

AUDIT COMMITTEE - 6 JANUARY 2012

Title of paper:	AUDIT COMMISSION ANNUAL AUDIT LETTER 2010/11	
Director(s)/ Corporate Director(s):	Carole Mills-Evans Deputy Chief Executive and Corporate Director for Resources	Wards affected: All
Report author(s) and contact details:	Barry Dryden, Senior Finance Manager, Financial Reporting barry.dryden@nottinghamcity.gov.uk 0115 876 2799	
Other colleagues who have provided input:		
Relevant Council Plan Strategic Priority:		
World Class Nottingham		
Work in Nottingham		
Safer Nottingham		
Neighbourhood Nottingham		
Family Nottingham		
Healthy Nottingham		
Leading Nottingham		✓
Summary of issues (including benefits to citizens/service users):		
<p>This report responds to the Audit Commission's Annual Audit Letter for 2010/11 (AAL). The Audit Commission will be present to discuss the AAL which is included with this item on this meeting's agenda.</p>		
Recommendation(s):		
1	To note and comment on the Audit Commission's Annual Audit Letter (AAL).	
2	To note, comment on and endorse the City Council's action plan to address the recommendations within the AAL (Appendix 1).	

1. BACKGROUND

- 1.1 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.
- 1.2 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.
- 1.3 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.
- 1.4 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.

2 REASONS FOR RECOMMENDATIONS

- 2.1 In summary, the AAL's key messages are:
 - The Council responded well to the challenge of producing financial statements under International Financial Reporting Standards for the first time this year;
 - There is an unqualified opinion given on the financial statements and no significant weaknesses were identified in the authority's control arrangements;
 - Following completion of an investigation of issues raised by a local government elector, a certificate of audit completion was issued on 11 November 2011 for both 2009/10 and 2010/11;
 - The City Council has adequate processes in place to manage resources and deliver value for money;
 - A specific review of the Future Jobs Fund and Community Programme was undertaken. The Audit Commission commended the Council's success in delivering these programs but found that there should have been greater consistency around compliance and record keeping;
 - The audit fee to cover the core work was £423,000.
- 2.2 The AAL contains five recommendations. These recommendations and the Council's associated action plan are set out in **Appendix 1**.

3. **OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS**

None.

4. **FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY)**

None.

5. **RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS, CRIME AND DISORDER ACT IMPLICATIONS AND EQUALITY AND DIVERSITY IMPLICATIONS)**

None.

6. **EQUALITY IMPACT ASSESSMENTS (EIAs)**

No – this report does not include proposals for new or changing policies, services or functions

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

Annual Audit Letter 2010/11

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

None

Audit Commission Annual Audit Letter - City Council Action Plan

Recommendations

Recommendation 1

Continue to closely monitor financial performance for the 2010/11 financial year. Continue to pay specific attention to demand led budgets for adult and children's services to promptly identify and manage any overspending in these areas and ensure ongoing trends are adequately reflected in the medium term financial plan.

Responsibility	Carole Mills-Evans
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Priority	High
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Date	30/05/2012
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Comments	Proactive monitoring of financial performance is embedded in the Council's performance management arrangements (see MTFs for details). For example, budget monitoring/forecasting reports are regularly produced for consideration by the Corporate Leadership Team and Executive Board. Individual DLTs also review financial performance. Key budgets and variances are therefore already closely monitored and action taken where appropriate.
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Recommendation 2

Deliver in full cost reduction targets for 2011/12 and future years, ensuring that delivery against financial targets is embedded within the performance management system.

Responsibility	Carole Mills-Evans/accountable budget managers
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Priority	High
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Date	28/02/2012
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Comments	The Council has a sound track record of out-turning in line with overall budgets. Monitoring of savings ("Strategic Choices") is included within the budget monitoring reports to Corporate Leadership Team and Executive Board on an exception basis.
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Recommendation 3

Ensure the refreshed Council Plan and medium term financial plan fully reflect the changed financial landscape and fully address future funding gaps particularly ensuring sufficient sustainable and ongoing savings.

Responsibility	Carole Mills-Evans / Corporate Directors
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Priority	High
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Date	28/02/2012
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Comments	The Council continuously improves the budget setting process with an emphasis on producing a robust and sustainable budget. Regular interactive workshops are held with senior colleagues and councillors to identify sustainable savings and to track progress. In addition the Council's Section 151 officer proactively exercises her
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statutory responsibility to assess the draft budget and advise the Council to ensure the approval of a robust budget and that adequate levels of reserves are held.

Recommendation 4

The Council should satisfy itself that the financial, accounting and governance risks of NET phase 2 are fully understood and covered by the concession agreement with Tramlink Nottingham. Ensure arrangements for monitoring the agreement during the construction phase of this scheme are robust

Responsibility	Carole Mills-Evans
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Priority	High
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Date	30/06/12 for 20011/12 Statement of Accounts but ongoing during construction phase
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Comments	The concession specification has been developed with significant involvement of City Council NET Project colleagues with finance and legal input, as well as external technical, legal and financial adviser support. The specification has been developed based upon the Government standard (SPoC4) and the relatively minor amendments agreed by both colleagues and HM Treasury (via their Infrastructure UK section).
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Financial risks are well known and documented and sensitivities form a key part of ongoing briefings to key colleagues and councillors. Contingencies remain built into areas of the most significant finance risks (most notably in the current climate, interest rate risk) in addition to general scheme contingencies.

Accounting risks continue to be assessed and given the inherent complexity of the transaction, it has been felt appropriate to use external financial advisers to support the development of the individual steps of the transaction. Given the nature of the transaction and ongoing negotiations with the parties concerned the timing and exact nature of each step has taken longer to crystallize than originally hoped. The City Council are however, comfortable that the major elements of the transaction can be accounted for as anticipated. The City Council has been grateful for the opportunity to discuss various early iterations of this with the Audit Commission and the 'steps of the transaction' has become more set.

Governance is undertaken at various levels, with operational issues discussed at a partnership working group (Legal & Commercial Group), and decisions taken at either a specific NET Board or escalated to Executive Board for decisions outside of delegated powers. Each of these decision making groups have colleagues from both legal and finance disciplines and regularly consider the risk implications of decisions and review the overall programme risks. Additionally regular briefings are produced for senior colleagues and councillors updating them on the current financial position and highlighting issues and progress against these.

In addition to the standard governance and risk assessment processes, the City Council recently undertook a Gateway review process using a mix of internal and external assessors. This did not highlight any additional issues relating to risk or governance.

The Council has already produced a management plan (NET-PMP-001)

which identifies the arrangements for the management of the project throughout its life-cycle. The plan includes a series of management strategies and is supported by appropriate sub-plans and procedures. The PFI arrangements transfer the majority of the implementation and operation risks to the Concessionaire. There are, however, a small number of risks which the Authority retains established risk management procedures will continue to operate during the implementation and operation phases with the mitigation of risk informing the key activities and duties of the NET Project Management Team (NET PM Team).

Contract management during implementation of NET Phase Two will be provided by the already established and experienced NET PM Team comprising officers from the Authority and project managers from Turner & Townsend (T&T), an international construction management consultant. The team will include professionals deployed during the implementation of NET Line One and/or the development of NET Phase Two, ensuring key knowledge and lessons learned transfer through to the implementation phase. The Authority will also retain the services of its design consultant, Mott MacDonald, for the provision of technical advice during project implementation. The core NET PM Team will total 16 dedicated staff.

Additional support will be provided for specialist areas during the implementation by external advisors/consultants and internal departmental.

Recommendation 5

Improve operation of the Council's process for identifying related parties by:

- Encouraging all members and senior officers to respond promptly to requests for information; and
- Appointing a senior officer to lead and oversee the process.

Responsibility	Carole Mills-Evans
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Priority	Medium
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Date	30/05/2012
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Comments	<p>A number of actions are already planned for the 2011/12 process:</p> <ol style="list-style-type: none"> a) Requests for information and follow up will come directly from the DCEX/Corporate Director for Resources b) The process will begin earlier than previous years c) Audit Committee will be asked to oversee the process d) Assistance in completing forms will be made more readily available e) Prior years submissions will be used as a starting point for next years submissions f) Paper as well as electronic copies will be distributed
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