CITY COUNCIL 11 OCTOBER 2010

REPORT OF THE CHAIR OF THE AUDIT COMMITTEE

Audit Committee Annual Report 2009/10

1   SUMMARY

1.1   This is the annual report to the Council from the Audit Committee, setting out the Committee's achievements in 2009/10.

2   RECOMMENDATIONS

2.1   To receive the Annual Report of the Audit Committee for 2009/10.

3   REASONS FOR RECOMMENDATIONS (INCLUDING OUTCOMES OF CONSULTATION)

3.1   Good governance requires independent, effective assurance about the adequacy of financial management and reporting together with sound management arrangements for achieving the City Council's corporate and service objectives.

3.2   Good practice indicates that these functions are best delivered by an Audit Committee functioning independently from the Executive.

3.3   While there is no statutory obligation for the Council to establish an Audit Committee, most other large organisations (including councils and health authorities) have recognised it as good practice and have set such Committees in place.

3.4   **Appendix 1** is the Annual Report of the Chair of the Audit Committee. The report summarises the work of that Committee in its second year of operation and demonstrates the approach taken in receiving the assurance work undertaken internally and externally in respect of the risk and governance arrangements in place.

4   OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

4.1   The production of this report is considered best practice.

5   BACKGROUND

5.1   The Audit Committee was established by the City Council on 12 May 2008 and plays a key role in the Council's governance arrangements. The key benefits of such committees are that they:

- increase public confidence in the objectivity and fairness of financial and other reporting;
- reinforce the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement);
- raise awareness of the need for internal control and the implementation of audit recommendations;
- provide additional assurance through a process of independent and objective review.

6   FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY)

6.1   The control of risk and the strengthening of corporate governance enables the best use of corporate resources across the City Council's services.

7   RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS, CRIME AND DISORDER ACT IMPLICATIONS AND EQUALITY AND DIVERSITY IMPLICATIONS)

7.1   The development and embedding of risk management principles as overseen by the committee enables the Council to meet its vision and associated objectives

8   LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

8.1   None

9 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

9.1 Audit Committee reports May 2009 to July 2010

COUNCILLOR KEN WILLIAMS
CHAIR OF THE AUDIT COMMITTEE

Audit Committee Annual Report

Foreword by the Chair

I am privileged to have chaired the Audit Committee (the Committee) during its first two years of operation. The Committee has overseen the development of corporate governance in Nottingham City Council (the Council) in very testing times locally and nationally. I would like to thank my fellow Committee members who have worked with, and guided its deliberations. I would also express my gratitude to both 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 from other Audit Committees. This information has provided valuable insight and has helped in the development of the Committee's role during its life and will provide further assistance in the future

The following report summarises the work performed over the year 2009/10 and describes how the Committee has contributed to the effectiveness of the Council by the work it has done including:

- Overseeing the management of ICT control issues and consequently improving the internal control mechanisms relating to ICT.

- Managing a good working relationship with the Audit Commission, ensuring appropriate action was taken on their recommendations and the most efficient use of external and internal audit was facilitated.

- Overseeing the refocusing of Internal Audit and the restructuring of the service. The Committee gave weight to audit findings and helped to improve the Council's governance arrangements.

- Reviewing the mechanisms for the assessment and management of risk and thereby developing the Council's ability to respond to known and emerging risks.

- Overseeing the planned implementation of new accounting rules embodied in International Financial Reporting Standards.

- Monitoring and contributing to the development of the Council's treasury management process and strategy in response to the Icelandic Bank collapse, and monitoring the progress on the recovery of the Council's investments in the banks affected.

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 (but not directing) Internal Audit's Strategy and Plan, and monitoring performance;
- reviewing Internal Audit 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 Internal Audit, 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 over the level and quality of the internal control and risk management processes in place. It also approves audit plans, the Statement of Accounts, AGS and monitors the robustness of performance management systems. The benefits to be gained from operating an effective Audit 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 (for example, providing a view on the AGS);
- provides additional assurance through a process of independent and objective review.

Membership

The members of the Committee for 2009/10 were:

Councillor Williams (Chair)
Councillor Aslam (Vice Chair)
Councillor Dewinton
Councillor Edwards
Councillor Griggs
Councillor Khan
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. This 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 annual work programme to the Committee's terms of reference.

A. Risk & Performance

Rationale

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

This 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 Risk Management Strategy (RMS) and associated policies and practices. The RMF has been updated to reflect this remit and responsibility:

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

Summary of Work

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:

- RMS and policy;
- 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.

The RMF is the key procedural document for risk management practice in the Council and where it is engaged in partnership working. It was also an essential requirement of the Use of Resources Judgement which was a key part of the now defunct Comprehensive Area Assessment (CAA).

The revision of the RMF confirms the most recent risk management practice changes such as the escalation policy approved by Committee in December 2008 and the introduction of a corporate approach to risk management action plans. These improvements have already strengthened the Council's risk management by ensuring that risks are escalated to the appropriate level of management with the necessary threat and mitigation information.

The objective of the Council's RMS is to ensure that the Council is not risk averse but takes and faces risks knowingly and manages those risks it faces or decides to take in the execution of its duties, service delivery and strategic development, whether acting alone or in partnership. To achieve this objective the Committee oversaw the Council's efforts to:

- Embed risk management into the culture of the Council;
- Integrate risk management into policy, planning and operational decision making;
- Develop a holistic approach to managing the whole range of business risks facing the Council;
- Manage risk in accordance with best practice;
- Work with partners, providers and contractors to develop awareness and a common understanding of the Council's risk management expectation;
- Work with partners, providers and contractors to ensure that risks faced by the Council through their activities are managed effectively.

In order to support the approach several procedural guidelines have been produced, including:

- Risk Management in Projects Policy and Guidance (RMPPG), which sets out the Council's risk management policy for project leaders, sponsors and other personnel involved in project delivery. It also provides introductory level guidance on risk management in projects techniques.
  - o The RMF update provides a signpost to the requirements of the RMPPG. A major risk management in projects training programme has been delivered to ensure that all project areas and teams are up to date with the new policy.

- Partnerships Governance Framework (PGF), which sets out the Council's risk management policy for partnerships as part of its overall governance framework.
  - Partnership strategic planning and delivery of services is considered to be an area that generates significant risks to a local authority due to the often innovative nature of the approach. The update of the RMF recognises this by being more explicit about risk management in this area and clearly signposts colleagues to the newly approved PGF which provides the foundation of effective partnership risk management.
  - The revision of the RMF also sets out the need for colleagues involved in partnerships, where the Council is not the lead partner, to promote effective risk management to ensure that the Council, citizens and other stakeholders are protected from prevailing risks.

- Local Code of Corporate Governance, which sets out the Council's approach to corporate governance which has been developed from CIPFA's 'Delivering Good Governance in Local Government'.

- Strategic Risk Register, which is the highest level within the CRR and contains the known strategic risks and the actions taken, or planned, to mitigate them (as contained in risk management action plans). The Committee has received reports on movement on risks and the emergence of new risks. For example during the year the Committee has noted reductions in the key risks underpinning Single Status and also risks to the Council's reputation whilst new risks including those to funding and changes to national policy have been recognised and monitoring arrangements set in place.

- In order to further strengthen the Committee's engagement in the risk management process strategic risks are selected for a more detailed review. This enables councillors to direct attention to areas of risk considered potentially significant to the Committee's operations and/or remit. Risks examined in the year included those involved in safeguarding vulnerable adults, major projects and programmes, governance and failing to deliver the Council Plan.

- Corporate Risk Escalation Guidelines for the CRR. All known risks are managed through the regular review and monitoring of the CRR. This comprises several layers of risk registers which must be managed as a single entity. This is achieved by having a clear process for risks to be escalated to higher levels of management and delegated to lower levels within the register.

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. Reports and presentations have shown an improvement in performance via the CAA and changes to the Council's management practices.

An important part of the Committee's role is to review and monitor the work undertaken by the Audit Commission. The Audit Commission report on People Management was to assess the Council's approach to the subject. The primary focus of the audit was the strategic approach focussing on culture, leadership and strategy to assess capacity, structure and flexibility. The main conclusions were that the Council is in transition and is putting appropriate building blocks in place to enable it to sustain improvement. The Chief Executive is leading change with CLT. Human Resources (HR) has a more strategic, transformational focus. The Deputy Chief Executive & Corporate Director for Resources is leading the overall transformation agenda and is closely engaged with CLT and lead councillors in developing a new workplace strategy to transform the Council and how services are delivered. This strategy links to the refined Council's purpose of Leading Nottingham. The Council's message map underpins key organisational messages and helps to ensure plans and people management approaches are closely connected.

Message Map

The Council is aware of the key issues it needs to address and has plans to improve in these areas. A new transformation programme has been developed to build on the foundations provided by Serving Nottingham Better and to ensure that the transformation agenda going forward is managed more effectively and brings together all key transformation activity.

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. Improvements emphasised included how:

- The Council now has a clear, agreed long-term vision;
- All key strategies now fully aligned and an effective planning cycle put in place

- 2030 Vision and Nottingham Plan to 2020 (Sustainable Community Strategy (SCS));
- Council Plan, vision, values and priorities;
- Medium Term Financial Strategy and Medium Term Financial Plan;
- Service and financial planning (of all levels);
- Workforce Planning;
- Performance outcomes from regulators, our own performance management framework and service users;
- Performance and Development Framework (comprising directorate performance boards, project and programme boards and Performance and Development Reviews).

CIPPF

Work has shown how the CIPPF has helped the priorities of the Council to become clearer and consistent and are linked by a "golden thread" through to directorate, service and operational planning – ultimately to individual work plans medium term budget fully aligned to Council priorities via the Medium Term Financial Plan (MTFP). The following diagrams illustrate the inter-relationship of the Council's plans and the financial framework put in place to deliver them.

| **Strategic planning** **WHAT WE WANT TO ACHIEVE** | → | **Alignment** **ALIGNING OUR PLANS & RESOURCES TO DELIVER** | → | **Managing performance** **TRACKING HOW WE ARE DOING** | → | **Audit, inspection, governance and review** **IMPROVING PERFORMANCE** |

- 2030 VISION
- NOTTINGHAM PLAN 2020 (SCS)
- REVISED MEDIUM TERM FINANCIAL STRATEGY (MTFS)
- REVISED COUNCIL PLAN 2009-2012

- REFRESHED MTFP 2009-12
- BETTER INTEGRATED SERVICE/FINANCIAL PLANNING FOR 10/11 CYCLE
- DIRECTORATE PLANS
- STRATEGIC SERVICE PLANNING IMPROVED FOR 09/10 & 10/11
- OPERATIONAL PLANS
- PDRs

- FULL CYCLE OF CORPORATE DELIVERY BOARDS
- IMPROVED CORPORATE & DIRECTORATE PERFORMANCE MGMNT ARRANGEMENTS & REPORTING
- IMPROVED RISK MANAGEMENT OF KEY RISKS

- NEW ORGANISATIONAL ASSESSMENT COMPREHENSIVE AREA ASSESSMENT AUDIT & INSPECTION ARRANGEMENTS IN PLACE
- DELIVERY OF SERVING NOTTINGHAM BETTER IMPROVEMENT PROGRAMME
- UPDATED ANNUAL GOVERNANCE STATEMENT

The Financial Framework within the CIPPF

CATEGORY	OVERALL	REVENUE	CAPITAL	TREASURY MANAGEMENT	PROCUREMENT	RISK MANAGEMENT
Strategies	MTFS					
		Income Generation Strategy	Capital Strategy & AMP	Treasury Management Strategy	Procurement Strategy	Risk Management Framework
Guidance	CIPFA & technical guidance	Budget Guidelines	Capital Guidelines	CIPFA Code of Practice for TM	CIPS & Procurement Toolkit	Risk Management Policy and Guidance
Plans	MTFP	Annual Budget	Capital Programme & AMP	Treasury Policy Statement	Procurement Checklist	Risk Responses
Governance	Constitution	Budget Management & Control statements & Annual Governance Statement		Prudential Indicators & Annual Report	Contract & Finance Procedure Rules	Risk Register reporting and regular review
		Financial Regulations and Standing Orders				Audit Committee Reports & annual report
		Internal & External Audit Plans and our response to inspection and audit				

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 is 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 given the Committee an independent assurance in respect of the governance arrangements set in place by the Council. The culmination of this work is its Annual Audit and Inspection letter. In summary the results of this and other informative Audit Commission work in the year and the Committee considered findings including:

- An unqualified opinion given on the 2008/09 financial statements and no significant weaknesses were identified in the authority's control arrangements.
- Appropriate steps were being taken to balance the 2009/10 budget.
- Overall the organisation was performing well.
- The public interest report regarding the allocation of housing had been accepted by Council and would be the subject of further follow up work looking at the progress in implementing recommendations.
- Positive changes have been made to housing services, and significant government funding has been made to improve the quality of housing.
- The District Auditor is required to review whether the Council has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources. The District Auditor has provided an unqualified conclusion and there are no items to bring to councillors' attention.
- An Annual Report and SOA required for the Bridge Estate Charity, Highfields Leisure Park Trust and Harvey Hadden Stadium Trust.

D. Internal Audit

Rationale

One of the Committee's roles is to review and monitor the work of Internal Audit. 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 2003 (amended 2006) 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 Internal Audit 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 and be subject to regular review, and should be 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

Internal Audit (IA) is an integral part of the Council's Corporate Governance Framework and gives assurance complementing that given by external review agencies. An approved Internal Audit 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 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.

Internal Audit Coverage 2010/11
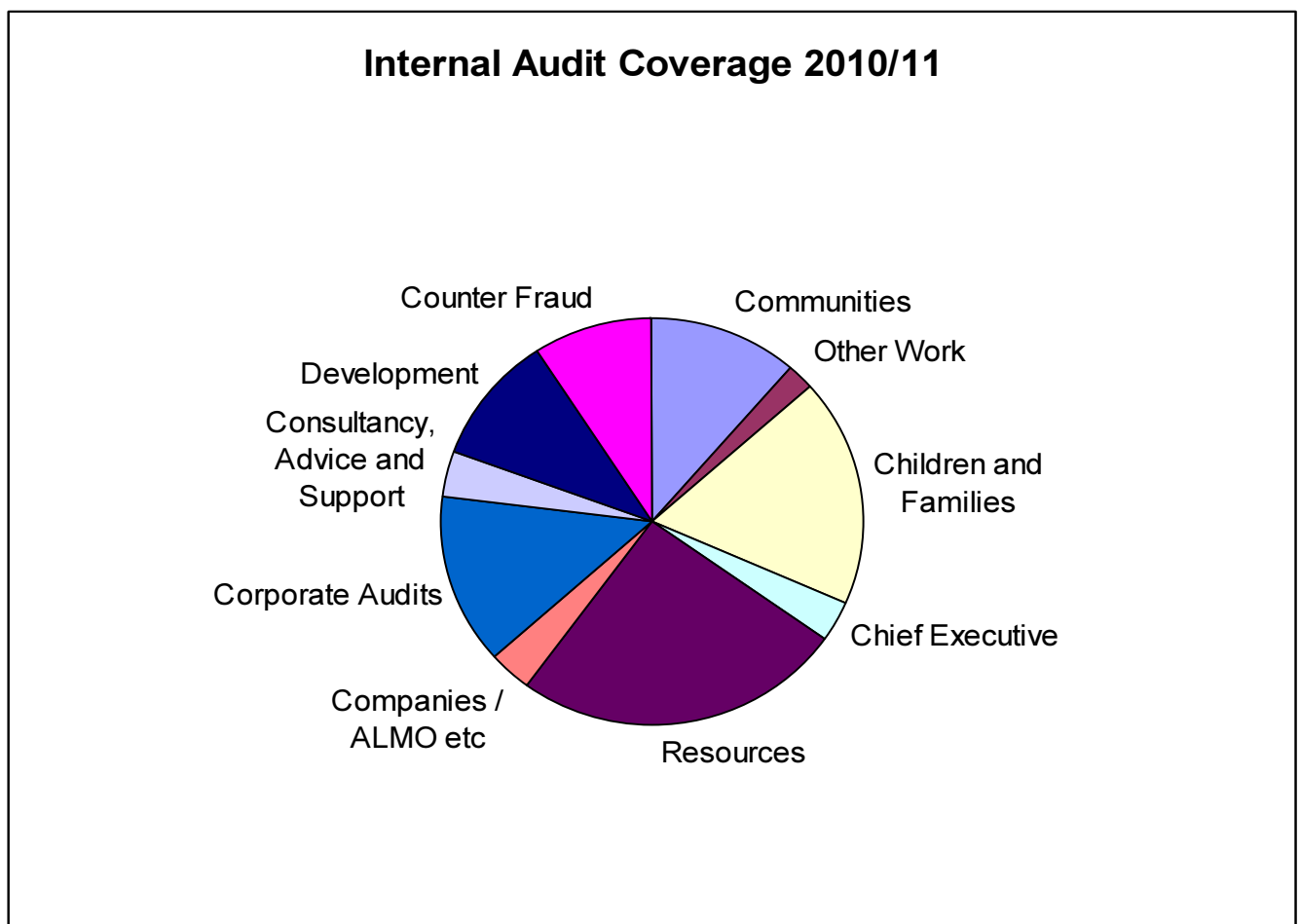
The Plan produced is geared to reflect risk to corporate objectives and includes an allocation of resources directed towards major corporate projects and emerging departmental risks. This resource is directed towards high risk areas and other corporate projects, and enables Corporate Directors to provide 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, particularly:

- The performance of the IA service against the annual plan in terms of number of days and balance and mix of the work.
- The nature, scope and quality of the work undertaken.
- The performance indicator results, including whether these indicators are appropriate and the targets sufficiently stretching.

Key performance indicators 2009/10

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

Table 1 Local Performance Indicators

		Target	Actual Year to 31/03/10	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	5	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%	94%	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	2009/10	
	All	**High**
Total recommendations made	440	163
Rejected	6	1
Total accepted	434	162

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 2003 (amended 2006) and associated regulations in respect of the provision of an internal audit service.

The Deputy Chief Executive & Corporate Director for Resources commissioned an independent review of the IA service. The review was to "establish the adequacy and effectiveness of the current arrangements for internal audit identify scope for improvement, alternative models of provision and value for money." The review found that the service substantially complied with the Code. At the same time the review identified scope for refocusing some of the work of the service and potential cost efficiencies.

D4. Internal Audit Annual Report

The Committee's terms of reference include 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, 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 within its associated partners.

The following diagram illustrates the assurance given to Corporate Directors during the year by IA. The level of assurance was high or significant in 64% of reports issued. No assurance was given in 3% of final reports and limited assurance in 33% of reports. The HoIA judged that the recommendations made and subsequent actions taken to address the issues identified was proportionate and timely enough to mitigate the risks involved.

Assurance Given in IA Reports

High

None

Significant

Limited
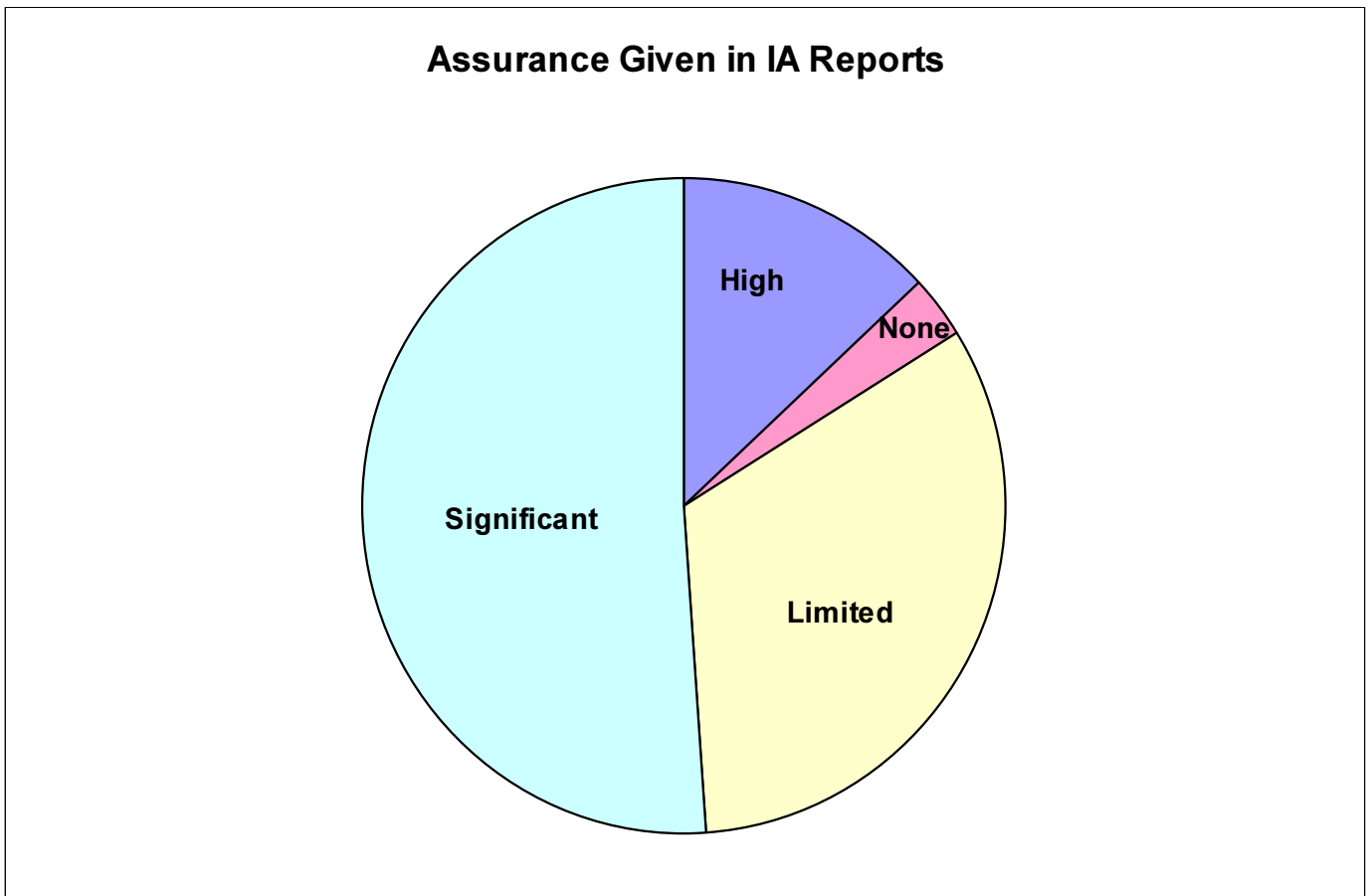
D5. Reports Selected

The critical appraisal of randomly selected Internal Audit 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 Internal Audit working practices. The Committee considered issues such as:

- How the audit was selected eg the risk assessment, the potential for fraud, previous track record of the service, frequency of the audit;
- Whether the audit coverage was appropriate, adequate and correctly focused;
- The time spent on the audit against the outcomes and findings;
- The quality of the IA report;
- The actual findings and the impact on the service and the Council overall;
- The service's response to the audit recommendations;
- The speed and robustness of the actions taken to address the recommendations.
- Whether there are any learning points or principles that could be applied in future audit or governance work.

D6. Counter Fraud

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 CPA Use of Resources framework emphasised the importance of counter fraud measures in the performance of local authorities.

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.

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 2003 (amended 2006). 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 25 September 2009. 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 2009/10 AGS.

Issues identified in the 2008/09 AGS have been revisited and an update of the latest position established. Issues updated were:

- Single Status
- Information and Communication Technologies
- Balancing the Council's Budget
- International Financial Reporting Standards
- Icelandic Banks
- Public Interest Report

Issues resolved, previously reported in the AGS, were as follows:

- Safeguarding;
- Management development;
- Councillor/colleague relationships;
- Comprehensive improvement programme;
- Achievement of Nottingham City Homes of a two star performance rating.

New issues included in the 2009/10 AGS are risks relating to the Central Review of Local Government Funding, Accounts Payable controls, numbers of children in care, potential over-claim of 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. The SOA must be prepared in accordance with all legislative requirements and professional best practice, and be 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 audit of the SOA for 2005/06, 2006/07 and 2007/08 could not be concluded or an audit certificate awarded whilst objections and investigations, relating to the allocation of housing to tenants between 2003 and 2005, were still outstanding. This work has now concluded and a Public Interest Report has been issued. Further to the resolution of these issues the Council re-presented these Statements to the Audit Commission who concluded that they provide a fair view and no events required adjustment of, or disclosure in, the financial statements.

The 2008/09 SOA was approved by the Committee and the Audit Commission audit found no significant problems and the Committee has been informed of the development of the 2009/10 SOA.

E3. 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

There were two issues to note in this year's report. There were fewer initial enquiries that the Ombudsman felt necessitated investigation which indicated that Council is improving its service to its citizens. However, the introduction of a new process for handling investigations had led to an increase in the time taken to process them. A computerised system is being procured to address the issues experienced.

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 treasury management function is governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the Council must have regard to the CIPFA Prudential Code and the CIPFA Code of Practice.

The Council retains external advisors to provide additional input on treasury management matters. The service provided includes economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy, creditworthiness, credit ratings and other counterparty criteria and technical assistance on other related matters, as required.

In October 2008, as a consequence of the global financial crisis, the Icelandic banking system collapsed, with four of its banks going into administration. This impacted directly on the Council, which had a total of £41.6m invested with three of the banks involved, at the time of the collapse. Since this time the treasury management process has been strengthened. The Council continues to work closely with the Local Government Association in seeking the repayment of the sums invested in the failed Icelandic Banks.

E5. Proper and Statutory Officers

Rationale

As part of the governance framework, the Council formally allocates responsibility for some of its actions to named individuals. Legislation identifies colleagues designated to undertake work on behalf of the authority as 'proper officers'. It is important that theses roles are unambiguous and understood by all those charged with governance responsibility.

Summary of Work

Statutory officers are those proper officers who are allocated specific roles incorporated in legislation. In order to understand the role of these colleagues in the governance framework, their roles and responsibilities should be made clear and understood by councillors on the Committee and all interested parties. **Table 3** summarises the three key roles undertaken.

Table 3 Key Statutory Officers

Statute Reference	Council Colleague Responsible	Role
Head of Paid Service, under Section 4 Local Government & Housing Act 1989	Chief Executive	The Head of Paid Service is required to report to Council on matters broadly related to staffing including co-ordination, numbers and grades, appointments and management issues.
Officer responsible for the financial affairs of the Council, under Section 151 Local Government Act 1972 (the S151 Officer)	Deputy Chief Executive & Corporate Director for Resources	The S151 Officer, also known as the Chief Finance Officer (CFO), has a number of statutory duties, including reporting any unlawful financial activity involving the authority (past, present or proposed) or failure to set up or keep to a balanced budget and to maintain an adequate Internal Audit service.
Monitoring Officer, under Section 5 Local Government & Housing Act 1989	Director Legal & Democratic Services & Monitoring Officer	The Monitoring Officer is required to prepare a report to Council where it appears to him/her that the authority has or is about to do anything which would be in contravention of the law or which would constitute mal-administration.

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

TITLE	Audit Committee
POWERS/REMIT	**<u>AUDIT COMMITTEE (8) – 6:1:1</u>** **<u>Terms of Reference</u>** 1 The main purposes of the Committee are to: (1) provide assurance of the adequacy of the Risk Management Framework and the associated control environment; (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; (3) oversee the financial reporting process; (4) approve the Council's Statement of Accounts, both "subject to audit" and the final document. 2 Its functions include the following: (1) reviewing the mechanisms for the assessment and management of risk; (2) approving the Council's statement of accounts, both "subject to audit" and the final document; (3) receiving the Council's reports on the Statement on Internal Control and the Annual Governance Statement and recommending their adoption; (4) approving Internal Audit's strategy, planning and monitoring performance; (5) receiving the Annual Report and other reports on the work of internal Audit; (6) considering the external auditor's annual letter, relevant

| | reports and the report to those charged with governance;

(7) considering arrangements for and the merits of operating quality assurance and performance management processes;

(8) considering the exercise of officers statutory responsibilities and of functions delegated to officers;

(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. |

Cross reference of the annual work programme to the Committee's terms of reference by main purpose and function.

REPORT TITLE	Cross reference to Appendix A TOR	Cross reference to Appendix A Function
Audit Committee training activity	2	5
Review of the Council's integrated planning and performance framework	2	7
Risk Management Annual Report 2008/09	1	1
Risk Management Strategy / Framework	1	1
Risk Management quarterly report	1	1
Internal Audit Annual Report	2	5
Internal Audit Annual Plan 2008/9 & Strategic Plan to 2010/11	2	4
Internal Audit Quarterly Performance & Activity	2	5
Internal Audit Selected for Examination - quality control	2	5
Internal Audit Charter	2	4
Counter Fraud Strategy	2	5
Corporate Governance and Annual Governance Statement	4	3
AGS 2008/09 six-monthly update and progress	4	3
Approve City Council 2008/09 Statement of Accounts subject to audit	4	2
Approve City Council 2008/09 Statement of Accounts following audit	4	2
Audit Commission report to those charged with governance	2	5
Audit Commission audit and inspection letter	4	6
Council's action plan arising from AAIL	2	6
Audit Commission specific and other inspectorate reports	2	8
Audit Commission regular update / statement of audit progress	4	6, 7, 9
Annual review and report on officers' statutory responsibilities	3	8
Standards Board Annual Report	2	8
Whistleblowing Policy & Activity – Annual Report	2	8

REPORT TITLE	Cross reference to Appendix A TOR	Cross reference to Appendix A Function
Information Governance / Data Security Update	2	1
Ombudsman's Annual Letter and action plan	2	6
Treasury Management Strategy and Key Issues Update	2	8