

ANNUAL REPORT OF AUDIT COMMITTEE: INTERNAL CONTROLS

Report of the Director & Company Secretary

1. SUMMARY

To discharge the Committee's responsibility to report to the Board on the effectiveness of internal control systems during the year to 31 March 2010.

2. RECOMMENDATION

That the Board

1. 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 2010
2. authorises the Chair of Derby Homes to sign the Control Self Certification and Internal Reporting statement. A copy of the wording is attached at 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 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 **Review and update on weaknesses identified in 2008/09 statement on control self certification and internal reporting**

An area of weakness was identified for improvement as follows:

- The delayed and protracted implementation of internal audit recommendations.

Audit Committee receives updates on the progress of implementing internal audit recommendations at most meetings. They have also requested attendance of the lead officers responsible for implementing recommendations, at Audit Committee meetings. A new operational risk 14 has been created specifically relating to implementation of internal audit recommendations. However, it is too soon to report an improvement in this area of weakness so it is proposed to carry forward this weakness and report on it again in 2011.

- 3.3 At its meeting on 5 July 2010, Audit Committee considered evidence on internal control systems comprising:
1. a report from the Chief Executive on behalf of the Senior Management Team
 2. internal auditor's reports on specific areas, and an annual report
 3. the external auditor's draft management letters and presentation, which addressed control issues among other things
 4. the Committee also met in private session with the external auditors.
- 3.4 In light of this evidence and enquiries made of officers at the meeting, the Committee recommends the Board approves the statement 'Internal Controls Assurance' contained in the Report of the Directors at the front of the financial statements for 31 March 2010 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
- Risk
- Policy Review

If Board members or others would like to discuss this report ahead of the meeting please contact the author, or the Chief Executive, phil.davies@derbyhomes.org - Tel 01332 711010

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Background Information: None.

Supporting Information: None.

STATEMENT ON CONTROL SELF CERTIFICATION AND INTERNAL REPORTING

This statement is given in respect of the financial accounts for Derby Homes Limited. We acknowledge our responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned.

The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Ongoing development and maintenance of the system is undertaken by managers within the Company. In particular, the system includes:

- corporate governance arrangements operated through the Board and Committees
- standing orders and financial regulations
- an ongoing process for identifying, evaluating and managing significant risks faced by the Company
- comprehensive budgeting systems
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- setting targets to measure financial and other performance; and
- the preparation of regular financial reports which indicate actual expenditure against the forecasts; and
- other performance measures including performance information and BVPI reporting.

The Company procures internal audit services from Derby City Council. Internal audit's work is based on a risk assessment and complies with the CIPFA code of practice for internal audit. The Head of Audit and Risk Management reports the results of internal audit work to the Director and Company Secretary, and the Audit Committee. The Head of Audit and Risk Management also provides an independent opinion on the adequacy and effectiveness of the system of internal financial control.

Our review of the effectiveness of the system of internal financial control is informed by:

- the work of managers within the Company;
- the work of the internal auditors as described above; and
- the external auditors in their reports.

STATEMENT ON CONTROL SELF CERTIFICATION AND INTERNAL REPORTING

The Audit Committee has received the Chief Executive's annual report on internal control assurance on behalf of the Senior Management Team and has conducted its review of the effectiveness of the system of internal financial control. This review has included consideration of any changes needed to maintain the effectiveness of the risk management and control process.

A weakness has been identified in the systems in place and corrective action will be undertaken to further develop systems in relation to:

- The delayed and protracted implementation of internal audit recommendations

(Signed)

(on behalf of the Board)

(Dated) 29 July 2010