, as follows:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

25 Auditors will determine a local programme of VFM audit work based on their audit risk assessments, informed by these criteria and their responsibilities under the Code of Audit Practice (the Code).

Auditing the accounts 2009/10: Quality and timeliness of local public bodies' financial reporting

Councils and local government bodies, police and fire and rescue authorities (Second edition, January 2011)

26 This report summarises the quality and timeliness of financial reporting by councils and other public bodies. It covers auditors' work on the 2009/10 financial statements and value for money conclusion, together with key financial management and financial reporting challenges for 2010/11.

27 The report congratulates seven councils for early publication and reports that auditors were unable to give opinions on the accounts of seven councils (2 per cent of the total) by 31 October 2010. Two councils were named where the auditor gave a qualified opinion.

Appendix 1 Contact details

Name	Title	Contact details
Sue Sunderland	District Auditor	Tel: 0844 798 4304 Email: s-sunderland@audit-commission.gov.uk
Paul Hutchings	Audit Manager	Tel: 0844 798 4545 Mob: 07974 006842 Email: p-hutching@audit-commission.gov.uk
Trevor Croote	Audit Manager (4 Jan to 18 April 2011)	Tel: 0844 798 4064 Mob: 07966 915417 Email: t-croote@audit-commission.gov.uk

Appendix 2 Letters

Our reference Central/NO015/2009-10

19 January 2011

Councillor Williams
Chair of the Audit Committee
Nottingham City Council
Guildhall
Burton Street
Nottingham
NG1 4BT

Direct line	0844 7984064
Mobile	07966 915417
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Dear Councillor Williams

Nottingham City Council Audit 2010/11 - Compliance with International Auditing Standards

I am writing to request your assistance as Chair of the Audit Committee.

In order to comply with a number of International Standards on Auditing I am required to maintain an understanding of how the Audit Committee exercises oversight of various management processes. In particular, I would be grateful if you could provide a brief response to the following:

1) Please explain how the Audit Committee exercises oversight of management's processes in relation to:

- undertaking an assessment of the risk that the 2010/11 financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the Council;
- communicating to members of the Audit Committee the processes for identifying and responding to fraud; and
- communicating to employees views on acceptable business practice and ethical behaviour.

2) Is the Committee aware of any actual, suspected or alleged instances of fraud that may have a significant impact on the 2010/11 financial statements?

3) Is the Committee aware of any entries made in the accounting records of the Council that it believes or suspects are false or intentionally misleading?

4) How does the Committee get assurance from management that internal controls, including segregation of duties, exist and are working effectively?

5) How does the Committee get assurance from management that all relevant laws and regulations have been complied with?

6) Is the Committee aware of any instances of non-compliance with laws or regulations?

A brief response by letter or email will suffice. Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Trevor Croote
Audit Manager

Our reference Central/NO015/2010-11

19 January 2011

Carole Mills-Evans
Deputy Chief Executive
Nottingham City Council
Guildhall
Burton Street
Nottingham
NG1 4BT

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Dear Carole

Nottingham City Council Audit 2010-11 - Compliance with International Auditing Standards

In order to comply with a number of international auditing standards I am required to maintain an understanding of various management processes. In particular, I would be grateful if you would provide a brief response to the following:

- 1) Please explain management processes in relation to:
 - undertaking an assessment of the risk that the 2010/11 financial statements may be materially mis-stated due to fraud;
 - identifying and responding to risks of fraud in the Council;
 - identification of posts within the Council considered to be high risk, from a fraud and corruption perspective, and any specific arrangements in place to mitigate those risks in 2010/11;
 - communication to employees of views on acceptable business practice and ethical behaviour; and
 - communication to members of the Audit Committee the processes for identifying and responding to fraud.
- 2) Are you aware of any actual or alleged instances of fraud that may have a significant impact on the 2010/11 financial statements?
- 3) Are you satisfied that internal controls, including segregation of duties, exist and are working effectively in 2010/11? If not, what are the main risk areas?
- 4) How do you encourage staff to report their concerns about fraud?
- 5) Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, how are the risks mitigated?
- 6) Are you aware of any entries made in the accounting records of the Council that you believe or suspect are false or intentionally misleading?

7) Are you aware of any excess or inappropriate pressure placed on staff to meet financial or operational targets?

8) How does management gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance?

9) Are you aware of any potential or actual litigation or claims that would significantly affect the 2010/11 financial statements?

A brief response by letter or email to the above issues and how they are addressed will suffice.

Please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Trevor Croote
Audit Manager