

## ANNUAL REPORT OF AUDIT COMMITTEE: CONTROL SELF-CERTIFICATION AND INTERNAL REPORTING

Report of the Chair of Audit Committee

### 1. SUMMARY OF REPORT

To discharge the Committee's responsibilities to report to the Board on the effectiveness of internal control systems during the year to 31 March 2007.

### 2. RECOMMENDATION

- 2.1 That the Board notes this report, and approves the statement on internal controls assurance within the Report of the Directors on the financial statements for the year to 31 March 2007.
- 2.2 Authorise the Chair of Derby Homes to sign the Control Self Certification and Internal Reporting statement. A copy of the wording is attached to the report in Appendix 1.

### 3. MATTER FOR CONSIDERATION

- 3.1 The Board has delegated to the Audit Committee the task of appraising internal control systems and providing an annual report to the Board. This takes the form of a recommendation to adopt wording within the published financial statements under the heading 'Internal Controls Assurance'. The financial statements form a part of the agenda for the Board meeting considering this report, and therefore the text is not repeated here.
- 3.2 In July 2006 Councilor Bob Troup raised an objection to the wording to be included in the Statement of Internal Control for the year ended 31 March 2006. Councilor Troup thought the statement should include a positive statement from the Board on the adequacy of the effectiveness of internal controls.

To resolve this, the Chair of Audit Committee consulted with the external auditor, Price WaterhouseCoopers (PWC), and on reflection decided not to include a positive comment in the statement. He also committed Audit Committee discuss the inclusion of a positive comment for future years' accounts.

On 8 March 2007 Audit Committee considered a report on whether or not to include a positive statement in the wording of the Statement of Internal Control for 2006/7. Below is an extract from the minutes of the meeting:

## **07/10 Statement of Internal Control**

The Committee received a report prompting discussion among members regarding the intention for the Statement of Internal Control for 2006/07.

Hamid Ghafoor and Roger Merchant of PKF were invited to comment. They advised that in their experience Committee members needed a high degree of comfort before they were able to make a positive statement. It would be a good endorsement if Committee were able to make a positive statement.

Some Committee members thought there should be a transition period before they endorsed a positive statement and they would consider the matter again in 12 months time.

### **Agreed**

The Committee decided the Statement of Internal Control for 2006/07 should not include a positive statement.

## **3.3 Review and update on weaknesses identified in 2005/6 statement on control self certification and internal reporting**

Three areas of weakness were identified for improvement as follows:

- introducing an annual process for updating Director's interest records
- reviewing the communication and liaison between officers and Board members in respect of Risk Management Action Plans
- reviewing and clarifying the role of Audit Committee in the Risk Management strategy for the Company.

### **UPDATING DIRECTOR'S INTEREST RECORDS**

A report is due on the agenda of the Board meeting on 27 July 2007 proposing the introduction of an annual updating process for Director's interests.

### **RISK MANAGEMENT**

A review of the Company Risk Strategy and management process was conducted by the Governance Review Committee on 6 November 2006. Recommendations from the review were submitted to and approved by the Board on 30 November 2006. The revised strategy and management process is as follows:

- there will be a separation of the risk register between strategic risks and operational risks

- the Performance Management Committee will oversee the achievement of the strategic risks, by exception reporting
- the strategic risks will be based on the 7 strategic aims of Derby Homes
- the Senior Management Team will review and manage operational risks, and the day to day operation of strategic risks, with exception reports of strategic risks made to the Performance Management Committee
- the current practice of having named Board members allocated to each risk is discontinued.

3.4 At its meeting on 9 July 2007, the Committee considered evidence on internal control systems comprising:

1. a report from the Chief Executive on behalf of the Senior Management Team including a compliance statement which confirms they are unaware of any significant, material breaches or failures in the systems of internal control operated by the Company during the period from 1 April 2006 to 26 June 2007
2. internal auditors' reports on specific areas, and an annual report
3. the external auditors' draft management letters and presentation, which addressed control issues among other things
4. the Committee also met in private session with the external auditors.

3.5 In light of this evidence and enquiries made of officers at the meeting, the Committee recommends the Board approve the statement 'Internal Controls Assurance' contained in the Report of the Directors at the front of the financial statements for 31 March 2007 elsewhere on this agenda.

**The areas listed below have no implications directly arising from this report**

- Consultation
- Financial and Business Plan
- Legal and Confidentiality
- Personnel
- Environmental
- Equalities Impact Assessment
- Health & Safety

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**Background Information:** None

**Supporting Information:** None.