

**REPORT BY THE CHAIR OF THE AUDIT COMMITTEE**

**AUDIT COMMITTEE ANNUAL REPORT 2010/11**

**1. SUMMARY**

This report outlines the work undertaken by the Audit Committee (the Committee) in 2010/11 and how this relates to its core responsibilities. The report will be sent to Full Council to demonstrate how the Committee has filled its designated role within the constitution and contributed to the governance arrangements in place in the City Council.

**2. RECOMMENDATION**

The Committee notes the work undertaken and approves the report at **Appendix 1** to be sent to the meeting of City Council on 12 September 2011.

**3. REASONS FOR CONSIDERATION**

The Committee is central to the provision of effective corporate governance, which partly depends on a systematic strategy, clear framework and processes for managing risk. Good governance also maintains and increases public confidence in the objectivity and fairness of financial and other reporting, as well as helping to deliver improved services. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

An effective Audit Committee helps to raise the profile and effectiveness of internal control, risk management and financial reporting within the Council and should enhance public trust and confidence in the governance of the Council.

In order to demonstrate the effectiveness of the Committee and develop public trust, the Chair has produced this annual report in respect of its activities. It is aimed to develop the Council's commitment to improving corporate governance. This is the second such annual report to be presented to Full Council.

**4. OVERVIEW**

The report at **Appendix 1** summarises the work undertaken by the Committee during 2010/11, shows the topics it discussed and uses its Terms of Reference to demonstrate how it met its objectives and responsibilities. The report recognises the positive contributions of councillors and colleagues in the deliberations of the Committee and the positive effect the Committee has had on the Council's governance arrangements. For the purpose of reporting the report categorises the work under the broad themes below.

- Risk and Performance
- Performance Management
- Audit Commission

- Internal Audit
- Other Work

The work undertaken is, however, cross cutting and the work covered in each theme is complimentary to that reported in the other themes.

**5. LEGAL IMPLICATIONS**

Whilst not a current legal requirement, operation of an effective Audit Committee reflects best practice and reinforces the importance of probity and performance and risk management both within the Council and in relation to its partnership working.

**6. FINANCIAL IMPLICATIONS**

There are no additional financial implications as a result of this report

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

Nottingham City Council's Constitution

**8. PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT**

None

Councillor Ken Williams  
Chair of the Audit Committee

### Audit Committee Annual Report 2010/11

#### Foreword by the Chair

I am privileged to have chaired the Audit Committee (the Committee) during its first three years of operation. It has overseen the development of corporate governance in Nottingham City Council (the Council) in very testing times locally and nationally. I would again like to take this opportunity to thank my fellow Committee members who have worked with, and guided its deliberations. I would also express my appreciation in particular to Internal Audit (IA), who have supported me considerably in my role throughout the year, and also to Council and Audit Commission colleagues who have attended our meetings and answered our questions. It is through this hard work that the Committee has been able to develop its understanding of the Council's governance processes and gain assurance on behalf of the Council as to the integrity and adequacy of the processes undertaken to meet our vision and deliver our operational and strategic objectives.

In representing the Council at meetings of the Core Cities Audit Committee Chairs Group, I have been able to discuss best practice and learn from the experience of other equivalent audit committees. This information has been valuable in helping the deliberations of the committee improve and mature and give assurance that the work undertaken is in line with best practice.

The following report summarises the work performed over the year 2010/11 and describes how the Committee has contributed to the effectiveness of the Council by the work it has done including:

- Reviewing the mechanisms for the assessment and management of risk and thereby developing the Council's ability to respond to known and emerging risks.
- Managing a good working relationship with the Audit Commission, ensuring appropriate action was taken on its recommendations and the most efficient use of external and IA was achieved.
- Overseeing the performance of the IA Service after its restructure.
- Ensuring audit findings are actioned and consequently helping to improve the Council's effectiveness and governance arrangements.
- Overseeing the management of Information and Communication Technology (ICT) control issues and consequently improving the internal control mechanisms relating to ICT.
- Continuation of the monitoring of and contribution to the development of the Council's treasury management process and strategy in response to the global economic crisis and in particular to the Icelandic Bank collapse, and monitoring the progress on the recovery of the Council's investments in the banks affected.
- Overseeing the planned implementation of new accounting rules embodied in International Financial Reporting Standards.

**Councillor Ken Williams**  
**Chair of the Audit Committee**

## **Purpose of the Committee**

Corporate governance is a phrase used to describe the mechanisms underpinning how the Council directs and controls its operations, and relates to the people of Nottingham. Good corporate governance requires organisations to undertake their functions with integrity and in a way that is accountable, transparent, effective and inclusive.

The Committee aims to improve corporate focus on governance through:

- consideration of external audit and inspection agency reports;
- review of the financial statements, external auditor's opinion and reports to Councillors, and monitoring management action in response to the issues raised by external audit;
- review of the Council's integrated planning and performance framework;
- considering the effectiveness of the Risk Management Framework and activities, the control environment and associated anti-fraud and anti-corruption arrangements;
- seeking assurances that action is being taken on risk-related issues identified by auditors and inspectors;
- being satisfied that the Council's assurance statements, including the Annual Governance Statement (AGS), properly reflect the risk environment and any actions required to improve it;
- approving IA's Strategy and Plan, and monitoring its performance;
- reviewing IA reports and the main issues arising, and seeking assurance that action has been taken where necessary;
- receiving the Annual Report of the Head of Internal Audit;
- ensuring that there are effective relationships between external and IA, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.

In summary, the Committee's role is to challenge, assess and gather assurance from within the Council and from external agencies, on the level and quality of the internal control and risk management processes in place. It also approves audit plans, the Statement of Accounts, and AGS and monitors the robustness of performance management systems. The benefits to be gained from operating an effective committee are that it:

- raises greater awareness of the need for internal control and the implementation of audit recommendations;
- increases public confidence in the objectivity and fairness of financial and other reporting;
- reinforces the importance and independence of internal and external audit and any other similar review process (eg providing a view on the AGS);
- provides additional assurance through a process of independent and objective review.

## **Membership**

The members of the Committee for 2010/11 were:

Councillor Williams (Chair)  
Councillor Aslam (Vice Chair)  
Councillor Dewinton  
Councillor Edwards  
Councillor Griggs  
Councillor Long  
Councillor Parbutt  
Councillor Price

## **Context**

An effective Audit Committee helps to raise the profile of internal control, risk management and financial reporting within the Council. The Committee enhances public trust and confidence in the governance of the Council. The annual report demonstrates this important work and helps raise the Council's awareness and commitment to maintaining and improving corporate governance across the organisation.

## **Work Undertaken**

The following summary of activity is categorised by the main topic or source of the assurance. The work is reflective of the Committee's terms of reference shown at **Appendix A**, which is addressed via an annual work programme endorsed by the Committee. The analysis has been derived from the reports and presentations set before the Committee in the period. **Appendix B** cross references the essential elements of the annual work programme to the Committee's terms of reference.

### **A. Risk**

#### **Rationale**

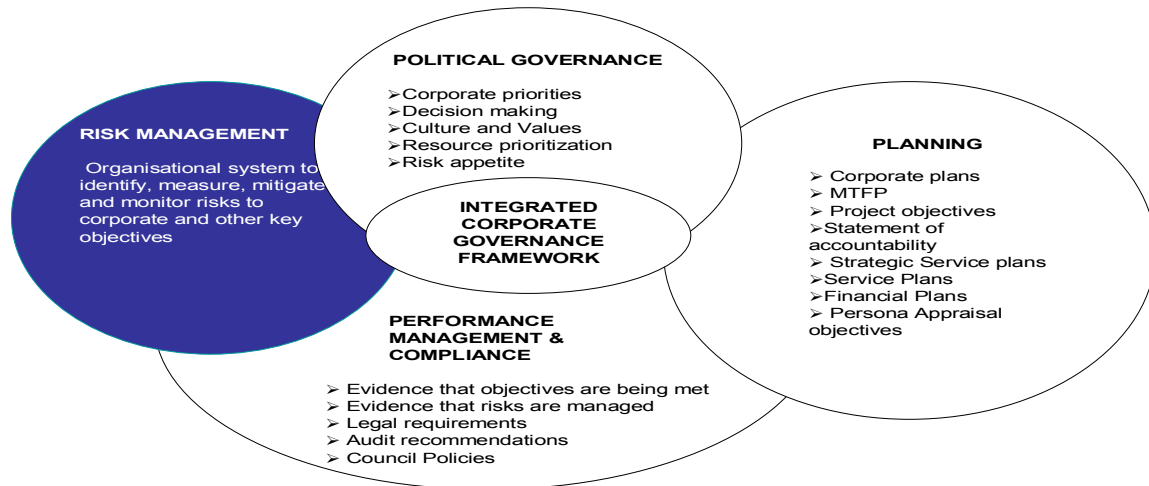
The Committee's key risk management role is to provide assurance on the adequacy of the Council's Risk Management Framework (RMF) and the associated control environment by reviewing the mechanisms for assessing and managing risk.

The role and remit of the Committee was defined when it was established in 2008. The definition places the Committee at the centre of the Council's implementation of the RMF and associated strategies and practices. The RMF has been updated to reflect this remit and responsibility:

- To evaluate the effectiveness of the Council's RMF and arrangements for managing risks;
- To ensure the effectiveness of the Council's RMF and associated control environment;
- To approve the Council's RMF.

## Summary of Work

Risk Management is an essential part of the Council's governance framework. The following illustrates the interdependence of the key governance elements and how they sit together.



The Committee received regular reports relating to progress made in managing threat levels of each strategic risk. The Council manages the full range of risks that threaten its operations and strategic agenda by maintaining a portfolio of risk registers with the overall Council Risk Register (CRR). This comprises a number of different levels of risk register.

At the heart of the approach to risk management is the RMF, which sets out the:

- Council's approach to risk management, including risk escalation guidelines;
- Risk management roles and responsibilities of the Council's committees, councillors and colleagues;
- Corporate approach to risk financing, including insurable risks;
- Council's risk review and reporting timeline.

As a consequence the Committee has reviewed the progress in improving and embedding risk management in the authority's management processes. The role and impact of the Audit Committee in driving forward risk management has been developed and allowed for greater scrutiny of risk. The main points resulting are as follows:

- the Strategic Risk Register (SRR) and strategic risk management approach are becoming embedded throughout the Council;
- risk management at service, team and project level has been developed and improved, through training and regular review;
- the RMF has been updated and improved;
- risk has been incorporated into overall corporate planning and performance management arrangements;
- further work was underway on risk scores and classifications to measure the scale of impact so that risks are viewed in a proportionate way.

During the year the Committee has made valuable contributions to the management of specific risks and has reviewed the following Risk Management Action Plans:

- failure to deliver improved outcomes through the implementation and embedding of the Commissioning Framework
- failure of partners including the City Council to work effectively together
- failure to mitigate the impact of the economic climate on Nottingham City and its citizens
- failure to provide the best educational outcomes for children and opportunities for young people to access further education and skills training to contribute to the economic wellbeing of the City
- failure to implement and embed effective information management structures, policies, procedures, process and Controls
- failure to achieve national policy requirements and targets for 'Putting People First'

In addition the Committee oversaw the following changes to the composition of the SRR:

- delegation and re-scoping and re-entry of information management risk
- re-scoping of educational attainment risk
- merger of LAA risk and failure to deliver outcomes for local people to form a new risk, failure of partners including the City Council to work effectively together
- delegation of the risk, failure to protect Council's investments
- delegation of Workplace Strategy risk
- delegation of teenage pregnancy risk
- addition of commissioning risk
- addition of welfare reform risk

During 2010/11 the Committee also received an assessment of the impact of the change of government and associated policy and approved the updated Risk Management Framework.

## **B. Performance Management**

### **Rationale**

The Committee receives periodic reports in respect of the Council's Performance Management Framework and financial and non-financial performance. This gives the Committee an insight into operational performance and the extent that it affects the Council's exposure to risk and weakens the control environment.

### **Summary of Work**

The Committee has been briefed on the developments of the Council's Performance Management Framework throughout the year.

The Deputy Chief Executive & Corporate Director for Resources is leading the overall transformation agenda and is closely engaged with Corporate Leadership Team and lead councillors in developing a new workplace strategy to transform the Council and how services are delivered. This strategy links to the Council's refined purpose of Leading Nottingham. The Council's message map underpins key organisational messages and helps to ensure that plans and people management approaches are closely connected.

## Message Map



Similarly the Committee has received updates on the Corporate Integrated Planning and Performance Framework (CIPPF) and has been involved in changes and improvements by appraising and testing the CIPPF's suitability to drive improvement. Work has shown how the CIPPF has helped the priorities of the Council to become clearer and consistent. The Committee received information detailing the practical application of the CIPPF, including proposals to bring together a range of activities to plan, deliver and improve Council services and optimise the City's community leadership role. The Committee concluded that:

- it was essential for the CIPPF to exist and be embedded in the Council plan;
- improved performance may not be achievable in the current financial climate and a lack of funding may force a lowering of aspirations (both locally and nationally);
- it may be that realistically, 'improving' may have to become 'maintaining' and/or 'adequate';
- the Council should adopt the methodology behind the CIPPF immediately and then adapt it to fit local needs.



## **C. Audit Commission**

### **Rationale**

The Committee also has a duty to scrutinise the Council's financial and non-financial performance, to the extent that it affects the Council'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 (SOA) and to consider the external auditor's annual letter, relevant reports and the report to those charged with governance.

External audit is an essential element of governance, which gives an independent view of the stewardship and accountability roles of the 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 Council is the Audit Commission.

Another function of the Committee was to consider and approve the SOA and Audit and Inspection Plans for the Bridge Estate Charity, Highfields Leisure Park Trust and Harvey Hadden Stadium Trust.

### **Summary of work**

Throughout the year the Committee received reports from the Audit Commission, detailing their work plans and the progress they have made. This has allowed the Committee to obtain an independent assurance in respect of the overall governance arrangements set in place by the Council. The culmination of this work was the Annual Audit and Inspection letter. In summary the Committee considered and found:

- Bridge Estate 2008/09 the Commission issued an unqualified audit report. During discussion, it was stated that the Council should keep any monies received from the charity separate to ensure that they could be identified, and should publish an annual report detailing how those funds had been spent 'for the public benefit', as per the terms of the charity.
- Certification of Claims and Returns – Annual Report 2008/09. It was reported that the Audit Commission had certified twelve 2008/09 claims for funding (from the Council to government grant-paying departments) totalling £327 million, of which five had received a limited review and seven a full review.
- Regular progress reports on the work undertaken, including final accounts audits, 'major' risks in the Council's Strategic Risk Register, which were Serving Nottingham Better, Council staff redundancies, NET Lines 2 and 3 and ICT security.
- Audit Opinion Plan 2009/10 outlining proposed audit work in relation to financial statements 2009/10 and reflected the Commission's risk-based approach to audit planning, including audit work specified by the Audit Commission for 2009/10, current national risks relevant to Nottingham City local circumstances and local risks.
- IT Service Management Diagnostic. The report detailed the outcomes from an Audit Commission Review, which included highlighted strengths and weaknesses of the existing ICT services, a report on the service from a business perspective (using the four key themes of supporting users, supporting business, managing change and managing risk), a measurement of the present levels of ICT service against ITIL objectives (Information Technology Infrastructure Library – a best practice framework set down by the Office of Government Commerce) and the provision of a comparative baseline against which services could be assessed. During discussion, it was stated that many of the recommendations contained within the report had already been

implemented and, when the Council's move to Loxley House had been completed, IT security would improve due to new ways of working.

- An unqualified opinion had been provided by the District Auditor but there was still work in progress relating to a local government elector query that was expected to be concluded by the end of the calendar year. It was acknowledged that the implementation of International Financial Reporting Standards created a large amount of work and there was, at that time, only limited direction from appropriate sources.

## **D. Internal Audit**

### **Rationale**

One of the Committee's roles is to review and monitor the work of Internal Audit (IA). The Audit Charter sets out the terms of reference of the service and is one of the benchmarks against which the Committee can measure performance and effectiveness of the service.

The Accounts and Audit Regulations 2011 states that local authorities should maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control.

### **Summary of work**

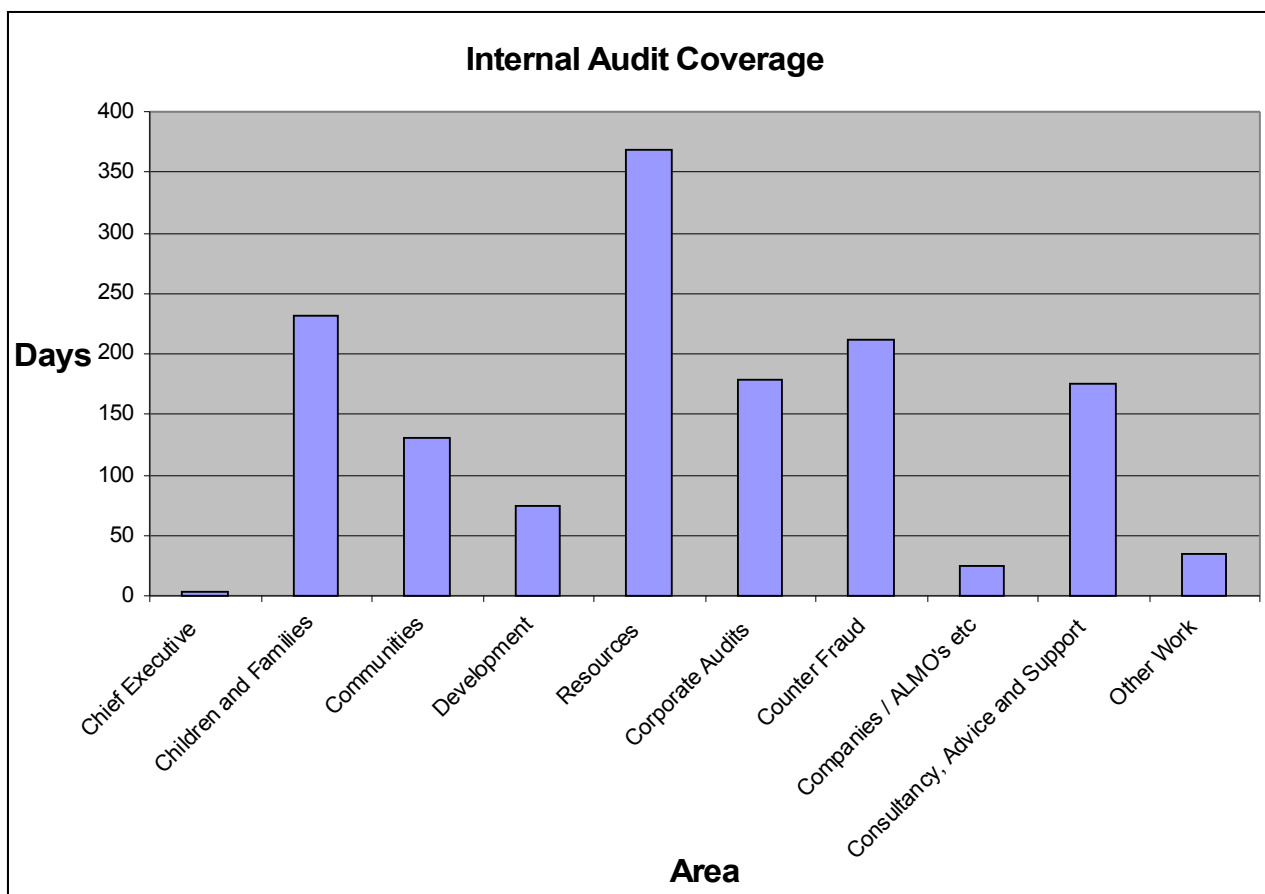
The service impacts on corporate objectives by bringing a systematic disciplined approach to improve the effectiveness of risk management control and governance processes and is an important part of the Council's governance and control framework. It operates within professional standards as laid down in the CIPFA Code of Practice for IA in Local Government in the United Kingdom 2006 (the Code). The Audit Charter is the embodiment of the terms of reference for the service defining the objectives and responsibilities of the service. The Code states that the Audit Charter should be produced, be subject to regular review and approved and routinely reviewed by the organisation. The Committee fulfils this role on behalf of the Council and oversees the quality and performance of the service by review of reports including the Head of Internal Audit's (HoIA) quarterly and annual reports.

### **D1. Internal Audit Plans**

IA is an integral part of the Council's Corporate Governance Framework and gives assurance complementing that given by external review agencies. An approved IA Plan (the Plan) is an important part of the Council's governance and control framework, and assists in focusing limited resources to provide maximum assurance.

The Plan is produced annually and is used as the main driver for allocating audit resources throughout the year to the review of risks to the Council's corporate objectives. The Plan is centred on the need to make audit activity aligned to corporate objectives and to meet the requirements of effective corporate governance, including underpinning the requirements of the Annual Governance Statement (AGS).

It is good practice to review the work undertaken against that planned and where necessary amend the Plan to take into account the changing control environment and emerging risks. IA regularly reviews its model of risk and uses it to inform its audit workload. Factors it considers in the risk model include organisational change, investigations that have identified serious control weaknesses, high staff turnover and key staff leaving the work area.



The Plan produced is geared to reflect risk to corporate objectives and includes an allocation of resources directed towards major corporate projects and emerging departmental risks. This resource is directed towards high risk areas and other corporate projects, and enables Corporate Directors to provide assurance for the AGS.

## D2. Internal Audit Quarterly Reports

The Committee's terms of reference include responsibility for receiving reports on the work undertaken by IA and for monitoring its performance. Regular reports are scrutinised by the Committee covering the performance of the service against the annual plan, the nature, scope and quality of the work undertaken and performance measured against key performance indicators.

## Key performance indicators 2010/11

Table 1 shows that the service met the key performance indicators agreed by the Committee.

**Table 1 Local Performance Indicators**

		Target	Actual Year to 31/03/11	Comments
1.	% of all recommendations accepted	95%	99%	Above target
2.	% of high recommendations accepted	100%	99%	Within acceptance level
3.	Average number of working days from draft agreed to the issue of the final report	8 days	4 days	Above target
4.	Number of key / high risk systems reviewed	15	15	On Target
5.	% of colleagues receiving at least three days training per year	100%	100%	On Target
6.	% of customer feedback indicating good or excellent service	85%	93%	Above target

Table 2 indicates that the work performed was of a high quality and by accepting the recommendations of the audit service the colleagues affected are committed to improving the Council's internal control framework.

**Table 2 Acceptance of Recommendations**

Category	2010/11	
	All	High
Total recommendations made	295	177
Rejected	2	1
Total accepted	293	176
Percentage accepted	99%	99%

### D3. Quality

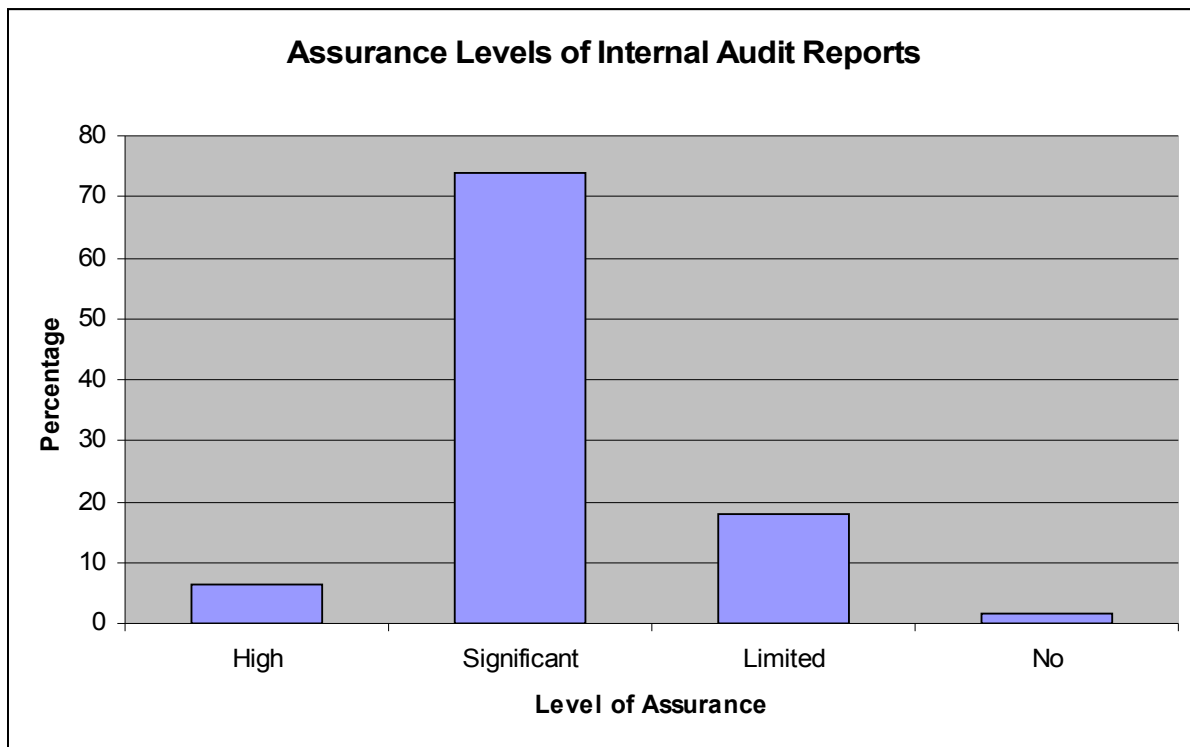
All IA colleagues are required to adhere to the code of ethics, standards and guidelines of their relevant professional institutes and the relevant professional auditing standards. The service has internal quality procedures in place and is ISO9002 accredited. It has adopted the principles contained in the Code and has fulfilled the requirements of the Account and Audit Regulations 2011 and associated regulations in respect of the provision of an internal audit service. During the year the HOIA commissioned an independent review of the IA service, to determine how well it complied with the CIPFA Code of Practice for Internal Audit. The review found that the service substantially complied with the Code.

### D4. Internal Audit Performance and Annual Reports

The Committee's terms of reference include reviewing performance of IA and receiving an annual report on the work of IA. The Code requires the HOIA to provide a written report to those charged with governance to support the AGS. The report included an opinion on the overall adequacy and effectiveness of the organisation's control environment.

From the assurance given by IA, and work and assurance gathered from other independent sources, the HoIA was able to conclude that reasonable assurance could be given that the internal control system was operating effectively within the Council and its associated partners.

The following diagram illustrates the level of assurance was high or significant in 80% of reports issued. No assurance was given in two reports and limited assurance in 10 reports. The HoIA judges that the actions taken to address the issues identified have been proportionate and timely enough to mitigate the risks involved.



### D5. Reports Selected

The critical appraisal of randomly selected IA reports is an important aspect of the Committee’s governance work. In examining such reports, the Committee is testing the robustness of and contributing to the organisation’s audit and other governance arrangements. This also helps the Committee to develop a deeper understanding of the Council’s internal control environment and IA working practices.

The Committee considered issues such as risks addressed, coverage and quality of the work and the responses given by the service areas under review. During the Committees deliberations positive recommendations have been made to develop the audit process and the Committee’s monitoring thereof. These have included the need for future IA reviews to consider the existence of risk management registers and that all future IA reports to the Committee include a service response from the relevant Service Manager to show the latest position on actions taken against the recommendations;

## **D6. Counter Fraud**

### **Rationale**

The maintenance and embedding of a counter fraud culture is essential if the Council is to maximise the use of its resources and minimise waste through inefficiency and/or fraudulent activity. The Counter Fraud Strategy (the Strategy) provides the basis for the developing a counter fraud culture in the Council.

Good governance arrangements are essential when allocating and controlling Council resources and supports effective delivery of our strategic and operational objectives. The Strategy aims to protect public funds and assets by requiring compliance with regulations, rules, procedures and guidelines designed to promote the highest standards of conducts and behaviour. It will continue to evolve and develop to reflect changes in legislation and best governance practice.

### **Summary of work**

The Committee endorsed the amended strategy which had been improved as follows:

- Strengthening of the requirement to act in accordance with Council procedures in all instances of suspected fraud and to report cases to the Police where strong evidence exists;
- Highlighting the Council's requirements for the highest levels of integrity in its partners and associated organisations;
- Increasing of pro-active measures of fraud detection, particularly by data matching.
- Helping colleagues develop a consistent approach to dealing with fraud by referring to the appropriate Council processes and regulations, particularly Corporate Financial Process Rule and Standard (CFPRS) 18, which themselves are being developed to address the risks of fraud;
- Emphasising the need for colleagues to participate in fraud awareness training as prescribed by the Chief Finance Officer.

## **D8. Internal Audit Charter**

### **Rationale**

One of the Audit Committee's roles is to review and monitor the work of IA and the Audit Charter is one of the key statements which the Committee may use to judge the performance and effectiveness of the service. It is in effect the section's terms of reference detailing the parameters by which it operates within professional standards as laid down in the CIPFA Code of Practice. The Code of Practice states that the Audit Charter should be produced and be subject to regular review, and should be approved and routinely reviewed by the organisation.

### **Summary of Work**

IA will review and investigate the areas of key risk to the Council's objectives across the entire range of its activities. In order to fulfil this role the service requires unrestricted access to all the colleagues, records and assets of the Council and/or its partners. In addition, the HoIA has unrestricted access to the Chief Executive, Councillors, Corporate Directors and all employees of the Council and its partners.

Each audit or piece of work undertaken will have a clear scope and objectives. Any audit undertaken within the Council and its partners will be conducted under the framework of an agreed audit programme, service level agreement or a clearly defined letter of engagement. This is of particular importance in the management of consultancy where the respective roles, inputs and outputs will be clearly defined and the independence of auditors maintained. IA work will be co-ordinated with that of external review agencies to provide maximum audit coverage and to prevent duplication of effort where practical.

## **D9. Proposed Accounts and Audit Regulations 2011**

### **Rationale**

Communities and Local Government (CLG) have consulted with Local Authorities on proposed amendments to the Accounts & Audit Regulations 2003. The resulting regulations are now set in place.

### **Summary of Work**

The Committee commented on the proposals and responded to the consultation which regulates the production of the Council's financial statements and the underlying governance arrangements.

### **E. Other Work**

The Audit Committee Work Programme (**Appendix B**) reflects the many subject areas and sources of information that the Committee considers in its deliberations about Corporate Governance. The information assimilated allows members of the Committee to understand governance issues and determine their opinion about the overall state of corporate governance in the Council.

## **E1. Annual Governance Statement - AGS**

### **Rationale**

Included in this committee's terms of reference is the core function that it should be "satisfied that the Authority's assurance statements, including the AGS, properly reflect the risk environment and any actions required to improve it."

The publication of an AGS is required by the Accounts and Audit Regulations 2011. The Council is required to conduct a review, at least annually, of the effectiveness of its internal control and prepare a statement in accordance with proper practices. The 2007 CIPFA/SOLACE publication "Delivering Good Governance in Local Government Framework" provides the principles by which good governance should be measured. This has been adopted as the Council's Local Code of Corporate Governance by the Executive Board.

The Council's governance arrangements aim to ensure that it sets and meets its objectives and responsibilities in a timely, open, inclusive and honest manner. The governance framework comprises the systems, processes, cultures and values by which the Council is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which

brings together an underlying set of legislative requirements, good practice principles and management processes.

In order to produce the AGS an annual timetable is required to ensure key tasks are undertaken in time to deliver the Statement alongside the Council's SOA.

The Committee has delegated authority for the formal approval of the AGS and approved it on 24 September 2010. It was signed by the Leader of the Council, the Chief Executive and the Deputy Chief Executive and was published alongside the SOA.

### **Summary of work**

The AGS reflects the governance framework operating within the Council and its significant partnerships, groups and trusts. The issues identified in the AGS and the consequent plans for their mitigation are used to direct corporate resources, including those of IA. The Committee has been kept updated on the progress in respect of those issues reported and has monitored the process for compiling the 2010/11 AGS. Issues reported in September were as follows

- Single Status
- Information and Communication Technologies
- Balancing the Council's Budget
- International Financial Reporting Standards
- Icelandic Banks
- Public Interest Report
- Central Review of Local Government Funding
- Accounts Payable controls
- Numbers of children in care
- Housing Council Tax Benefit Subsidy Claim and
- Management of the Council's Workplace Strategy.

## **E2. Statement of Accounts (SOA)**

### **Rationale**

The SOA is an annual publication that shows how the Council's resources have been utilised, must be prepared in accordance with all legislative requirements and professional best practice, and approved by the Council within a defined timescale. The Committee's terms of reference include a duty to review and approve the Council's SOA on behalf of the Council.

### **Summary of Work**

The 2009/10 SOA and Annual Governance Report were approved by the Committee and the Audit Commission gave an unqualified opinion on the Council's SOA. The Committee has been kept informed of the development of the 2010/11 SOA. ■



## **E3. International Financial Reporting Standards (IFRS)**

### **Rationale**

From 1 April 2010 the adoption of IFRS was mandatory for Local Government. IFRS govern the policies, principles and presentation of the Statement of Accounts and those standards ensured that the accounts showed a true and fair view of the financial affairs of the Council and that comparisons could be drawn across the public sector by having a standardised approach to financial information.

### **Summary of Work:**

The Committee contributed positively to the Council's preparations and particularly noted:

- the standards represented a major change in financial reporting requiring much more detail than before;
- similarly to many other authorities, the Council did not hold a central corporate leasing register;
- the transition to IFRS required the Council to review all of its assets in order to determine the correct classification, measurement and accounting treatment;

## **E4. Local Government Ombudsman – Annual Review**

### **Rationale**

Each year all local authorities are provided with a letter from the Ombudsman and a report covering their performance with regard to dealing with complaints.

Complaints need to be used to influence service improvement and therefore to increase customer satisfaction and highlight areas where controls may be failing.

The Council is still the responsible body for complaints about housing provided by Nottingham City Homes and their figures are included in its Annual Letter.

### **Summary of work**

It was reported that of 107 complaints made to the Ombudsman, 37 were premature, 21 required advice only from the LGO and 49 were referred for investigation. It was stated that a new Council IT system would be introduced in September 2010 which would simplify the complaints process, and possibly improve the Council's response time to complaints.

## **E4. Treasury Management**

### **Rationale**

Treasury management is the management of an organisation's borrowings and investments, the effective management of the associated risks and the pursuit of optimum performance or return consistent with those risks.

The Council's treasury management function operates in accordance with the Code of Practice for Treasury Management in the Public Services (the TM Code), issued by the CIPFA. Under this code the annual Treasury Management Strategy, including the Investment Strategy, is considered and approved by a meeting of Full Council before the beginning of the financial year to which it applies. Recent changes to the TM Code require authorities to nominate a body within the organisation to be responsible for scrutiny of treasury management activity. In undertaking this function, the Committee holds the responsibility to provide effective scrutiny of treasury management policies and practices, and to deliver this in advance of the associated strategies being formally approved by Council. This provides an opportunity for detailed scrutiny and analysis of the Treasury Management Strategy and Investment Strategy by those charged with governance.

## **Summary of Work**

The Committee was assured that legal representation through the auspices of the Local Government Association with regard to the Icelandic Bank situation was the most cost effective way and with local authorities working together would stand in a better position to recover the monies deposited in Icelandic Banks.

Deliberations in respect of the Treasury Management Strategy showed the main changes for the 2011/12 strategy to be:

- extension of the maximum duration for UK deposits to two years;
- inclusion of a number of additional non-UK banks for term deposits;
- deletion of Spanish banks from the non-UK list for term deposits;
- addition of Supranational Bonds to the counterparty list.

Information was provided about the procedures undertaken before new banks were added to the counterparty list. These included:-:

- their credit and support rating and the extension to which the government would support the bank if they collapsed;
- reviewing their balance sheet, capital strength and default rating;
- assurance that none of the City Council's money was directly invested outside of the UK.

## **E5. ICT Governance Issues**

### **Rationale**

ICT security is a key aspect of the Council's internal control framework. The committee has been monitoring progress on the Council's response to an independent report by Deloitte identifying some weaknesses in its arrangements.

### **Summary of work**

The Committee received a series of updates highlighting the Council's response to the report and giving assurance that its actions to address the issues found were well advanced, and the majority of issues were resolved.

## **E6. Role of the Audit Committee and Annual Work Programme**

### **Rationale**

An Audit Committee is central to the provision of effective corporate governance. It is important that local authorities have independent assurance about the mechanisms underpinning its governance arrangements. It recognised that high performing councils develop effective financial and non-financial control mechanisms through the ongoing liaison and development of expertise made available by the establishment of an Audit Committee, meeting on a regular cycle, and with Terms of Reference focussed on the key audit control and risk management areas critical to the Council's performance. The work of the Committee supports the Council's aim to improve its efficiency and effectiveness. In common with the requirement for Overview & Scrutiny Committees/Panels, and in accordance with CIPFA guidance, the Committee is politically balanced and does not have Executive membership.

### **Summary of work**

The Committee adopted a work programme, designed to cover key aspects of corporate governance within the Council. The work programme was designed to meet the Committee's responsibilities as set out in its terms of reference

## **E7. Audit Committee Annual Report 2009/10**

### **Rationale**

The Committee is central to the provision of effective corporate governance, which partly depends on a systematic strategy, clear framework and processes for managing risk. Good governance also maintains and increases public confidence in the objectivity and fairness of financial and other reporting as well as helping to deliver improved services. It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance.

An effective Audit Committee helps to raise the profile and effectiveness of internal control, risk management and financial reporting within the Council. The Committee should enhance public trust and confidence in the governance of the Council.

In order to demonstrate the effectiveness of the Committee and develop public trust, a second annual report was produced in respect of the Committee's activities. It was aimed to demonstrate the Council's commitment to improving corporate governance.

### **Summary of work**

The second annual report outlined the work undertaken by the committee and how that related to its core responsibilities to demonstrate how the committee had fulfilled its designated role and contributed to the Council's governance framework. The report was sent to Full Council to demonstrate the effectiveness of the Committee

## **E8. Charitable Trusts 2009/10**

### **Rationale**

Part of the Committee's terms of reference is to consider and approve the Statement of Accounts and Audit and Inspection Plans for the Bridge Estate Charity, Highfields Leisure Park Trust and Harvey Hadden Stadium Trust.

### **Summary of work**

#### Bridge Estate

The charitable objectives of the trust are threefold:

- to provide for the efficient maintenance and repair of Trent Bridge and the approaches to it;
- to provide a contingency fund for the possible construction of such new bridge or bridges over the River Trent as may be found necessary or desirable;
- to apply the residue of any income as the trustees think best for the improvement of the City of Nottingham and the public benefit of its inhabitants;

The Committee adopted the Bridge Estate Annual report and Statement of Accounts for the financial year 2009/10. It was noted work was ongoing to establish a Charities Committee to provide clear decision making processes regarding management of the charity.

#### Other Charitable Trusts

The Committee approved the Trust Annual report and Statement of accounts for the financial year for Highfields Leisure Park and Harvey Hadden Stadium.

### **F. Conclusion**

The Committee has worked extremely hard and covered a wide range of inter related topics. During its deliberations the Committee has fulfilled the responsibility set upon it to monitor and improve the Council's governance arrangements. Furthermore the Committee has delivered a work programme which has informed the Council's understanding of the internal control environment and contributed positively to the improvement of the Council's governance framework. In so doing, the Committee has helped improve service delivery, and demonstrated the Council's objectivity and the fairness to our citizens and thereby maintained their confidence in the ability of the Council to deliver its vision.

## THE COMMITTEE'S TERMS OF REFERENCE 2010/2011

<b>TITLE</b>	Audit Committee
<b>POWERS/ REMIT</b>	<p><b>AUDIT COMMITTEE (8) – 6:1:1</b></p> <p><b><u>Terms of Reference</u></b></p> <p>1 The main purposes of the Committee are to:</p> <ol style="list-style-type: none"> <li>(1) provide assurance of the adequacy of the Risk Management Framework and the associated control environment;</li> <li>(2) scrutinise the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment;</li> <li>(3) oversee the financial reporting process;</li> <li>(4) approve the Council's Statement of Accounts, both "subject to audit" and the final document.</li> </ol> <p>2 Its functions include the following:</p> <ol style="list-style-type: none"> <li>(1) reviewing the mechanisms for the assessment and management of risk;</li> <li>(2) approving the Council's statement of accounts, both "subject to audit" and the final document;</li> <li>(3) receiving the Council's reports on the Statement on Internal Control and the Annual Governance Statement and recommending their adoption;</li> <li>(4) approving Internal Audit's strategy, planning and monitoring performance;</li> <li>(5) receiving the Annual Report and other reports on the work of internal Audit;</li> <li>(6) considering the external auditor's annual letter, relevant reports and the report to those charged with governance;</li> <li>(7) considering arrangements for and the merits of operating quality assurance and performance management processes;</li> <li>(8) considering the exercise of officers statutory responsibilities and of functions delegated to officers;</li> <li>(9) considering and approving the Statement of Accounts and Audit and Inspection Plans for the Bridge Estate Charity, Highfields Leisure Park Trust and Harvey Hadden Stadium Trust.</li> </ol>

## Appendix B

### CROSS REFERENCE OF THE ANNUAL WORK PROGRAMME TO THE COMMITTEE'S 2010/11 TERMS OF REFERENCE BY MAIN PURPOSE AND FUNCTION

REPORT TITLE	Cross reference to Appendix A TOR	Cross reference to Appendix A Function
ANNUAL GOVERNANCE - BRIDGE ESTATE 2008/09	3	9
CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT 2008/09	3	2
AUDIT FEE LETTER 2009/10	1	6
PROGRESS REPORT 2009/10	1	6
AUDIT OPINION PLAN 2009/10	1	6
IT SERVICE MANAGEMENT DIAGNOSTIC - FEBRUARY 2010	1	6
INDICATIVE FEE 2010/11 LETTER	1	6
GOVERNANCE POSITION IN RESPECT OF ICT SECURITY ISSUES	1	4
INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION	1	5
INTERNAL AUDIT ANNUAL PLAN 2010/11	2	4
CORPORATE INTEGRATED PLANNING AND PERFORMANCE FRAMEWORK (CIPPF) - HOW IT WORKS IN PRACTICE	2	7
STRATEGIC RISK REGISTER (SRR) - Q4 2009/10 UPDATE	1	1
ROLE OF THE AUDIT COMMITTEE AND ANNUAL WORK PROGRAMME	1-4	1-9
INTERIM ANNUAL GOVERNANCE STATEMENT 2009/10	3	3
STATEMENT OF ACCOUNTS 2009/ REPORT OF DEPUTY CHIEF EXECUTIVE/CORPORATE DIRECTOR FOR RESOURCES	3	2
DRAFT STATEMENT OF ACCOUNTS	3	2
CORPORATE INTEGRATED PLANNING AND PERFORMANCE FRAMEWORK (CIPPF) - HOW IT WORKS IN PRACTICE	2	7
INTERNAL AUDIT ANNUAL REPORT 2009/10 AND INTERNAL AUDIT CHARTER	1	5
TREASURY MANAGEMENT ANNUAL REPORT 2009/10	3	1
SECOND INTERIM ANNUAL GOVERNANCE STATEMENT 2009/10	3	5
OMBUDSMAN ANNUAL REPORT	1	6
RISK MANAGEMENT - ANNUAL REPORT 2009/10	1	1
AUDIT COMMITTEE ANNUAL REPORT 2009/10	1-4	1-9
STATEMENT OF ACCOUNTS 2009/10	4	2
STATEMENT OF ACCOUNTS 2009/10	4	2
ANNUAL GOVERNANCE REPORT: NOTTINGHAM CITY COUNCIL - AUDIT 2009/10	4	6
STRATEGIC RISK REGISTER (SRR) - QUARTER 1 2010/11 UPDATE	1	1
EXTERNAL AUDIT PROGRESS REPORT AND BRIEFING	1	6

<b>REPORT TITLE</b>	<b>Cross reference to Appendix A TOR</b>	<b>Cross reference to Appendix A Function</b>
INTERNAL AUDIT REPORTS SELECTED FOR EXAMINATION	1	5
COUNTER FRAUD STRATEGY	1	1
INTERNAL AUDIT QUARTERLY REPORT 2010/11 - 2ND QUARTER	1	5
TREASURY MANAGEMENT STRATEGY 2010/11 - HALF YEARLY UPDATE	3	1
2009/10 AUDIT OPINION PLAN - BRIDGE ESTATE	3	6
CHARITABLE TRUSTS 2009/10	3	9
CHARITIES AND PUBLIC BENEFIT - SUMMARY AND GUIDANCE FOR TRUSTEES	3	9
AUDIT COMMISSION ANNUAL AUDIT LETTER 2009/10 REPORT OF DEPUTY CHIEF EXECUTIVE/CORPORATE DIRECTOR OF RESOURCES	4	6
AUDIT COMMISSION ANNUAL AUDIT LETTER 2009/10 REPORT OF DISTRICT AUDITOR, AUDIT COMMISSION	4	6
ANNUAL GOVERNANCE REPORT - BRIDGE ESTATE BRIDGE ESTATE TRUST 2009/10	4	9
ANNUAL GOVERNANCE REPORT - BRIDGE ESTATE REPORT OF DISTRICT AUDITOR, AUDIT COMMISSION	4	9
STRATEGIC RISK REGISTER (SRR) QUARTER 2 2010/11 UPDATE	1	1
AUDIT COMMITTEE WORK PROGRAMME 2010/11 UPDATE	1-4	1-9
INTERNAL AUDIT QUARTERLY REPORT 2010/11 3RD QUARTER	1	4
ANNUAL GOVERNANCE STATEMENT - PROGRESS MADE TO DATE ON ISSUES REPORTED 2009/10 AND PROCESS FOR PRODUCING 2010/11 STATEMENT	4	3
PROGRESS REPORT	3	6
AUDIT OPINION PLAN	3	6
CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT	4	6
INTERNATIONAL FINANCIAL REPORTING STANDARDS - REINSTATEMENT OF 2009/10 FINANCIAL STATEMENTS	3	2
PROPOSED AMENDMENTS TO THE ACCOUNTS AND AUDIT REGULATIONS 2003	3	8
STRATEGIC RISK REGISTER QUARTER 3 2010/11 UPDATE	1	1
INTERNAL AUDIT REPORT SELECTED FOR EXAMINATION	1	5
CHARITIES UPDATE - BRIDGE ESTATE	3	9