



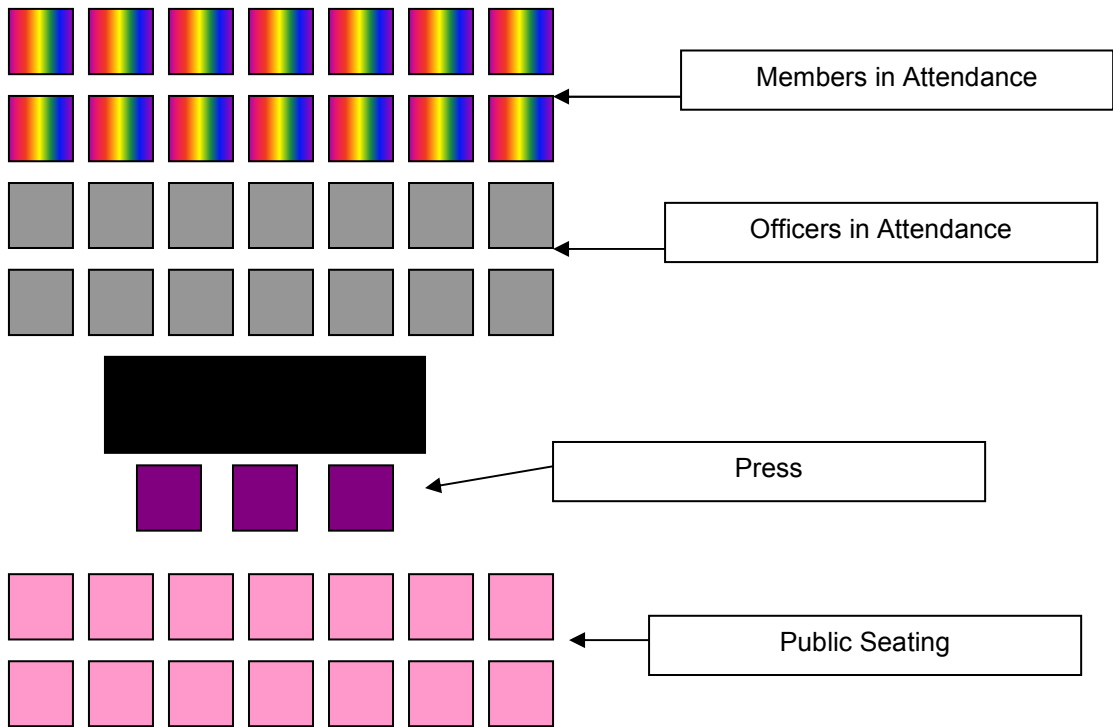
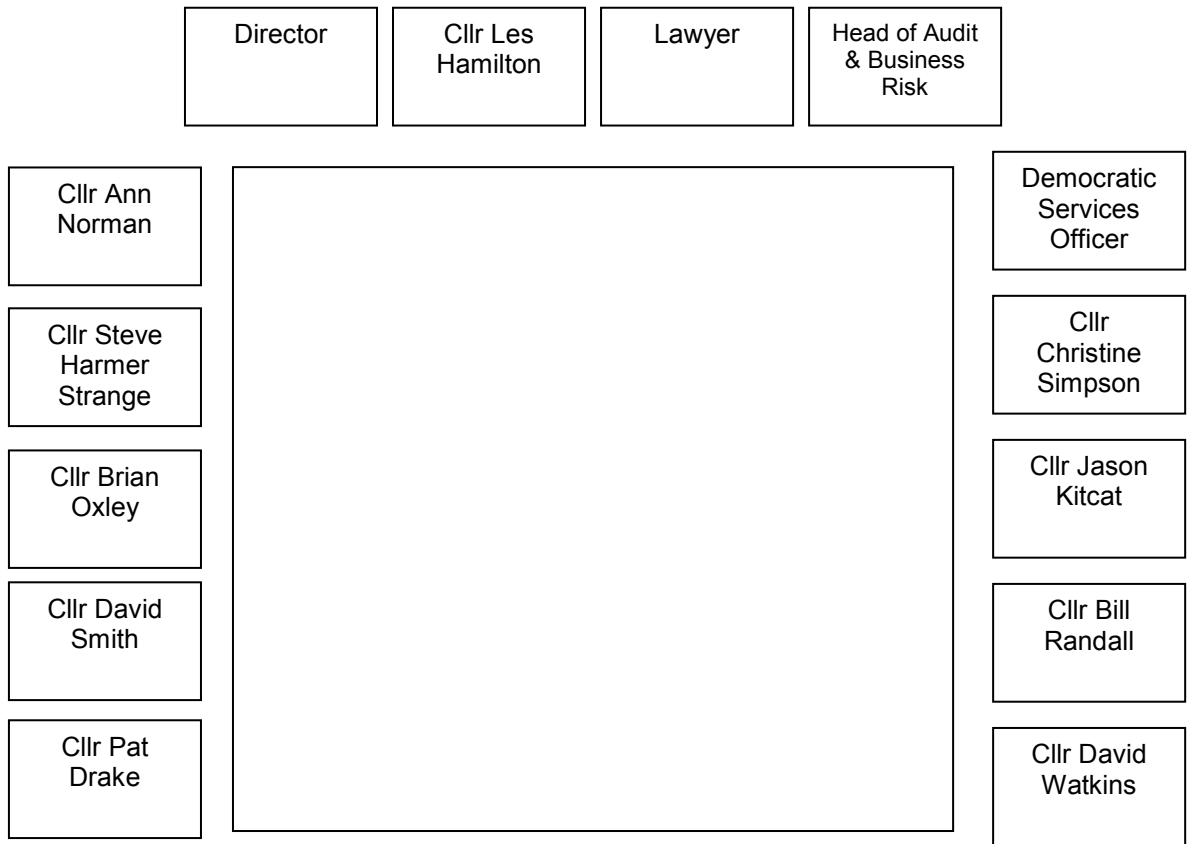
**Brighton & Hove
City Council**

Audit Committee

Title:	Audit Committee
Date:	28 September 2010
Time:	4.00pm
Venue	Committee Room 1, Hove Town Hall
Members:	Councillors: Hamilton (Chairman), Watkins (Deputy Chairman), Drake, Harmer-Strange, Kitcat, A Norman, Oxley, Randall, Simpson and Smith
Contact:	John Peel Democratic Services Officer 01273 291058 john.peel@brighton-hove.gov.uk

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Democratic Services: Meeting Layout



AGENDA

22. PROCEDURAL BUSINESS

- (a) Declaration of Substitutes - Where Councillors are unable to attend a meeting, a substitute Member from the same Political Group may attend, speak and vote in their place for that meeting.
- (b) Declarations of Interest by all Members present of any personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- (c) Exclusion of Press and Public - To consider whether, in view of the nature of the business to be transacted, or the nature of the proceedings, the press and public should be excluded from the meeting when any of the following items are under consideration.

NOTE: Any item appearing in Part 2 of the Agenda states in its heading the category under which the information disclosed in the report is exempt from disclosure and therefore not available to the public.

A list and description of the exempt categories is available for public inspection at Brighton and Hove Town Halls.

23. MINUTES OF THE PREVIOUS MEETING

1 - 8

Minutes of the previous meeting held on 29 June 2010 (copy attached).

24. CHAIRMAN'S COMMUNICATIONS

25. PETITIONS

No petitions received by date of publication.

26. PUBLIC QUESTIONS

The closing date for receipt of public questions was 12 noon on 20 September 2010.

No public questions were received by date of publication.

27. DEPUTATIONS

The closing date for receipt of deputations was 12 noon on 20 September 2010.

No deputations received by date of publication.

AUDIT COMMITTEE

28. WRITTEN QUESTIONS FROM COUNCILLORS

No written questions have been received.

29. LETTERS FROM COUNCILLORS

No letters have been received.

30. INTERNAL AUDIT PROGRESS REPORT 2010/11

9 - 14

Report of the Director of Finance & Resources (copy attached).

Contact Officer: Ian Withers

Tel: 29-1323

31. TARGETED BUDGET MANAGEMENT (TBM): MONTH 4 FOR INFORMATION

15 - 44

Report of the Director of Finance & Resources (copy attached).

Contact Officer: Patrick Rice

Tel: 29-1268

32. RISK AND OPPORTUNITY MANAGEMENT ANNUAL REPORT 2009/10 AND PROGRAMME 2010/11

45 - 56

Report of the Director of Finance & Resources (copy attached).

Contact Officer: Jackie Algar

Tel: 29-1273

33. AUDIT OF ACCOUNTS ENDED 31ST MARCH 2010: LETTER OF REPRESENTATION & STATEMENT OF ACCOUNTS UPDATE

57 - 66

Report of the Director of Finance & Resources (copy attached).

Contact Officer: Patrick Rice

Tel: 29-1268

34. AUDIT COMMISSION ANNUAL GOVERNANCE REPORT 2009/10

67 - 112

Report of the Audit Commission (copy attached).

35. AUDIT COMMISSION: ABOLITION OF THE AUDIT COMMISSION (VERBAL UPDATE)

Report of the Audit Commission

PART TWO ITEMS

36. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING- EXEMPT CATEGORY 3

113 -
114

Part Two Minutes of the previous meeting held on 29 June 2010 (copy attached).

AUDIT COMMITTEE

**37. CORPORATE RISK MANAGEMENT ACTION PLANS: CR15
EFFECTIVE PROCUREMENT PROCESS AND CO-ORDINATED
ORGANISATIONAL COMPLIANCE (VERBAL UPDATE)- EXEMPT
CATEGORY 3**

Report of the Director of Finance & Resources

Contact Officer: Jackie Algar Tel: 29-1273

**38. CORPORATE RISK MANAGEMENT ACTION PLANS: CR1- HOUSING
STOCK CONDITION (VERBAL UPDATE)- EXEMPT CATEGORY 3**

Report of the Director of Finance & Resources

Contact Officer: Jackie Algar Tel: 29-1273

**39. CORPORATE RISK MANAGEMENT ACTION PLANS: CR19- 115 -
EFFECTIVELY MANAGING TRANSFORMATION & CR20- 124
INFORMATION GOVERNANCE- EXEMPT CATEGORY 3**

Report of the Director of Finance & Resources (copy attached).

Contact Officer: Jackie Algar Tel: 29-1273

The City Council actively welcomes members of the public and the press to attend its meetings and holds as many of its meetings as possible in public. Provision is also made on the agendas for public questions to committees and details of how questions can be raised can be found on the website and/or on agendas for the meetings.

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For further details and general enquiries about this meeting contact Jane Clarke, (01273 291058, email john.peel@brighton-hove.gov.uk) or email democratic.services@brighton-hove.gov.uk

Date of Publication - Monday, 20 September 2010

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 29 JUNE 2010

COMMITTEE ROOM 1, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chairman), Watkins (Deputy Chairman), Drake, Kitcat, A Norman, Oxley, Randall, Simpson and Smith

PART ONE

1. PROCEDURAL BUSINESS

1a Declarations of Substitutes

1.1 There were none.

1b Declarations of Interest

1.2 Councillors Randall and Simpson declared a personal interest but not prejudicial interest on any matter regarding the Local Delivery Vehicle (LDV) due to their capacity as Board Members.

1c Exclusion of the Press and Public

1.3 In accordance with section 100A of the Local Government Act 1972 ('the Act'), the Audit Committee considered whether the press and public should be excluded from the meeting during an item of business on the grounds that it was likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the press or public were present during that item, there would be disclosure to them of confidential information (as defined in section 100A(3) of the Act) or exempt information (as defined in section 100I of the Act).

1.4 **RESOLVED-** That the press and public be excluded from the meeting during consideration of items 18, Non-Public Minutes of the Previous Meeting, item 19, Corporate Risk Management Action Plans Focus and item 20, Internal Audit Annual Report & Opinion- Audit Reviews Giving Limited Assurance as these items were exempt under Paragraph 3 of Schedule 12A of the 1972 Act (information relating to the financial or business affairs of the authority).

2. MINUTES OF THE PREVIOUS MEETING

- 2.1 **RESOLVED-** That the minutes of the previous meeting held on 18 May 2010 are approved and signed as the correct record.

3. CHAIRMAN'S COMMUNICATIONS

- 3.1 The Chairman welcomed the new Members to the Committee Councillor Drake and Norman and conveyed his apologies to relating to the unfortunate situation arising at the previous meeting whereby they received no notification of the meeting date.
- 3.2 The Chairman noted that apologies had been received from Paula Black, Catherine Vaughan and Councillor Harmer-Strange.
- 3.3 The Chairman informed the Committee that that the Addendum on the 'Review of the Effectiveness of the System of Internal Audit' would be considered as Item 15a and Item 14 'Audit Commission: Supplementary Opinion Audit Plan would be considered after Item 10 due to the similarity in the subject matter of the reports.

4. PUBLIC QUESTIONS

- 4.1 There were none.

5. WRITTEN QUESTIONS FROM COUNCILLORS

- 5.1 There were none.

6. DEPUTATIONS

- 6.1 There were none.

7. PETITIONS

- 7.1 There were none.

8. LETTERS FROM COUNCILLORS

- 8.1 There were none.

9. AUDIT COMMISSION: PROGRESS REPORT 2009/10

- 9.1 The Committee considered the Audit Commission's Progress Report. The purpose of the report was to update the Audit Committee on its progress as the Council's external auditor.
- 9.2 Councillor Kitcat conveyed his sadness on the decision of central government to finalise the work of the Comprehensive Area Assessment (CAA) which he believed to be a valuable tool of local government. He enquired if this decision would impact the audit fee set by the Audit Commission, if there was a contingency plan for the loss of the CAA and if its website would be continued in spite of this.
- 9.3 The District Auditor explained that there were three parts to the fee paid to the Audit Commission. The Area Assessment (1) which was grant funded, the Managing Performance Assessment (2) which had a set fee which would involve a payment. There was also the Organisation Assessment (3) for which some of the work had been completed but this element would be subject to consultation from central government to all local authorities which the District Auditor recommended the council produce feedback for. The District Auditor continued that despite the success of the CAA website, its future would depend upon the impending discussions on further discussion with central government.
- 9.4 **RESOLVED-** That the Audit Commission Progress Report be noted by the Committee.

10. AUDIT COMMITTEE ANNUAL REPORT

- 10.1 The Committee considered an annual report from Councillor Hamilton detailing the success, role and overall contribution to the council's governance of the Audit Committee for 2009/10. The report also detailed the future objectives and aims of the Audit Committee. Councillor Hamilton supplemented that he hoped this would be a good guide for Members not on the Committee.
- 10.2 Members noted several spelling and grammatical errors in the draft report.
- 10.3 The Lawyer suggested that 'to approve the annual governance statement and statement of accounts' be added to the Terms of Reference.
- 10.4 **RESOLVED-** That the Audit Committee Annual Report be agreed by the Committee subject to the noted amendments.

11. STATEMENT OF ACCOUNTS 2009/2010

- 11.1 The Committee considered a report of the Director of Finance and Resources on the Statement of Accounts for 2009/10. The report was introduced by the Acting Assistant of Financial Services who explained that the main changes in comparison with last years accounts had been explained at the previous Committee. He went on to elaborate that

the £9 million general fund contingency and the £3.5m Housing Revenue Account (HRA) reserve had been maintained and that overall council finances were stable.

- 11.2 The Chairman asked the Audit Commission if they would like to note their verdict of the Statement of Accounts. The Audit Commission responded that their initial verdict, before the audit process was that the accounts were of good quality.
- 11.3 Councillor Randall noted the increase in pension liability in item 8.3.9 and asked if this indicated there was a hole in the council's pension fund.
- 11.4 The Audit Commission stated that these figures were consistent with figures published by other public bodies.
- 11.5 Councillor Oxley and Watkins asked if a further report on this matter could be brought to a future meeting. The Chairman noted that the figures produced were twice the size of previous deficits and re-iterated the need for a future report to address this.
- 11.6 Councillor Oxley asked how employee pension contributions were managed.
- 11.7 The Acting Assistant Director of Financial Services responded that contributions from employees were relatively stable although there had been a recent 1% increase in contributions.
- 11.8 Councillor Randall asked how the employer contribution was funded. The Acting Assistant Director of Financial Services responded that there was no specific grant for pension contributions.
- 11.9 Councillor Kitcat and Watkins noted the changes underway in central government in particular proposals on the increase in the age of pension eligibility.
- 11.10 The Chairman asked for a report on the net affect on the council budget to be supplied at the next meeting.
- 11.11 **RESOLVED-** That the Statement of Accounts for 2009/10 be approved by the Committee.

12. ANNUAL GOVERNANCE STATEMENT

- 12.1 The Committee considered a report of the Director of Finance and Resources on the Annual Governance Statement for 2009/10. The report detailed a comprehensive assessment of the governance arrangements and the internal control environment across all activities of the council.

- 12.2 Councillor Oxley brought the Committee's attention to the good work carried out by Dignity at Work in reference to whistle blowing policy. He added that he had overseen a lot of work with the Governance Committee and felt this had resulted in a better policy.
- 12.3 Councillor Randall highlighted that the report recommended significant changes to procurement and contract management and asked for further information.
- 12.4 The Head of Audit & Business Risk responded that this risk was highlighted due to the introduction of a corporate procurement team and the proposed operational changes made under Intelligent Commissioning.
- 12.5 Members noted their concern with the assuredness of item five 'Review of Effectiveness'. They felt that some of the processes had not been fully achieved. Councillor Kitcat added that Citynews was not yet distributed to all residents.
- 12.6 Members highlighted spelling and grammatical errors in the document and the tight deadline for amendments with the report to be approved the next day. The District Auditor informed the Committee that some other councils table their Annual Governance Statement earlier in foresight of the need for changes to the draft.
- 12.7 **RESOLVED-** That the Annual Governance Statement is approved by the Committee.

13. ASSURANCE FROM THOSE CHARGED WITH GOVERNANCE

- 13.1 The Committee considered a letter to the Audit Commission from the Chairman of the Audit Committee in response to their letter of 18 May. The response set out the relevant assurances from those charged with governance required by external auditors under the International Auditing Standards.
- 13.2 **RESOVLED-** That the letter of assurance be noted.

14. AUDIT COMMISSION: SUPPLEMENTARY OPINION AUDIT PLAN 2009/10

- 14.1 The Committee considered a report of the Audit Commission informing the Committee on specific financial risks, the controls undertaken and their success and an update on the financial statements.
- 14.2 Councillor Randall asked why the accounting treatment for the waste management Private Finance Initiative (PFI) was identified as a "significant risk" in the 2010/11 opinion on the financial statements.
- 14.3 The Acting Assistant Director of Financial Services responded that specific information on this case could be found on pg37 item iv) of the agenda.
- 14.4 **RESOLVED-** That the Audit Commission Supplementary Opinion Audit Plan 2009/10 be noted by the Committee.

15. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2009/10

- 15.1 The Committee considered a report of the Director of Finance and Resources on the Internal Audit and Opinion Annual Report 2009/10. The report included opinion on the adequacy and effectiveness of the council's internal control environment, internal audit coverage and output for 2009/10 and internal audit performance 2009/10.
- 15.2 The Head of Internal Audit added that the number of limited assurances had increased and that the overall opinion was that of assurance.
- 15.3 **RESOLVED-** That the Internal Audit Annual Report and Opinion 2009/10 be noted by the Committee.

15 .1 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

- 15a.1 The Committee considered a report of the Director of Finance and Resources on the Review of the Effectiveness of the System of Internal Audit 2009/10.
- 15a.2 The Head of Audit & Business Risk noted that the Members nominated for the 2010/11 Review were Councillors Harmer-Strange and Kitcat.
- 15a.3 Councillor Randall asked if staff levels were still short in Internal Audit. The Head of Audit & Business Risk responded that they were but two posts were currently available; Audit Manager and Principal Auditor.
- 15a.4 **RESOLVED-** That the report on the Review of the Effectiveness of the system of Internal Audit be noted by the Committee.

16. TARGETED BUDGET MANAGEMENT PROVISIONAL OUTTURN 2009/10

- 16.1 The Committee considered a report of the Director of Finance and Resources on the provisional outturn position on the revenue and capital budgets for the financial year 2009/10.
- 16.2 **RESOVLED-** That the report on Targeted Budget Management Provisional Outturn 2009/10 is noted by the Committee.

17. RISK AND OPPORTUNITY MANAGEMENT (ROM) UPDATE- CORPORATE RISK REGISTER UPDATED MAY 2010

- 17.1 The Committee considered a report of the Director of Finance and Resources on the Risk and Opportunity Management (ROM) Update- Corporate Risk Register May 2010.
- 17.2 The Risk & Opportunity Manager informed the Committee that there were two new Risks: CR19 (Effectively Managing Transformation) and CR20 (Information Governance). There were also two Risks removed: CR11 (A Deserved Reputation for Excellence and a Staff Culture to Deliver) and CR14 (Equal Pay). The reasons for their withdrawal were outlined on page eleven of the appendix.
- 17.3 Councillor Kitcat asked how ownership of Risks would change under the proposals for Intelligent Commissioning. The Risk & Opportunity Manager responded that it was her understanding that there would be reports submitted to Governance Committee addressing this matter which would detail the roles and responsibilities based upon the new council constitution to be proposed.
- 17.4 Councillor Kitcat asked why CR20 (Information Governance) was now identified on the Corporate Risk Register. The Risk & Opportunity Manager clarified that it was important that Governance be continually monitored and assumed more importance during the period of structural change.
- 17.5 **RESOLVED-** That the Risk and Opportunity Management Update- Corporate Risk Register Update May 2010 be noted by the Committee.
- 18. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING- EXEMPT CATEGORY 3**
- 18.1 **RESOLVED-** That the Part Two minutes of the previous meeting held on 18 May 2010 be approved and signed as the correct record.
- 19. CORPORATE RISK MANAGEMENT ACTION PLANS FOCUS-EXEMPT CATEGORY 3**
- 19.8 **RESOLVED-** That the Corporate Risk Management Action Plans Focus and the matters arising be noted by the Committee.
- 20. INTERNAL AUDIT ANNUAL REPORT & OPINION 2009/10- AUDIT REVIEWS GIVING LIMITED ASSURANCE- EXEMPT CATEGORY 3**
- 20.1 **RESOLVED-** That the Internal Audit Report and Opinion 2009/10- Audit Reviews Giving Limited Assurance be noted by the Committee.
- 21. PART TWO ITEMS**

21.1 **RESOLVED-** That the above items remain exempt from disclosure from the press and public.

The meeting concluded at 5.52pm

Signed

Chair

Dated this

day of

Subject: Audit & Business Risk Progress Report
Date of Meeting: 28th September 2010
Report of: Director of Finance & Resources
Contact Officer: Name: Ian Withers Tel: 29-1323
E-mail: ian.withers@brighton-hove.gov.uk
Wards Affected:

FOR GENERAL RELEASE

1. Summary and Policy Context

- 1.1 This report summarises progress made against the Internal Audit Plan for 2010/11, provides the results from reviews completed for the year and reports the achievement against Internal Audit Key Performance Indicators.

2. Recommendation

- 2.1 That the Audit Committee notes the contents of this progress report, in particular the status of planned internal audit work for 2010/11.

3. Background Information

- 3.1 The Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) Regulations 2006), require every local authority to maintain an adequate and effective system of internal audit. Audit & Business Risk carries out the internal audit work to satisfy this legislative requirement and part of this is reporting the outcome of its work to the Audit Committee.
- 3.2 The Audit Committee has a responsibility for reviewing the council's corporate governance arrangements, including internal control and formally approving the Annual Governance Statement. The internal audit work carried out by Audit & Business Risk is a key source of assurance that the internal control environment is operating effectively.
- 3.3 The audits contained in the Internal Audit Plan 2010/11 are based on an assessment of risk for each system or operational area. The assessment of risk includes elements such as the level of corporate importance, materiality, service delivery/importance and sensitivity.

3.4 The outcome of all audit work is discussed and agreed with the lead service managers. The final reports that include agreed actions to audit recommendations made, are issued to the responsible Director.

5. Progress against the Internal Audit Plan 2010/11

5.1 The progress against the amended Internal Audit Plan for 2010/11 for audit reviews is summarised in Table 2 below.

Table 1: Summary of progress against Internal Audit Plan 2010/11

Audit Stage	Explanation	No.	%
Not Started	Planned but not started	61	53
Fieldwork	In progress (Interviews, documenting, evaluating and testing of risks and controls)	29	26
Draft Report	Draft audit report issued and being agreed with client	12	11
Final Report	Final agreed audit issued and audit complete	11	10
		113	100

5.2 There has been an impact on the achievement of the Annual Internal Audit Plan so far this year due to two posts being vacant within the team. Like many local authority internal audit teams, there is a reasonable level of staff turnover together with a market shortage of internal auditors. We have recently been successful in recruiting to the vacant posts of Audit Manager and Principal Auditor.

5.3 To ensure achievement of the Internal Audit Plan we are also in the process of agreeing to outsource a number of audit reviews for the remainder of the year to Deloitte & Touche under a framework contract with the London Borough of Croydon.

5.4 During the first quarter we had a higher than normal level of residual work from 2009/10 for completion, due to delays on certain audit reviews and completion of certain fundamental systems audit reviews.

5.5 We are confident in completing the Internal Audit Plan for 2010/11. This is however a dynamic plan and subject to change to address emerging risks and issues facing the council. . A further progress report to the December meeting of this committee will include any amendments and reasons.

6. Final Audit Reports Issued

6.1 During the period, eleven audit reviews have been completed to final report stage. These are shown in table 2 below which includes the assurance levels given and number of agreed actions under assigned priority level.

6.2 Audit reports are issued as final where their contents have been agreed with client management, in particular management actions with responsibility and timescale. The audit is then effectively closed except for the scheduled implementation review of agreed actions.

Table 2: Final Reports Issued

Audit	Report Status	Assurance Level	Agreed Actions and Priority		
			High	Medium	Low
Records Management – Cross Cutting	Final	Limited	2	11	0
Energy Contracts	Final	Limited	2	14	1
Leisure Management Contract	Final	Reasonable	0	11	3
Housing Tenancy Verification	Final	Limited	0	10	8
Leasehold Service Charges	Final	Substantial	0	1	6
Local Land Charges	Final	Substantial	0	1	1
Registrars' Service	Final	Limited	1	6	3
Transport Management – Adult Social Care	Final	Reasonable	0	6	1
Implementation of iTrent – Parallel Run Testing	Final	Reasonable	0	4	0
Annual Governance Statement	Final	-	-	-	-
Grants to Voluntary Organisations	Final	Substantial	0	4	1

6.3 The statement on the level of assurance on the effectiveness of internal controls and mitigation of risks, for each audit is a best practice requirement. Members should also note that the assurance levels assigned and agreed are subjective and based on materiality and significance. They often therefore have no direct relationship with the number of agreed actions to recommendations made.

6.4 There are currently five levels of audit assurance used and these are summarised as follows:

FULL	There is a sound system of internal control designed to achieve system and service objectives. All major risks have been identified and managed effectively.
SUBSTANTIAL	Whilst there is basically a sound system of internal control, there are weaknesses that put system objectives at risk.
REASONABLE	Controls are in place but there are gaps in the process. There is therefore a need to introduce additional controls.
LIMITED	Weaknesses in the system of control and /or level of compliance are such to put the system objectives at risk.
NO	Control is significantly weak or non existent leaving the system open to high level of risk from abuse, fraud and error.

7. Advice and Support Corporate and Directorates

- 7.1 We have continued to be pragmatic in providing professional proactive advice and this element of our work is seen as invaluable both corporately and by directorates, particularly in areas of change management. By taking this proactive approach, often problems and risks to the council can be avoided.
- 7.2 It is good to report a continuing high level of engagement for advice and information across the council. Areas include iTrent (HR and Payroll) implementation, equal pay, contract management, information security and schools.

8. Counter Fraud Work

- 8.1 Since April 2010 eighteen new cases suspected irregularities have been referred to Audit & Business Risk and investigated.
- 8.2 We have been completing a major review of Fraud Risk and Measurement with Deloitte & Touche and this is likely to be reported to the next Audit Committee meeting in December.
- 8.3 We have been completing the National Fraud Initiative (NFI) exercise 2009/10 and savings continue to increase. We are currently preparing for the next exercise which will include additional data sets.

9. Implications for Governance

- 9.1 No control weaknesses have been identified from the audits completed or the irregularities investigated in the current financial year, considered to have a significant impact on the governance of the council.

10. Performance of Audit & Business Risk

- 10.1 To achieve planned coverage and deliver a high quality service we have well established performance indicators, agreed annually as part of the Annual Internal Audit Plan. These are also included in our Service Business Plan and monitored regularly. Table 4 provides an overview of the performance of Audit & Business Risk against the key targets set.

Table 3: Performance against targets

Performance Indicators	Target for Year	Actual to Date
Effectiveness		
% of recommendations agreed	98%	100%
% implementation of agreed management actions	85%	87%
Efficiency		
% of planned direct days delivered for year	100%	34%
% of productive time	71%	75%
Achievement of Annual Internal Audit Plan *	100%	10%
% of draft reports issued within 10 days of fieldwork completion	90%	100%
% response by client to draft reports within 15 days	90%	100%
% of issue of final reports within 10 days of agreement	95%	100%
Quality of Service		
% of customer satisfaction feedback in very good or good	90%	100%

* Achievement of Annual Internal Audit Plan based on final reports issued

10.2 The results from the recent CIPFA Audit Benchmarking exercise were very favourable in comparing our internal audit service with that of other unitary local authorities, in particular the cost per day, productivity and coverage. These will be reported in more detail as part of the effectiveness of review of internal audit.

11. FINANCIAL & OTHER IMPLICATIONS:

11.1 Financial Implications:

The Internal Audit Plan for 2010/11 will be delivered within existing budgetary resources. Any reduction in internal audit work would have a negative impact on for example financial probity and value for money. This in turn would have a negative impact on the council's finances through increased financial risk.

Patrick Rice
Acting Assistant Director Financial Services

16th September 2010

11.2 Legal Implications:

Regulation 6 of The Accounts & Audit Regulations 2003 require the Council to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. It is a legitimate part of the Audit Committee's role to review the level of work completed and planned by internal audit.

Oliver Dixon
Lawyer

16th September 2010

- 11.3 Equalities Implications:
There are no direct equalities implications arising directly from this report
- 11.4 Sustainability Implications:
There are no direct sustainability implications arising from this report.
- 11.5 Crime & Disorder Implications:
There no direct implications for the prevention of crime and disorder arising from this report.
- 11.6 Risk and Opportunity Management Implications:
The Internal Audit Plan and its outcome is a key part of the Council's risk management process. The internal audit planning methodology is based on risk assessments that include the use of the council's risk registers.
- 11.7 Corporate / Citywide Implications:
Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Background Documents

1. Annual Internal Audit Plan 2010/11
2. Code of Practice for Internal Audit in Local Government (CIPFA) 2006
3. Accounts & Audit Regulations 2003 (Amended 2006)

AUDIT COMMITTEE

Agenda Item 31

Brighton & Hove City Council

Subject:	Targeted Budget Management (TBM) 2010/11		
Date of Meeting:	23 September 2010 (Cabinet)		
Report of:	Director of Finance & Resources		
Contact Officer:	Name:	Patrick Rice	Tel: 29-1333
	E-mail:	Patrick.rice@brighton-hove.gov.uk	
Key Decision:	Yes	Forward Plan No.	
Wards Affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

1.1 This report sets out the revenue and capital forecast outturn position as at month 4.

2. RECOMMENDATIONS:

- (1) That the Cabinet note the provisional outturn position for the General Fund.
- (2) That the Cabinet note the provisional outturn for the Section 75 Partnerships and Housing Revenue Account (HRA) for 2010/11.
- (3) Approve the changes to the capital programme, as set out in appendices 3, 4, and 5.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 The table below shows the provisional outturn position for council controlled budgets within the General Fund and the outturn on NHS managed S75 Partnership Services.

Forecast Outturn Month 2 £'000	Directorate	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
413	Adult Social Care	36,304	36,616	312	0.9%
781	S75 Learning Disability Services	23,200	23,826	626	2.7%
2,791	Children & Young People's Trust	50,620	52,273	1,653	3.3%
(8)	Finance & Resources	18,826	18,477	(349)	-1.9%
-	Strategy & Governance	12,005	12,120	115	1.0%
517	Environment	37,326	38,123	797	2.1%
-	Housing, Culture & Enterprise	16,557	16,606	49	0.3%
4,494	Sub Total	194,838	198,041	3,203	1.6%
(2,125)	Centrally Managed Budgets	27,134	24,719	(2,415)	-8.9%
2,369	Total Council Controlled Budgets	221,972	222,760	788	0.4%
225	NHS Trust managed S75 Servs	12,328	12,742	414	3.4%
2,594	Total Overall Position	234,300	235,502	1,202	0.5%

- 3.2 The Total Council Controlled Budgets line in the above table represents the total current forecast risk to the council's General Fund. This includes all directorate budgets, centrally managed budgets and council-managed Section 75 services. The NHS Trust-managed Section 75 Services line represents those services for which local NHS Trusts act as the Host Provider under Section 75 Agreements. Services are managed by Sussex Partnership Trust and South Downs Health Trust and include health and social care services for Adult Mental Health, Older People Mental Health, Substance Misuse, AIDS/HIV, Intermediate Care and Community Equipment. The financial risk for these services generally lies with the relevant provider Trust. The forecast outturn on the HRA is as follows:

Forecast Outturn Month 2 £'000	Housing Revenue Account	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Variance Month 4 %
(104)	Expenditure	48,202	47,988	(214)	-0.4%
104	Income	(48,202)	(47,950)	252	0.5%
-	Total	-	38	38	

Corporate Critical Budgets

- 3.3 Targeted Budget Management (TBM) is based on the principles that effective financial monitoring of all budgets is important. However, there are a small number of budgets with the potential to have a material impact on the council's overall financial position. These are significant budgets where demand or activity is difficult to predict with certainty and where relatively small changes in demand can have significant financial implications for the council's budget strategy. These therefore undergo more frequent, timely and detailed analysis. Set out below is the forecast outturn position on the corporate critical budgets.

Forecast Outturn Month 2 £'000	Corporate Critical	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
2,156	Child Agency & In House	22,332	23,693	1,361	6.1%
467	Sustainable Transport	(1,362)	(956)	406	29.8%
(350)	Housing Benefits	175,500	175,150	(350)	-0.2%
-	Concessionary Fares	7,712	7,552	(160)	-2.1%
303	Community Care	23,125	23,378	253	1.1%
781	Section 75 Learning Disabilities	23,200	23,826	626	2.7%
3,357	Total Council Controlled	250,507	252,643	2,136	1.0%
225	S75 NHS & Community Care	12,328	12,742	414	3.4%
3,582	Total Corporate Criticals	262,835	265,385	2,550	1.0%

Value for Money Programme - Update

3.4 Efficiency savings (benefits realisation) from the council's six priority value for money projects for 2010/11 are fully incorporated in the above TBM forecast and Appendix 1. The savings planned from the Value for Money Programme over the next 4 years were set out in the 'Budget Process & Budget Update' report to Cabinet on 22 July 2010. The six priority areas are:

- **Adult Services** – introducing new models of delivery and 'Personalisation' for greater choice (e.g. Personal Budgets);
- **CYPT** – improving prevention, planning and delivery of care;
- **ICT** – improving investment decisions and reducing infrastructure costs;
- **Procurement** – making the best use of the council's buying power;
- **Sustainable Transport, Fleet and Outdoor Events** – reducing costs by organising and procuring services and fleet more efficiently;
- **Workstyles** – making more efficient use of our property estate by improving office working environments and using new IT to enable more flexible and mobile working.

3.5 Services have re-prioritised existing staffing and resources to ensure effective support for the delivery and implementation of these projects. The projects also include other 'invest-to-save' resources and costs where these are essential to lever in the substantial value for money gains. Some of these are funded from external sources, for example, the Adult Social Care Personalisation project is substantially supported by government Social Care Reform Grant in 2010/11.

3.6 Progress on individual projects to date is as follows:

Adult Social Care:

- Casework continues to be processed through the Resource Allocation System (RAS) which is now used to identify indicative allocations for Self-directed Support (e.g. Personal Budgets).
- A new RAS has been developed (SCAN) to manage low level needs cases.
- Market development continues with partners to improve the range of care and support (e.g. Personal Assistants) for those people taking up Self-directed Support.

CYPT:

- An increased number of cases are being processed through the Common Assessment Framework (CAF) to ensure that universal services and other interventions provide more cost effective care packages commensurate with needs.
- An auditing tool has been developed to provide quality assurance on CAF reviews.

ICT

- Business Engagement Manager roles have been established to improve business case development for new ICT investment decisions across the council;
- Development of Service Level Agreements are underway to ensure appropriate allocation of staffing and resources to systems and services;
- Comprehensive applications and contracts registers have now been set up to enable a review of system rationalisation possibilities. This is alongside the deployment of software to accurately assess levels of application usage;
- Exploring development of a strategic approach to EDRM (electronic document management).

Procurement

- Two 'invest-to-save' short term Category Managers have now been engaged (Fleet and ICT) to ensure delivery of procurement savings;
- A new procurement governance process has been developed to ensure tighter controls over procurement activity.

Sustainable Transport, Fleet and Outdoor Events

- Centralised Vehicle Replacement Programmes are being developed with CYPT and Adult Social Care to maximise fleet procurement, management and usage efficiencies.
- A review of commercial opportunities for increasing fees from outdoor events is now underway.

Workstyles

- Plans for the new Customer Service Centre and changes to office accommodation in Bartholomew House are progressing well and will enable the move of staff from Priory House through better flexible working arrangements and IT and will release substantial efficiency savings (i.e. reduced lease rentals).
- A strategic review of all of the council's operational property portfolio has been completed and is now being consulted on.

Capital Budget 2010/11

- 3.7 This part of the report details the expected capital programme outturn for 2010/11, highlights any programme slippage, details new schemes and budget changes and seeks approval for slippage to the 2011/12 programme. Appendices 3, 4 and 5 to this report shows in detail the proposed changes to the budget, resulting in a capital programme budget of £108.976 million.

Capital Forecast Outturn

- 3.8 As stated above, changes are proposed to the capital programme these are summarised in appendix 3.

Capital Overspends

- 3.9 Where schemes are forecast to exceed their budget, budget holders must identify additional resources to finance the shortfall. Forecast overspends of greater than £0.050 million or 10% of the original budget are required to be reported back to Members; either in detailed reports or through this capital monitoring report. Scheme delays or 'slippage' are also monitored in an effort to ensure schemes are delivered not only on budget, but also on time. Where a scheme is forecast to slip by £0.050 million or more, the budget holder will report back to Members, on the amount and the impact of the delay on service delivery.
- 3.10 Project managers have identified that the net overspend on the capital programme amounts to £0.071 million of which the majority (£0.048 million) concerns the Horsdean Travellers site which has suffered from vandalism resulting in a overspend on the scheme. These overspends will be funded from within existing Directorate budgets.

Capital Slippage

- 3.11 No schemes have reported any slippage at this early stage.

Accounting adjustment

- 3.12 Within Housing, Culture & Enterprise and the Children & Young People's Trust there are PFI schemes for libraries and schools. Under the code of practice on local authority accounting and the introduction of International Financial Reporting Standards (IFRS) in 2010/11, the capital PFI lifecycle costs (for the replacement of components of assets as they wear out) now have to be included in the accounts. The planned programme for lifecycle replacement costs is identifiable from the operator's financial model. The amount identified for libraries is £0.027 million and for schools £0.108 million and these costs have been included in the 2010/11 budget column in appendix 2. The costs are funded by a contribution to capital from the revenue budget.

Capital Receipts

- 3.13 Capital receipts are used to support the capital programme. For 2010/11 the programme is fully funded, however, any changes to the level of receipts during the year will impact on future years' capital programmes and may impact on the level of future investment for corporate funds such as the Strategic Investment Fund, Asset Management Fund and ICT Fund. Capital receipts (excluding housing) are estimated to be £1.125 million for 2010/11 of which £0.883 million has been received to date which includes the disposal of Cedars Lodge. This leaves £0.242 million of receipts to be achieved during the remainder of the financial year. Assets are actively being marketed to achieve the level of receipts budgeted for.
- 3.14 The level of sales of council homes through 'right to buy' affected by the current market conditions in house prices and both the higher cost and availability of mortgages in the current economic climate. The Government receive 75% of the proceeds of 'right to buy sales'; the remaining 25% is retained by the council and used to fund the capital programme. The estimated useable receipts for 'right to buy' sales is £0.492 million for this financial year and to date £0.078 million has been received.

Comments by the Director of Finance & Resources

- 3.15 The forecast outturn position on the revenue budget shows an improvement since month 2, the largest factor being an improved position on the corporate critical looked after children budget. Prompt action was initiated following the month 2 forecast to ensure rigorous review of the delivery of the planned VFM savings targets and to develop further financial recovery plans. It is expected that those financial recovery plans will further improve the forecasts on individual directorate budgets. When there is greater certainty about the robustness of the forecast recovery actions and further evidence of their delivery savings will be incorporated into the TBM projections.

4. CONSULTATION

- 4.1 No specific consultation was undertaken in relation to this report.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The financial implications are covered in the main body of the report.

Legal Implications:

- 5.2 In reaching its decisions in relation to its budget, the Council needs to have regard to a number of general points. It must provide the services, which, statutorily, it is obliged to provide. Where there is power to provide services, rather than a duty, it

has discretion to provide such services. It must observe its other legal duties, such as the duty to achieve best value and comply with the Human Rights Act 1998. It must act in accordance with its general fiduciary duties to its Council Tax payers to act with financial prudence. Finally, it must bear in mind the reserve powers of the Secretary of State under the Local Government Act 1999 to limit Council Tax & precepts.

Lawyer consulted: Oliver Dixon

Date: 5 September 2010

Equalities Implications:

- 5.3 There are no direct equalities implications arising from this report.

Sustainability Implications:

- 5.4 There are no direct sustainability implications arising from this report.

Crime & Disorder Implications:

- 5.5 There are no direct crime & disorder implications arising from this report

Risk & Opportunity Management Implications:

- 5.5 The council's revenue budget and Medium Term Financial Strategy contain risk provisions to accommodate emergency spending, even out cash flow movements and/or meet exceptional items. The council maintains a working balance of £9 million to mitigate these risks as recommended by the Audit Commission and Chartered Institute of Public Finance & Accountancy (CIPFA). The council also maintains other general and earmarked reserves and contingencies to cover specific project or contractual risks and commitments.

Corporate / Citywide Implications:

- 5.7 The Council's financial position impacts on levels of Council Tax and service levels and therefore has citywide implications.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 The forecast outturn position on council controlled budgets is an overspend of £0.788 million; any end of year overspend will need to be funded from general reserves which would then need to be replenished to ensure the working balance did not remain below £9 million. Directorates have developed financial recovery plans so that a break even position is achieved.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 Budget monitoring is a key element of good financial management, which is necessary in order for the council to maintain financial stability and operate effectively.

SUPPORTING DOCUMENTATION

Appendices:

1. Directorate Revenue Outturn Forecasts
2. Capital Outturn Position
3. Summary of New Capital Schemes
4. Summary of Variations to Budget
5. Internal Movements within CYPT

Documents in Members' Rooms

1. None.

Background Documents

1. None.

Adult Social Care

Forecast Outturn Month 2 £'000	Division	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
413	Adult Social Care	36,304	36,616	312	0.9%
413	Total	36,304	36,616	312	0.9%

Explanation of Key Variances

The forecast overspend of £0.312 million assumes the achievement of a significant service improvement programme of which the Value for Money Project is the most important element. The service improvements are expected to deliver planned savings of £1.811 million and within this the Value for Money Project is forecast to achieve its target of £1.3 million of savings in the current financial year. This is in the main due to a very successful re-ablement strategy.

The overspend is mainly attributed to the Physical Disabilities community care budget. There is an overspend of £0.253 million as a result of the complex caseload and expected 508 Whole Time Equivalent (WTE) placements compared with budget assumption of 463 WTE placements. There is also a forecast increase of 45 WTE placements in Home care. Regular monitoring and reviews are being carried out to address the in year pressures. Projected growth of 27 WTE is included which may not materialise and these assumptions are being constantly reviewed.

To date, further potential recovery actions of up to £0.175 million have been identified including vacancy management and associated agency staffing controls and maximising the use of existing grants. These will be included in future TBM forecasts when there is more certainty that they will be realised.

Children & Young People's Trust

Forecast Outturn Month 2 £'000	Division	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
(495)	Director	3,855	3,340	(515)	-13.4%
819	Area Integrated Working	28,591	29,211	620	2.2%
241	Learning , Schools & Skills	4,046	4,339	293	-7.2%
2,226	Commissioning & Governance	14,128	15,383	1,255	8.9%
2,791	Total	50,620	52,273	1,653	3.3%

Explanation of Key Variances

Director (£0.515 million underspend) - this budget area relates to the staffing budget of the Director, Assistant Directors and admin support teams. The underspend mainly relates to the decision made by Cabinet in July to reprioritise £0.434 million from unallocated Dedicated Schools Grant (DSG) money to offset the overall directorate overspend. The remaining £0.034 million of this is being used to fund Information Management within the Commissioning & Governance branch. In addition, there are savings of £0.095 million on an Assistant Director's post and £0.020 in other areas.

Area Integrated Working (£0.620 million overspend) - this branch leads on the development of integrated area working, including early intervention and prevention. Area working includes the Youth Service, Children's Centres, Education Psychology Service (EPS), Education Welfare Service (EWS), frontline social work teams; Leaving Care team and the Fostering Service.

The overspend in this branch relates to two main areas: Legal fees and Area Social Work Teams. Legal fees are currently forecast to overspend by £0.440 million. Legal expenses have increased due to changes in the law by the Public Law Outline (PLO). This is due to several factors, primarily the significant increase in the number of children being referred for care proceedings in line with national trends. In addition to this, the Court Fees have been increased by the Ministry of Justice and the cost of the Court issue Fee has increased from £175 to over £4,000 per fully contested case.

The children's social work teams continue to be under pressure because of their statutory duties around child protection and looked after children's duties. There also continues to be a churn in frontline social workers leaving from the most pressurised teams i.e. the children's social work front doors. As a result of both of these factors the majority of the projected overspend within this area of £0.474 million is mainly due to agency social work staff. The branch has a robust rolling programme of recruitment and retention including a bursary scheme to attract newly qualified social workers from the universities. We are presently recruiting to this year's bursary programme for Sept 2010. This intake of newly qualified social workers will help towards reduction on dependency on agency social workers.

Learning, Schools & Skills (£0.293 million overspend), the main area of overspend in this area relates to disability agency placements £0.285million.

Commissioning and Governance (£1.255 million overspend) - this branch is responsible for producing and monitoring the Children and Young people's Plan and the effective operation of the council's Section 75 Agreements with our health partners for the joint commissioning and provision of integrated children's services. In addition, the branch is responsible for the commissioning and procurement of fostering and residential agency placements for individual children and the oversight and monitoring of associated budgets. The number of placements, and level of expenditure, relates directly to the significant and sustained level of referrals to social care (at times up to 61%) following the Baby P case and the Laming recommendations. This has resulted in a **33%** increase in the number of children with a child protection plan and a **12%** increase in the number of looked after children between **July 2009 and May 2010**.

The forecast at month 2 showed under-achievement of £0.570 million of the budgeted Value for Money savings. At that stage it was too early to have certainty that they would be delivered, however two months further into the year and there is now sufficient confidence for the forecast to show this being achieved in full. The VFM plan focuses on strengthening preventive services and streamlining social work processes including:

- increasing the use of the Common Assessment Framework to provide universal and (lower level) tier 2 services to children and families in need
- driving the implementation of the 'Think Family' approach to plan more effective support and/or interventions for families with the most complex needs
- introducing a tiered approach to manage social care referrals from other agencies including the remodelling of social work duty systems and the reinstatement of area and specialist resource panels or similar mechanisms
- improving the commissioning and procurement of expert assessments in care proceedings, strengthening arrangements for early permanence planning and increasing the numbers of in house foster placements able to provide tier 1 care

Consistent with other areas of the council it is expected that further tight control on staffing costs, whether directly employed or through agencies will further help reduce the overspend.

Finance & Resources

Forecast Outturn Month 2 £'000	Division	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
(180)	Finance	6,019	5,831	(188)	-3.1%
50	Customers & Information	9,336	9,024	(312)	-3.3%
122	Property & Design	3,471	3,622	151	4.4%
(8)	Total	18,826	18,477	(349)	-1.9%

Explanation of Key Variances

Finance is forecasting an underspend, due to the service winning the contract to supply financial services to the South Downs National Park and savings generated from a staffing restructure.

Within Customers & Information there is a cost pressure of approximately £0.075 million on income within Bereavement Services, which is being partly offset by staff savings. Housing Benefits are expected to achieve additional income of £0.350 million based on current subsidy arrangements. This is due to a successful focus on reducing the error rates made in benefit payments and recovering overpayments.

Property and Design are forecasting a shortfall on rental income of £0.183 million mainly due to lower than expected income from rent reviews. The saving from the under 100kw site electricity contract and from the gas contract which both started in April 2010 over and above that assumed at the time the budget was set has been estimated to be approximately £0.032 million.

Strategy & Governance

Forecast Outturn Month 2 £'000	Division	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
-	Equalities & Communities	2,322	2,317	(5)	-0.2%
-	Performance & Analysis	642	642	-	0.0%
-	Legal & Democratic Services	3,107	3,107	-	0.0%
-	Policy Unit	918	918	-	0.0%
-	Human Resources	4,149	4,200	51	1.2%
-	Executive Office	379	379	-	0.0%
-	Communications	488	557	69	14.1%
-	Total	12,005	12,181	115	1.0%

Explanation of Key Variances

The directorate had a plan in place to deliver the savings of £0.412 million identified in the budget strategy. However, emerging pressures within Communications and Human Resources cannot be fully addressed as at TBM 4. Within Communications there are salary and other service pressures, it is anticipated that these will be partially offset by income surpluses, project contributions from other directorates, and from the communications Value for Money review reducing the net overspend to £0.069 million. Within Human Resources salaries service pressures are offset by income giving a net position of £0.086 million, an underspend within the Director budget of £0.35 million gives the position of £0.051 million overspend.

The directorate is reviewing all services in order to meet the £0.115 million projected overspend and the following additional management actions will be put in place to address the potential overspend.

- All services are ensuring that all internal and external income is maximised. Communications in particular is finalising the collection of payments for work streams
- Over 80% of all spend within S&G is on salaries. All service areas are actively managing vacant posts where possible in order to reduce costs. In particular HR are managing carefully the number of temporary staff as the new HR system comes into operation. The forthcoming introduction of the manager self serve will further increase the scope of greater in year savings and a reduction in the current projected overspend.
- The Communications Team are expecting to make further savings in year through their VFM program.
- All service areas are committed to reducing all non essential expenditure internal and external expenditure.

Environment

Forecast Outturn Month 2 £'000	Division	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
-	City Services	29,912	29,993	81	0.3%
-	Sport & Leisure	1,937	1,937	-	0.0%
467	Sustainable Transport	(1,362)	(956)	406	29.8%
50	City Planning	6,839	7,149	310	4.5%
517	Total	37,326	38,123	797	2.1%

Explanation of Key Variances

City Services is forecasting an overspend which is due in the main to additional security measures and rubbish clearance at the Horsdean Travellers Site.

Within Sustainable Transport there continues to be a fall in the number of Penalty Charge Notices being issued, this is in line with the nationally recognised trend for improved compliance leading to the issuing of fewer tickets. The shortfall from PCN's is forecast to be £0.620 million net of the bad debt provision. On-street parking income is also forecast to under achieve budget by £0.105 million. Off Street parking is forecast to generate £0.280 million additional income, which is due to improved usage at The Lanes and London Road Car Parks following their refurbishments. This income is over and above what was assumed in the original business case for the refurbishments which was used to finance the up front investment required.

City Planning is forecasting an overspend due to loss of grant income including SEEDA funding and a shortfall in Building Control fee income.

To date, potential recovery actions of up to £0.645 million have been identified and will be included in future TBM forecasts when there is greater certainty about their deliverability. Actions include reducing expenditure on consultants, vacancy management, controls on supplies and services expenditure, and reducing energy costs on the transport network.

Appendix 1

Housing, Culture & Enterprise

Forecast Outturn Month 2 £'000	Division	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
0	Tourism & Venues	1,636	1,726	90	5.5%
0	Libraries & Information Services	4,172	4,172	-	0.0%
0	Royal Pavilion & Museums	2,567	2,567	-	0.0%
0	Culture & Economy	3,349	3,308	(41)	-1.2%
0	Major Projects & Regeneration	355	355	-	0.0%
0	Housing Strategy	4,478	4,478	-	0.0%
0	Total	16,557	16,606	49	0.3%

Explanation of Key Variances

The forecast overspend of £0.049 million relates to a forecast overspend on Tourism and Venues offset by vacancy management savings within Culture & Economy.

The income forecast for the Brighton Centre is on target but there is an expected shortfall of income on the Hove Centre of £0.020 million and a pressure on contract costs on the Brighton Centre of £0.070 million. Income potential will continue to be reviewed to address this pressure.

The Royal Pavilion & Museums are forecasting break even and are on target to achieve their income target for 2010/11.

Housing Strategy is on target to breakeven, the loss of Supporting People Admin grant of £0.164 million is being covered by vacancy management and one-off under-spends on the Supporting People Welfare grant.

Centrally Managed Budgets

Forecast Outturn Month 2 £'000	Division	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
(125)	Bulk Insurance Premia	3,019	2,794	(225)	-7.5%
-	Concessionary Fares	7,712	7,552	(160)	-2.1%
-	Capital Financing Costs	10,446	10,446	-	0.0%
-	Levies & Precepts	201	201	-	0.0%
(2,000)	Other Corporate Items	5,756	3,726	(2,030)	-35.3%
(2,125)	Total	27,134	24,719	(2,415)	-8.9%

Explanation of Key Variances

There is a forecast saving of £0.125 million on insurance premia as a result of the review of annual insurance arrangements for 2010/11 where decisions were made to change the level of the deductible on a number of policies particularly in relation to the motor and refuse fleet. The 2010/11 net saving will vary depending on how many claims we receive during the year and value of each claim. The saving has increased by £0.100 million in the last period, due to a reduction in claims spend and estimated time to settle.

Concessionary Fares is forecasting an underspend, due to the final settlement of additional capacity claims for 2009/10, administrative savings and reduced journey numbers for the first quarter.

Within contingency there is an ongoing risk provision of £1.5 million to cover risks identified particularly in Children's Social Care and Learning Disabilities which have been released corporately to offset the overspends in service departments. A provision of 1% had been allowed in the budget to incorporate both the pay award and the costs of ongoing modernisation of the council's pay and reward structure, based on the latest assumptions £0.500 million is being released to support the in year budget position. In addition to this there is a one off risk provision of £0.500 million to cover the impact of the continuing economic downturn and other pressures.

The costs to the council of severance for the Directors who have recently left their posts of £0.725 million has been funded from a contribution from the Restructure Redundancy Reserve. That reserve will need to be replenished by an estimated £1m at the end of this year. If the council's in-year forecast overspend continues to reduce this should be affordable within the current reserves strategy.

Section 75 Partnerships

Forecast Outturn Month 2 £'000	Division	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
781	Council managed S75 Servs	23,200	23,826	626	2.7%
225	NHS Trust managed S75 Servs	12,328	12,742	414	3.4%
1,006	Total S75	35,528	36,568	1,040	2.9%

Explanation of Key Variances

Council managed S75 services (Learning Disabilities) are forecast to overspend by £0.626 million. The forecast overspend is attributed to:

- Learning Disabilities mainstream- staffing cost pressures £0.061 million
- Learning Disabilities Community Care-forecast overspend of £0.565 million equivalent to 10 Whole Time Equivalents (WTE's) in residential care

The overspend of £0.626 million assumes the achievement the savings identified within the budget strategy.

NHS Trust managed S75 services forecast overspend of £0.414 million based on the following assumptions:

- Sussex Partnership Foundation Trust (SPFT) – Significant overspends on community care budget (Adult Mental Health £0.446 million, Older People Mental Health £0.361 million and Substance Misuse £0.044 million) due to the full year effect of 2009/10 placements offset by vacancy management savings of £0.181 million and assumes the allocation of the joint commissioning pot of £0.450 million held for the development of mental health services.
- South Downs Health Trust (SDHT) – forecast overspend of £0.124 million, due to a staffing pressures on intermediate care services. Options are being explored to deliver savings across a range of service provision.

Sussex Partnership Foundation Trust (SPFT) have developed Financial Recovery Plan to work towards a reduced overspend position. There is ongoing dialogue with SPFT on management of placements.

Generally, the S75 Partnership Agreements require the Integrated Service Providers (Sussex Partnership Foundation Trust and South Downs Health Trust) to manage in-year cost pressures and carry this risk, subject to any agreement by the partners to vary risk-sharing provisions within the agreements. Commissioners are working closely with partners to ensure that robust financial management is in place and to agree a risk share position.

Housing Revenue Account (HRA)

Forecast Outturn Month 2 £'000	Housing Revenue Account	2010/11 Budget Month 4 £'000	Forecast Outturn Month 4 £'000	Forecast Variance Month 4 £'000	Forecast Variance Month 4 %
43	Employees	9,187	9,119	(68)	-0.7%
-	Premises – Repair	11,468	11,402	(66)	-0.6%
32	Premises – Other	3,110	3,131	21	0.7%
(48)	Transport & Supplies	2,033	2,052	19	0.9%
(10)	Support Services	2,153	2,133	(20)	-0.9%
-	Third Party Payments	54	54	-	0.0%
-	Revenue contribution to capital	3,543	3,543	-	0.0%
-	Capital Financing Costs	3,729	3,613	(116)	-3.1%
(121)	Subsidy Payable	12,925	12,941	16	0.1%
(104)	Net Expenditure	48,202	47,988	(214)	-0.4%
-	Dwelling Rents (net)	(41,613)	(41,627)	(14)	0.0%
4	Other rent	(1,318)	(1,263)	55	4.2%
100	Service Charges	(4,034)	(3,882)	152	3.8%
-	Supporting People	(497)	(475)	22	4.4%
-	Other recharges & interest	(740)	(703)	37	5.0%
104	Net Income	(48,202)	(47,950)	252	0.5%
-	Total	-	38	38	

Explanation of Key Variances

The forecast for month 4 is an overspend of £0.038 million.

Further analysis of the variances as at month 4 are as follows:

- The employees forecast has reduced to an underspend of £0.068 million mainly due to vacancy management savings across the Housing Service.
- The Premises Repairs forecast underspend of £0.066 million relates to the service contracts area where various contracts are being retendered during this financial year.
- Capital Financing costs are forecast to underspend by £0.116 million due to forecast interest rates for the year being lower than the assumptions used for budget setting.
- Leaseholder service charges income is projected to underachieve by £0.121 million. This projection has been forecast following analysis of last year's outturn which has shown that the charges are likely to be less than budgeted for.

- The Temporary Accommodation budget is forecast to overspend by £0.124 million in relation to unrealised savings in the Temporary Accommodation budget due to the delay of the commencement of the LDV. The budget for 2010/11 had been set assuming that the temporary accommodation properties would be leased in batches during 2010/11 to the LDV. The forecast for Temporary Accommodation is included in the various relevant subjective headings in the summary outturn table above. The Housing Management Team have developed a cost reduction plan to identify cost efficiencies to reduce the impact of this overspend.

CAPITAL OUTTURN POSITION

Directorate	2010-11 Budget £'000	2010-11 New Schemes £'000	2010-11 Variations £'000	2011-12 Slippage £'000	2010-11 Budget £'000	2010-11 Outturn £'000	2010-11 Overspends £'000
Strategy & Governance	983				983	983	-
Housing, Culture & Enterprise	11,709	199			11,908	11,908	-
Finance & Resources	4,255	93			4,348	4,348	-
Adult Social Care	284	497			781	781	-
Housing Revenue Account	25,545	300			25,845	25,845	-
Children & Young People's Trust	49,715	141	363		50,219	50,230	11
Environment	14,344	920	(372)		14,892	14,952	60
Total Council Budgets	106,835	2,150	(9)	-	108,976	109,047	71

SUMMARY OF NEW CAPITAL SCHEMES

	2010/11 Budget £'000
New Schemes Summary	
Housing, Culture & Enterprise New Schemes over £50,000 (detailed in appendix)	499
Finance & Resources New Schemes over £50,000 (detailed in appendix)	93
Children & Young People's Trust New Schemes over £50,000 (detailed in appendix) Longhill Fitness Equipment	100 41
Adult Social Care New Schemes over £50,000 (detailed in appendix)	497
Environment Detailed Reprofiles in appendix 4 (over £50,000)	920
Total Changes to Budgets	2,150

Housing, Culture & Enterprise

Directorate: Housing, Culture & Enterprise

New Budget: £300,000

Project Title: Commissioning of HRA Temporary Accommodation

This scheme is seeking funding from the HRA general reserves of £0.300 million to 're commission' 46 HRA empty dwellings for re use as temporary accommodation

The HRA has a number of empty Temporary Accommodation properties and other properties requiring major works. An analysis of these empty dwellings has identified that 46 of these properties could be put back into use for a reasonable cost.

The cost of bringing 46 units back into use as temporary accommodation is £0.300 million and can be analysed as follows:-

- 1) 15 existing family sized homes at a cost of £0.090 million.
- 2) The refurbishment of the temporary accommodation block at 58 York Road (currently 6 units) into self contained flats at a cost of £0.160 million.
- 3) 25 temporary accommodation dwellings 're-commissioned' in their existing layouts at a cost of £0.050 million.

Directorate: Housing, Culture & Enterprise

New Budget: £199,320

Project Title: Replacement of Libraries booking system

Brighton & Hove Libraries are part of the South East Library Management System (SELMS) the largest consortium in Europe that was successfully leveraged to procure the current library management system. Since joining SELMS the group has expanded from 6 to 12 members and now services a population of 6 million.

Further investment is required in Libraries services to enable Brighton & Hove Libraries to continue to deliver the excellent service and increase the value for money of those services.

Project Proposal

- i) Replacement of public PC bookings and print management system
- ii) Replacement and enhancement of self service provision within Jubilee and Hove libraries
- iii) Introduction of a digital downloads service

The implementation of the proposed projects is core to the Library Service aim to improve customer experience, drive value for money and to be part of delivering a council the city deserves. This is delivered via an enhanced customer experience through updated single point of delivery interfaces and in the reduced need for the customer to interact with staff by expanding the self service opportunities. Further customer experience improvements are derived from 24/7 access to digital holdings which can be accessed from anywhere in the world by a registered borrower.

The scheme will be funded from a combination of unsupported borrowing £0.164 million and a revenue contribution of £0.035 million. This is delivered by a reduction in the cost of annual maintenance contracts, the procurement of standards based, service enhancement without additional staffing costs and the reduction in spend on replacement media for lost or damaged audio/video stock. Failure to proceed with the project is forecast to cost the Libraries service a minimum of £0.375 million over the 5 years repayment period.

Finance & Resources

Directorate: Finance & Resources

New Budget: £93,000

Project Title: New Coroners Court

The city council has a statutory duty to provide a Coroner for the District of Brighton & Hove, which also necessitates a service to support the duties of the Coroner. As part of their duties, the Coroner must hold inquests to establish who a deceased person was, when and where the person died and how the person died.

The Coroner currently uses their own office for holding smaller inquests, but this is not satisfactory as the facilities are very limited. (for example, there is no provision or access for people with disabilities). Also, the Coroner has only limited storage capacity, for the retention of her records, in the Coroners Administrative Office and the proposed Coroners Court adjoining this Office will also provide essential storage space as well as an accessible toilet and a suitable entrance for wheelchair users.

A feasibility study has been undertaken to provide a new Coroners Court adjacent to the existing Coroners Office. This would involve rebuilding a groundsman's staffroom at a cost of approximately £0.093 million and re-siting the grounds staff to alternative existing accommodation at the Lawn Memorial Cemetery at Woodingdean. Part of this project will be met by DDA funds with the remainder being met by capital expenditure funded from unsupported borrowing to be met from within existing budgets.

Children & Young People's Trust

Directorate: Children & Young People's Trust	New Budget: £100,000
Project Title: Carlton Hill School S106 funding new gas boiler	

A condition was placed on the Amex development under Section 106 which set out a £0.1 million sustainability contribution. The 'sustainability project' was to locally offset carbon emissions from the Proposed Development by the provision of an energy efficient heating system for Carlton Hill Primary School. The Authority has commissioned the replacement of the existing boiler with a new gas condensing boiler. This also necessitated some upgrading of the gas supply, plus associated professional fees. The total cost of the work is approximately £0.120 million. The balance of the expenditure will be met from the New Deal for Schools budget. Work is expected to be completed in time for the forthcoming winter.

Adult Social Care

Directorate: Adult Social Care	New Budget: £148,000
Project Title: Social Care Reform Grant	

This is the final year of the Social Care Reform Grant which is to be used by local authorities to assist them with their partners in delivering the transformation of adult social care as set out in 'Putting People First: a shared vision and commitment to the transformation of Adult Social Care' (2007) , and preceding policy documents. For this coming year not only has the Government allocated revenue grant but it has also

allocated an additional capital allocation to help councils with some of the associated infrastructure costs.

The grant will be utilised to procure (a) a new rostering system for in-house home care service which has the ability to plan, monitor and support a modernised re-ablement service thus producing efficiencies in both travel time and allowing enhanced contact time with service users; and (b) a partnered system that can deliver “live” rota information to mobile hand-held devices carried by Homecare staff out in the community

Directorate: Adult Social Care

New Budget: £349,000

Project Title: Adaptations for the disabled

The amount reflects the recurrent funding currently available for minor and major adaptations. The provision of adaptations within disabled people's homes contributes to the councils' priority to care for vulnerable people. It is an integral part of our personalisation agenda This expenditure enables people to live for longer within their own home and not have to move into long term residential care, it also reduces the need for the reliance upon home care. It also adds value to hospital discharges and admissions by preventing accidents..

The £349,000 will be financed by the following: £0.150 million from the Department of Health Adult Social Care Capital Allocation for 2010/11 and £0.199 million direct revenue funding contribution from Physical Disabilities budget.

Environment

Directorate: Environment

New Budget: £920,000

Project Title: Purchase of 7 Gritter Vehicles

The current gritter fleet is over 10 years and due for replacement. Maintenance costs have been increasingly high and last winter's severe snow events took their toll on the existing vehicles. The current vehicles are also not all appropriate for operating in severe snow and ice on the city's hilly roads and are less efficient at spreading salt than more modern counterparts. The environmental impacts of the vehicles are being considered as well as health & safety and practical requirements.

Market testing is in progress to ascertain what is available and what best suits the needs of Brighton and Hove as an urban hilly area with narrow streets. Tender documents will be prepared later this year. Research is taking place into options for carrying out pavement gritting, such as a specialised machine (circa £0.040 million) and/or towable spreaders that could be attached to Cityparks tractors or seafront quad bikes.

Environmental issues as well as health & safety and practical requirements are being considered. Total expenditure will not exceed the £0.920 million reserved in capital funds for Winter Service vehicle replacement.

SUMMARY OF VARIATIONS TO THE CAPITAL BUDGET

Schemes	2010/11 Budget £'000	2011/12 Budget £'000	2012/13 Budget £'000	Total Changes £'000
Environment				
Detailed Variations in appendix 4 (over £50,000)	(372)	(10)	(11)	(393)
Children & Young People's Trust				
Detailed Variations in appendix 4 (over £50,000)	363	333		696
Total Changes to Budgets	(9)	323	(11)	303

Detailed explanations of the variations

Environment

Directorate: Environment	Approved Budget: £597,640
Project Title: Playbuilder	Revised Budget: £70,970
	Variation: £(526,670)

As stated in the 2010/11 in-year government grant reductions report the Department for Education has instructed local authorities not to incur any future contractual liabilities in relation to Playbuilder. The Council had an allocation of £0.598 million allocated in 2010/11. However the funding is now being cut and this will change the position to a estimated revised budget of £0.070 million for the existing commitments. There are no budgets for Playbuilder beyond 2010/11 as the following table shows.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
(527)			(527)

There are a small number of improvements planned to play facilities that were funded from other sources for example s106 agreements and these will still go ahead.

Directorate: Environment
Project Title: Hollingdean Depot

Approved Budget: £483,400
Revised Budget: £638,410
Variation: £155,010

Hollingdean Depot is the operational base for Cityclean and requires considerable investment over a four year period to maintain both operational and health and safety requirements. Initial works commenced in 2009/10 with the majority of works profiled for 2010/11 to 2012/13. A total of £0.638 million is identified for 2010/11 in connection with site enabling, repairs and fire safety works. A total of £0.150 million has been identified to be met from the Planned Maintenance Budget and £0.488 million from unsupported borrowing. The financing costs associated with the borrowing will be met from existing revenue budgets. The following table shows the changes for 2010/11 onwards.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
155	(10)	(11)	134

Children & Young People's Trust

Directorate: CYPT
Project Title: Falmer Academy

Approved Budget: £17,176,710
Revised Budget: £17,539,460
Variation: £362,750

This is a combination of three funding sources. The utilisation of the budget from the Strategic Investment Funding (SIF) towards project management costs of £0.2 million. Also an increase in the budget of £0.110 million in respect of the Environment Improvement Grant for works to be carried out improving the site before September 2010. Lastly an increase in the budget in respect of additional funding from the DfE for irrecoverable VAT on the ICT contract, estimated to be £0.053 million in 2010/11 and £0.333 million in 2011/12. The following table shows the changes for these elements of the scheme over the three years.

2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
363	333		696

Internal movements within Children & Young People's Trust

Further to the approval by Members of the Children & Young Peoples Trust capital budgets at Cabinet Members Meeting on 26 April 2010, approval is sought for the following changes within the Directorate.

Virement Summary	From 2010/11 Budget £'000	To 2010/11 Budget £'000	Total Changes £'000
Children & Young People's Trust			
New Pupil Spaces 2010/11	(669)		(669)
Primary Programme		669	669
Basic Needs Safety Valve Funding	(5,700)		(5,700)
Primary Programme		5,700	5,700
Targeted Capital Fund	(257)		(257)
Falmer Academy		257	257
Targeted Capital Fund	(700)		(700)
Whitehawk Co-location		700	700
NDS Modernisation 2010/11	(300)		(300)
Whitehawk Co-location		300	300
Total Changes to Budgets	(7,626)	7,626	-

These changes will enable the Directorate to fully utilise the available capital resources by moving the budgets to where the need is greatest. Approval of these virements will improve monitoring of the various funding streams available for the projects scheduled for 2010/11. Adequate management information will still be available for grant claim purposes.

Subject: Risk & Opportunity Management (ROM) Annual Report 2009/10 and Programme 2010/11

Date of Meeting: 28 September 2010

REPORT OF: Director of Finance & Resources

Contact Officer: Name: Jackie Algar Tel: 29-1273

E-mail: Jackie.algar@brighton-hove.gov.uk

Wards Affected:

1. SUMMARY AND POLICY CONTEXT:

1.1 The Cabinet approved a three year Risk & Opportunity Management (ROM) Strategy 2008-11 on 10 July 2008 and each year an annual ROM programme details activities to deliver the ROM Strategy.

1.2 This report provides an annual report of progress against the approved annual ROM Programme 2009/10 to help inform the Audit Committee's opinion on the effectiveness of risk management and internal control.

1.3 The annual ROM programme detailing actions in 2010/11 is submitted for approval.

2. RECOMMENDATIONS:

The Audit Committee are requested to:

2.1 Note progress against the annual ROM programme 2009/10 (appendix 1).

2.2 Approve the annual ROM programme 2010/11 (appendix 2).

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 The ROM Strategy 2008-11 has served the council well during its currency but during 2009/10 a number of significant changes have occurred which will lead to a refinement of the risk management approach and require a clear plan to be developed of how risk management will help the organisation from 2011 onwards. Some examples of the significant changes during 2009/10 are:

- Increasingly difficult financial climate
- Government change and policy direction
- Regulation and assessment change – particularly the abolition of the Comprehensive Area Assessment, which included the Use of Resources judgement that specifically judged the council’s performance on risk management and internal control
- Significant organisational change – both within the council and other organisations
- Enhance need to explore potential for alternative means of public service delivery
- Recognition of increased need to prioritise, use and channel available resources appropriately to provide outcomes for the local community

To effectively manage these changes will require a clear risk management focus to provide assurance that risks which affect the success of achieving the council’s objectives are being managed and the internal control environment is functioning well. This key role in Corporate Governance is one remit of the Audit Committee.

- 3.2 Whilst the risk management approach of the council will continue to aim for best practice, the British Standard BS31100 and now the International Standard for Risk Management BS31000, the annual ROM programme for 2010/11 (appendix 2) and the soon to be drafted Risk Management Strategy for 2011 onwards will use best practice standards to focus on the current and significant challenges in order to provide assurance on the resilience of the council and its arrangements to meet outcomes for the local community of Brighton & Hove.

4. CONSULTATION

- 4.1 The ROM Strategy and the ROM methodology have been the subject of extensive internal consultation and shared with external bodies, e.g. Southdowns NHS Trust and other local authorities.
- 4.2 Consultation will take place on the new Risk Management Strategy 2011 onwards will take place from early 2011.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 Effective Risk & Opportunity Management of risks & opportunities affecting the council’s successful achievement of its objectives ensures that all potential financial impacts are properly considered and that likely financial outcomes are reflected in medium term financial plans and budget strategies, which are continually updated to reflect changing assumptions and likelihood of risk.

The council's Section 151 Officer also has regard to risk assessments in developing the medium term financial strategy and budget strategy. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer of a local authority to report on the robustness of the estimates included in the budget and the adequacy of the reserves and contingencies for which the budget provides. The Chief Finance Officer must be satisfied that the budget estimates contain adequate provision for those items of expenditure which might reasonably be expected to occur in the financial year

Finance Officer consulted.... Mike Bentley 15 September 2010

Legal Implications:

- 5.2 There are no legal implications arising directly from this report. Consideration of the council's Risk & Opportunity Management arrangements is one of the functions of the Audit Committee.

Legal Officer consulted Oliver Dixon 14 September 2010

Equalities Implications:

- 5.3 There are no direct implications. The ROM package will address and promote the risk management aspects of equalities

Sustainability Implications:

- 5.4 There are no direct implications. The ROM package will address and promote the risk management aspects of sustainability.

Crime & Disorder Implications:

- 5.5 There are no direct implications.

Risk and Opportunity Management Implications:

- 5.6 The ROM Strategy and the annual ROM programme is focussed on improving the quality and consistency of risk & opportunity management of the council's activities.

Corporate / Citywide Implications:

- 5.7 There are no direct implications

SUPPORTING DOCUMENTATION

Appendices:

1. Progress against the annual ROM programme 2009/10
2. ROM programme 2010/11

Documents in Members' Rooms

1. None

Background Documents

1. ROM Strategy 2008-2011
2. ROM Toolkit (I DO RM)
3. British Standard for Risk Management BS31100
- 4, International Standards for Risk Management ISO31000

A) IMPROVE RISK & OPPORTUNITY MANAGEMENT (“upside” or positive risk taking)		ROM Strategy Rationale/outcome	Target Date	Lead Officer	Progress
A)1	Continually develop and improve risk & opportunity management tools & techniques and refer to them as appropriate in other corporate guidance, e.g. project management, health & safety, business planning	Proactively encourage opportunity taking (using ROM techniques) and minimisation of downside/negative risks	Ongoing	Jackie Algar	<u>Achieved</u> Continual development
A) 2	Provide ROM guidance for the Business Planning Framework & refresh as appropriate	To ensure that ROM is embedded in Business Planning	Ongoing	Jackie Algar	<u>Partially achieved</u> Affected by changes in how business planning is run, and the structure of the council. Work continues to address this.
B) TO PROVIDE TRAINING FOR MEMBERS AND OFFICERS IN RISK & OPPORTUNITY MANAGEMENT		ROM Strategy Rationale/outcome	Target Date	Lead Officer	Progress
B)1	Offer training for managers as part of Leadership & Development Programme and provide access for staff via the ROM e-learning course	To improve the capacity of the organisation to practice ROM effectively	Ongoing	Jackie Algar	<u>Achieved</u>
B)2	ROM training sessions for Members at a meeting of each political party on the subject of ROM and reports/decision	To improve the capacity of the organisation to practice ROM effectively	July – October 2009	Jackie Algar	<u>Partially Achieved</u> Training offered to all political parties. Direct training provided to one political group to date. Cross party regular ROM practice at each Audit Committee

B)3	Facilitate ROM overview of Corporate Risk Register for Cabinet Members	To ensure Cabinet Members are aware of the identified corporate risks & opportunities and mitigating actions	May and November each year	Jackie Algar	<u>Achieved</u>
C) ENHANCE LINKS WITH PARTNERS ON RISK & OPPORTUNITY MANAGEMENT		Rationale/outcome	Target Date	Lead Officer	Progress
C) 1	Establish regular contact meetings and identify joint approaches to classification, risk reporting, language surrounding risks and training.	To work better with partners to avoid duplication of effort & enhance successful outcomes	Bi monthly meetings with CYPT partners from May 09	Jackie Algar	<u>Partially Achieved</u> Increased risk assurance as part of CYPT through regular meetings with (joint council & Southdowns PCT) post of Head of Nursing & Governance.
C) 2	Facilitation of ROM workshop for Local Area Agreement targets shared between partners across the city. External consultants to facilitate & shared software system to record and monitor mitigation actions	To contribute towards successful city wide outcomes	December 09	Simon Newell, Jackie Algar	<u>Not Achieved</u> Session planned in October 2009 but cancelled. Not re-scheduled due to uncertainty of position for Local Area Agreements. Will be kept under review until resolved
D) TO IMPROVE RISK REPORTING ARRANGEMENTS		Rationale/outcome	Target Date	Lead Officer	Progress
D) 1	Fully utilise the new risk management software to enhance the council's ability to record risks, inform analysis, highlight areas and provide an overview of risks and opportunities, particularly for reporting to Audit Committee	To assist the Audit Committee to form an opinion on the effectiveness of the Risk Management & Internal Control environment	September 09	Jackie Algar	<u>Achieved</u>

Appendix 1

Progress against the Risk & Opportunity Management (ROM) Programme 2009 - 2010

D) 2	Include more project risks in the overall risk register system	Informs council risk overview & manage significant risks to projects, including those which are innovative or challenging	September 09	Various Officers	<u>Achieved</u>
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A) IMPROVE RISK & OPPORTUNITY MANAGEMENT ("upside" or positive risk taking)		ROM Strategy Rationale/outcome	Resources Required	Target Date	Lead Officer
A)1	Review existing and develop risk management tools & techniques to integrate with existing and developing business systems for the re-structured council and partnership delivery arrangements	Proactively encourage opportunity taking (using ROM techniques) and minimisation of downside/negative risks	Officer Time (to be absorbed within the existing staff arrangements)	May 11	Jackie Algar
A) 2	Link risk management to new structure of council and partners delivery and provide risk management advice and service	To ensure that ROM is embedded in delivery of business	Officer Time (to be absorbed within the existing staff arrangements)	Dec 10 onwards	Jackie Algar
A) 3	Produce & seek Cabinet approval of a current & updated risk management approach through new "Risk Management Standard 2011"	To improve the capacity of the organisation to practice ROM effectively	Officer Time (to be absorbed within the existing staff arrangements)	Apr 11	Jackie Algar
B) TO PROVIDE TRAINING FOR MEMBERS AND OFFICERS IN RISK & OPPORTUNITY MANAGEMENT		ROM Strategy Rationale/outcome	Resources Required	Target Date	Lead Officer
B)1	Develop training offer for officers as part of Leadership & Development approach	To improve the capacity of the organisation to practice ROM effectively	Officer Time (to be absorbed within the existing staff arrangements)	May 11	Jackie Algar
B)2	Provide risk management overview training for Members	To improve the capacity of the organisation to practice ROM effectively	Officer Time (to be absorbed within the existing staff arrangements)	May 11 onwards	Jackie Algar

B)3	Facilitate ROM overview of Corporate Risk Register for Cabinet Members	To ensure Cabinet Members are aware of the identified corporate risks and mitigating actions	Officer Time (to be absorbed within the existing staff arrangements)	Ongoing	Jackie Algar
C) ENHANCE LINKS WITH PARTNERS ON RISK & OPPORTUNITY MANAGEMENT		ROM Strategy Rationale/outcome	Resources Required	Target Date	Lead Officer
C) 1	Establish good links with partner organisations to share risk management approach	To work better with partners to avoid duplication of effort & enhance successful outcomes	Officer Time (to be absorbed within the existing staff arrangements)	Oct 11	Jackie Algar
C) 2	Review risk management aspects of Corporate Governance Arrangements across the range of city service delivery with which the council is connected	To contribute towards successful city wide outcomes	Officer Time (to be absorbed within the existing staff arrangements)	June 11	Jackie Algar
D) TO IMPROVE RISK REPORTING ARRANGEMENTS		ROM Strategy Rationale/outcome	Resources Required	Target Date	Lead Officer
D) 1	Fully use risk management software to enhance the council's ability to record risks, inform analysis, highlight areas and provide an overview of risks and opportunities, particularly for reporting to Audit Committee	To assist the Audit Committee to form an opinion on the effectiveness of the Risk Management & Internal Control environment	To be confirmed	July 11	Jackie Algar
D) 2	Share and report risk registers as appropriate with other organisations to increase business resilience, inform joint working & achievement of shared objectives, in order to provide assurance across the range	To assist the Audit Committee to form an opinion on the effectiveness of the Risk Management & Internal Control environment	Officer Time (to be absorbed within the existing staff arrangements)	Various Officers	Jackie Algar

	of service delivery methods				
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Subject:	Audit of Accounts ended 31 March 2010: Letter of Representation and Statement of Accounts 2009/10 Update		
Date of Meeting:	28 September 2010		
Report of:	Director of Finance & Resources		
Contact Officer:	Name:	Patrick Rice	Tel: 29-1268
	E-mail:	patrick.rice@brighton-hove.gov.uk	
Wards Affected:	All		

FOR GENERAL RELEASE

1 SUMMARY AND POLICY CONTEXT

- 1.1 This committee approved the unaudited Statement of Accounts in accordance with the Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 at its meeting on 29 June 2010.
- 1.2 The Audit Commission are required to give assurance that the Statement of Accounts is free from material mis-statement and are required to report all errors and uncertainties over a non-trivial level. For 2009/10, the non trivial level was set at £0.092m.
- 1.3 The Audit Commission has conducted its audit of the Statement of Accounts and has recommended only a relatively small number of amendments prior to issuing their opinion and the publication of the accounts.
- 1.4 This report details those amendments, provides information regarding the Annual Report and Summary of Accounts and informs the committee of the outcome of the Public Inspection of the accounts.

2 RECOMMENDATIONS:

The Committee is recommended to:

- (1) Note the adjusted misstatements to the 2009/10 Statement of Accounts (paragraph 3.1).
- (2) Consider the advice in relation to unadjusted misstatements and agree that they should not be adjusted for (paragraphs 3.3 & 3.4).
- (3) Note the position statement regarding the Annual Report and Summary of Accounts (Section 5).
- (4) Note the results of the Public Inspection of the Accounts (Section 6).
- (5) Approve the letter of representation on behalf of the council (Appendix 1).

3 STATEMENT OF ACCOUNTS 2009/10

Adjustments Misstatements to the 2009/10 Statement of Accounts

- 3.1 The Annual Governance Report (AGR) prepared by the Audit Commission states that the draft financial statements were of a good standard and this has led to only having a relatively small number of changes being required to the revised accounts. Appendix 2 of the AGR sets out the changes that have been made.

Unadjusted Misstatements in the Accounts

- 3.2 There were two misstatements that were identified during the audit where the accounts have not been amended, details are provided below:

Pooled Budgets

- 3.3 In the Annual Governance Report, the auditor has highlighted that none of the partners in the pooled budgets in which the council participates are accounting for pooled budgets as joint arrangements that are not entities (JANEs) and have advised that this does not comply with the requirements of FRS 9, and will not comply with the requirements of International Accounting Standard 31 from 2010/11. The auditors recommend that the financial statements should be adjusted; however the committee are advised to reject this recommendation as the changes are not material to the accounts and the council's treatment of the arrangements, is consistent with previous years accounts and with the accounting treatment followed by our partners. The accounting treatment will be revised for 2010/11 to comply with the new accounting standards.

Investment Properties

- 3.4 The council holds investment properties as non-operational assets on its Balance Sheet and income and expenditure related to these investment properties is accounted for within the net cost of services in the Income & Expenditure Account. As non-operational assets do not contribute to service delivery, any relating income and expenditure should be classed as a trading operation and subsequently disclosed as part of the council's net operating expenditure within the Income & Expenditure Account. This has no material impact on the financial statements. It is not possible to make an accurate assessment of the level of income and expenditure involved without a great deal of officer time being spent and the council will be undertaking a full review of its investment properties and relating income and expenditure as part of the implementation of IFRS. For these reasons, an adjustment to the accounts is not recommended.

Uncertainties in the Accounts

- 3.4 The Audit Commission identified uncertainties relating to some figures with the accounts and these are listed in Appendix 4 of the AGR. None of the uncertainties are of a material nature or have impacted on the overall audit opinion.

Important Weakness in Internal Control

- 3.6 Compilation of the financial statements relies on data extracted from the financial systems operated by the council. It is therefore, important for the auditors to be satisfied that these systems have adequate controls in place so that assurance can be given on the integrity of the information held within them. The main control weaknesses identified by the auditors were within the Payroll System, this is a key system as it generates a large part of the council's expenditure. The auditors undertook additional substantive testing, which did not identify any cases of error or fraud.
- 3.7 The control weaknesses within the Payroll System have been identified as significant within the Annual Governance Statement approved by this Committee at its June meeting. Recommendations by the Audit Commission to improve the control environment are included in Appendix 7 of the AGR.
- 3.8 The council is currently implementing a new HR/Payroll System (I-Trent), this will include new procedures and control measures. However, the existing system (Teamspirit) is being phased out during this financial year and so some of the control issues will have continued into 2010/11.

4 PENSION COST QUERY FROM JUNE AUDIT COMMITTEE

- 4.1 At the Audit Committee meeting of 29 June 2010, a query was raised regarding the increase in the net pension liability (i.e. deficit) from £139m at 31 March 2009 to £34 m at 31 March 2010, an increase of £202m.
- 4.2 The net figures quoted above are the difference between the assets and liabilities of the fund. To help explain why such an increase in the net figure has occurred it is important to look separately at each of these elements as set out below:

	As at 31 Mar 2009	As at 31 Mar 2010	Change
	£M	£M	%
Assets	378	526	39%
Liabilities	(517)	(867)	68%
Net Deficit	(139)	(341)	145%

- 4.3 On the asset side, the council has seen its share of the assets held increase from £378m to £526m (around 39%). However the value placed on the liabilities has also increased from £518m to £869m (68%). This means that, on a FRS17 basis, the funding level (the ratio of assets held to liabilities attributable) of the council has dropped from 73% at 31 March 2009 to 60% at 31 March 2010. This is due to the positive impact of greater than expected returns on assets being outweighed by a greater increase in the liabilities. The two key reasons for the liabilities increasing so sharply are:
- A reduction in the real discount rate - LGPS benefits are linked to price inflation and salary inflation. Therefore, when assessing the effect of changes in financial assumptions on the FRS17 liabilities there is a need to compare the real discount rate (i.e. net of price inflation) from year to year. In most cases, the real discount rate has decreased significantly from 3.7% p.a. as at 31 March 2009 to 1.6% p.a. as at 31 March 2010. This is due to a fall in corporate bond yields over the year combined with an increase in the level of inflation expectations. All else being equal, a lower real discount rate leads to a higher value being placed on the

liabilities. The change in real discount rate between March 2009 and March 2010 has had a substantial negative impact on the FRS17 balance sheet; the pension's actuary has advised that the value of the liabilities has typically increased by around 40% to 45%.

- Longer life expectancy assumptions - All else being equal, improved life expectancy has an adverse effect on the funding position of pension schemes, as they face the prospect of having to pay retirement benefits to pensioners who are living longer into the future. In order to attempt to model this improved life expectancy, the pension actuary has strengthened the post retirement mortality assumptions for the FRS17 2010 exercise. These assumptions have led to higher life expectancies than adopted in previous years, adding around 1.5 years to life expectancy at age 65 compared to the assumption adopted for last year's FRS17 exercise. This change is consistent with the continuing trend of employers who report under FRS17 to make allowance for increasing life expectancy. This increase in future life expectancy has had an adverse effect on the FRS17 position as at 31 March 2010, the pension's actuary has advised that the value of the liabilities have increased typically by around 4% to 6%.

In relation to the council, the change in the real discount rate led to an increase in the liabilities of around 50% with the change to life expectancy assumptions leading to a further increase in the liabilities of around 6%. Other factors which have led to an increase in the liabilities, which were expected to occur at the start of the year, include the interest cost on the liabilities (around 7%) and the accrual of further benefits for employees over the year (around 4%). The combined effect of these factors adds up to the 68% mentioned above.

5 ANNUAL REPORT AND SUMMARY OF ACCOUNTS

- 5.1 Each year, the council produces an Annual Report which incorporates a Summary of the Accounts. These documents aim to provide summarised information about the council's performance and financial standing in a clearer and easier to understand format than the prescribed layout of the main Statement of Accounts.
- 5.2 The Annual Report, incorporating the Summary of Accounts will be published on the council's website.
- 5.3 The aim is to continually improve the Annual Report and Summary Accounts to complement and/or reinforce other information provided by the council such as the Corporate Plan and Performance Reports taking on board feedback from members of the public.
- 5.4 At the time of producing this report, work was ongoing on the 2009/10 Annual Report and Summary Accounts, which is scheduled for publication at the end of October.

6 PUBLIC INSPECTION OF THE ACCOUNTS

- 6.1 Members of the public, in accordance with the Audit Commission Act 1998, are granted access for a four-week period to the council's unaudited Statement of Accounts and are invited to enquire on any aspect of these Accounts. If a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the Accounts with the Audit Commission.

- 6.2 This year the council received an enquiry from two members of the public. These enquiries encompassed many areas of the Accounts. Responses to the queries have been compiled and sent and have not resulted in any objection to the Accounts.

7 EVALUATION OF ALTERNATIVE OPTIONS

- 7.1 After the Accounts have been made available for public inspection, alterations may only be made with the consent of the auditor, i.e. in this case the District Auditor. The alterations in this case have received her consent.

8 REASONS FOR REPORT RECOMMENDATIONS

- 8.1 To ensure that the Audit Committee is fully aware of the changes to the Accounts agreed with the auditor in response to the findings and recommendations arising from the audit of the accounts.

9 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

- 9.1 Included in the body of the report.

Finance Officer Consulted: Patrick Rice *Date: 14 September 2010*

Legal Implications:

- 9.2 Under the Accounts and Audit Regulations 2003, it is the responsibility of the Audit Committee to approve the council's statement of accounts (SoA). These Regulations also prohibit any alteration to the SoA without the consent of the auditor. Paragraph 7 above confirms that the required consent has been given, which makes it lawful for the Committee to note the amended 2009/10 SoA. Given the Audit Committee's role in respect of approving the SoA, it is entitled to reject a request by the Audit Commission to adjust a misstatement.

Lawyer consulted: Oliver Dixon *Date: 14 September 2010*

Equalities Implications:

- 9.3 There are no equalities implications arising directly from this report.

Sustainability Implications:

- 9.4 There are no direct environmental implications arising from this report.

Crime & Disorder Implications:

- 9.5 There are no direct implications for the prevention of crime and disorder arising from this report.

Risk and Opportunity Management Implications:

- 9.6 There has been no direct risk assessment for this report.

Corporate / Citywide Implications:

- 9.7 The quality of a public authority's financial statements is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the statements present fairly the financial position of the authority. The quality and accuracy of the Statement of Accounts also impacts on the council's score under the Comprehensive Area Assessment framework.

SUPPORTING DOCUMENTATION

Appendices

Appendix 1: Letter of Representation

Documents in Members' Rooms

None

Background Documents

None

Letter of Representation

To:

Helen Thompson
District Auditor
Audit Commission
Bicentennial House
Southern Gate
Chichester
West Sussex
PO19 8EZ

Brighton & Hove City Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Brighton & Hove City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with "the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice", which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. The reasons for not adjusting the accounts are:

Pooled Budgets

- The accounting treatment is consistent with that adopted in previous years;
- It matches the practice followed by our partners in the pooled budget arrangements and therefore provides a consistent approach;
- The accounting treatment will be reviewed for 2010/11 following the implementation of the new IFRS accounting standards.

Investment Properties

- Significant resources would be required to complete a full review of all investment properties, any changes required would not have a material affect on the accounts or impact on the net Surplus of the Income & Expenditure Account;
- A full review will all be undertaken of all properties in preparation for the implementation of the new IFRS accounting standards for the 2010/11 accounts.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For all significant assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 September 2010.

Signed:

Name: Catherine Vaughan

Position: Director of Finance and Resources

Date: 28 September 2010.

Annual Governance Report

Brighton & Hove City Council

Audit 2009/10

Date

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

Members of the Audit Committee

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Director of Finance and Resources on 6 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 3);
- approve the letter of representation for the Council before I issue my opinion and conclusion (Appendix 5); and
- agree your response to the proposed action plan (Appendix 7).

Yours faithfully

Helen Thompson
District Auditor

28 September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	4
Financial statements free from material error	Yes	4
Adequate internal control environment	Yes	4 and 10
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	17

Audit opinion

- 1 I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 2 The financial statements presented for audit were of a good standard and my audit work has detected only a small number of errors and uncertainties. Working papers to support the financial statements were also good. The draft financial statements were available over a week before the Council's internal deadline for approval of the accounts. This allowed for proper officer and member review of the statements before approval and submission for audit. Queries arising during the audit were addressed comprehensively and promptly by officers.
- 3 The Council's internal financial control environment is adequate, but improvements are required to the control environment within the payroll system, which produces a large part of the Council's total expenditure.

Value for money

- 4 The Council has adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. I will therefore issue an unqualified value for money conclusion.

Key messages

Audit fees

- 5 I will deliver the audit within the fee of £367,895 presented to you in my 2009/10 fee letter and detailed audit opinion plan.
-

Independence

- 6 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation for the Council before I issue my opinion and conclusion (Appendix 5); and
- agree your response to the proposed action plan (Appendix 7).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 8** I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
-

Errors in the financial statements

- 9** I plan and undertake my audit work to give reasonable assurance that the financial statements are free from material misstatement. For the 2009/10 financial statements all audit errors and uncertainties over £9.2 million are defined as material. However, auditing standards require me to report to you all non-trivial errors and uncertainties that I detect as part of my work. For 2009/10, all errors and uncertainties of over £92,000 are defined as non-trivial and are set out over paragraphs 10 to 19.

Adjusted errors

- 10** Total recognised gains and losses disclosed in the Statement of Total Recognised Gains and Losses (STRGL) did not agree to the movement in net worth between the 2007/08 and restated 2008/09 balance sheets. The difference of £415,000 related to an error in the disclosure of the prior period adjustment for the surplus on revaluation of Private Finance Initiative (PFI) fixed assets. Officers have amended the STRGL and Note 2 of the financial statements.
- 11** During the period the Council correctly reversed a prior year impairment of council dwelling values in the balance sheet to reflect increases in property prices during 2009/10. There were misclassifications in the disclosure of this impairment reversal at Note 15 to the financial statements which shows in year movements in the Council's operational assets. Officers have adjusted Note 15 to correct the misclassification of the impairment reversal.
- 12** As part of my work I challenged the Council's approach to identifying trade debtors and creditors that should be classified as financial assets and liabilities in the disclosure of financial instruments at Note 42 of the financial statements. As a result, the Council identified trade debtors classified as financial assets were understated by around £14.2 million, and trade creditors classified as financial liabilities were understated by around £5.7 million. Officers have amended Note 42 of the financial statements to correct this.
- 13** Appendix 2 sets out the adjustments made to the financial statements.

Unadjusted errors

- 14** None of the partners in the pooled budgets in which the Council takes part account for the pooled budgets as joint arrangements that are not entities (JANEs). This does not comply with Financial Reporting Standard (FRS) 9, and will not comply with International Accounting Standard 31 from 2010/11. For the children and young people's trust pool, which the Council hosts, the Council's balance sheet includes a net creditor and cash balance. The Council should only hold 91.2 per cent of gross debtor, creditor and cash balances on its own balance sheet under the terms of the pool agreement. For the main adult and older people pool, hosted by Brighton & Hove Primary Care Trust, none of the year-end pool debtors, creditors or cash are included on the Council's balance sheet. I consider weaknesses in accounting and governance arrangements for pooled budgets more fully at paragraphs 26 and 27 and raise a recommendation for improvement.
- 15** The Council holds around £179 million of investment properties which it classifies as non-operational assets on its balance sheet. Income and expenditure related to those investment properties is currently accounted for within the Council's net cost of services disclosed in the Income and Expenditure Account. This is not correct as the assets are non-operational and therefore do not contribute to service delivery. Income and expenditure should properly be classified as relating to a trading operation and disclosed as part of the Council's net operating expenditure. The net value of this misclassification in the Income and Expenditure Account is £2.4 million. I am therefore satisfied that this has no material impact on the financial statements. As part of its work to prepare for the introduction of IFRS, the Council should continue to review its investment property portfolio to decide whether all assets are non-operational, or whether some of those assets support the service or wider strategic objectives of the Council. **See recommendation 1.**
- 16** Appendix 3 sets out the unadjusted misstatements in the accounts. You need to consider whether you agree these should not be adjusted. If you decide not to amend the financial statements you should agree the reasons for not adjusting set out in the letter of representation at Appendix 5.

Uncertainties

- 17** As part of my work on the Council's fixed assets I found that around £9 million (gross book value) of fixed assets are fully depreciated but still in use. These assets have a useful life on the Council's asset register of five years, but remain in use after eight years. I have estimated the possible impact of this on the financial statements. From this, I have concluded that depreciation charged on these assets was:
- overstated by a maximum of £675,000 a year in years one to five of the assets' lives; and
 - understated by a maximum of £1.125 million a year in years six to eight of the assets' lives.

I am therefore satisfied that this has no material impact on the financial statements, but it is not possible to make an accurate adjustment. Appendix 4 sets out uncertainties in the accounts. **See recommendation 2.**

Financial statements

- 18** I noted weaknesses in the Council's cut-off arrangements to ensure that income and expenditure is included in the correct financial year. Although 52 weeks of council dwelling rental income has been accounted for, the value disclosed in the 2009/10 financial statements includes two days from the end of the 2008/09 financial year, and excludes three days from the start of the 2009/10 financial year. The Council takes this approach so that income is matched to rent weeks, which may straddle the start and end of the financial year. Although this approach produces a reasonable accounting estimate I have needed to calculate the maximum error in the financial statements based on the information available. I estimate this to be around £806,000. I am therefore satisfied that this has no material impact on the financial statements and no adjustments have been made.
- 19** The estimated fair value of pension contributions made by the Council for unfunded benefits, which were considered by the pension fund actuary in its valuation of pension fund assets and liabilities, was understated by around £1.15 million. The Council passed an accurate estimate to East Sussex County Council, as the administering authority for the pension fund, but the actuary did not consider this. This has partly contributed to a difference arising between the value of the net pension liability and reserve shown in the Council's closing balance sheet and the valuation of the net pension liability and reserve shown in the actuary's report. The difference between the net pension fund liability and reserve in the Council's balance sheet and actuary's report is £3.3 million, and therefore is not material. I am also satisfied the actuary's valuation of the net liability will not have been materially affected by the understatement of the estimate of pension contributions made by the Council for unfunded benefits. The Council needs, however, to improve its arrangements in this area. Specifically the Council should:
- Ensure that an accurate estimate of contributions for unfunded benefits is provided to the actuary. This will need to be done in consultation with East Sussex County Council as the administering authority for the pension fund.
 - Undertake reasonableness checks on the valuation of the net pension liability received from the actuary before processing entries in the financial statements.

See recommendations 3 and 4.

Recommendation

R1 Continue to review the investment property portfolio to decide whether all assets are non-operational, or whether some of those assets support the service or wider strategic objectives of the Council.

R2 Review the accuracy of asset lives on the fixed asset register to ensure they reflect the true useful life of all fixed assets.

R3 Ensure that an accurate estimate of contributions for unfunded benefits is provided to the actuary. This will need to be done in consultation with East Sussex County Council as the administering authority for the pension fund.

R4 Undertake reasonableness checks on the valuation of the net pension liability received from the actuary before entries are processed in the financial statements. If estimated contributions differ from the year-end actual, consider the difference, and any impact on the actuarial valuation of the pension liability, before it is disclosed in the financial statements.

Important weaknesses in internal control

- 20** I have concluded the Council's internal financial control environment is satisfactory overall. However, my work on the Council's significant financial systems identified some areas of weaknesses in the design or operation of controls. The reliable operation of effective controls in all significant financial systems provides assurance to management and members, and allows me to complete my work more efficiently.
- 21** Table 1 sets out details of internal control weaknesses, the risks they create and recommendations for improvement. A number of the control weaknesses identified are in the Council's payroll system, which produces a large part of the Council's total expenditure. The Council is implementing a new payroll system which will run for part of the 2010/11 financial year. It is important that control weaknesses in the current system, which both Internal Audit and I have identified in recent years, are fully addressed in the new payroll system. As I have not been able to rely on the operation of controls to gain assurance my team has needed to undertake a relatively large amount of substantive testing in this area to allow me to give my audit opinion. This substantive work highlighted some variation in the level of understanding of pay budgets by budget holders, which further undermines the overall internal control environment in this area.

Table 1 Control weaknesses in larger financial systems

System	Control	Control weakness and risk
Payroll	The forms used to tell payroll of new joiners, leavers and changes in circumstances are properly authorised.	My team found that only 33 out of 60 transactions tested were properly approved. This creates a risk that transactions may be processed wrongly or salaries paid wrongly. See recommendation 5.
Payroll	Review and clear the payroll 'unactioned changes report' before running the payroll.	The payroll department does not keep any evidence to prove this check is systematically undertaken. This creates a risk that changes to the payroll processed

Financial statements

System	Control	Control weakness and risk
		<p>incorrectly are not detected and corrected.</p> <p>See recommendation 6.</p>
Payroll	Check and authorise changes in payroll system parameters.	<p>There was no evidence that changes in the system parameters, such as tax rates, were subject to checking and authorisation by a senior manager. This creates a risk that system parameters may be incorrectly set.</p> <p>See recommendation 7.</p>
National non-domestic rates	Changes to discounts and exemptions are subject to a check by team leaders to ensure they have been correctly processed.	<p>The Council should undertake a check of 10 per cent of the changes processed. No checks had been made from July 2009 to November 2009. This creates a risk that errors could go undetected.</p> <p>See recommendation 8.</p>
General ledger	<p>Journals on the general ledger are supported by narrative.</p> <p>Documentation is filed on a share drive and a file path is provided with links to the journal reference. Journals are properly authorised before processing.</p>	<p>Manual journal entries between directorates are not subject to formal check and authorisation. This creates a risk that errors could go undetected.</p> <p>See recommendation 9.</p>
Carefirst	The process for accepting new service providers requires authorisation from the contracts manager.	<p>In 2 out of 20 cases tested the request form was not properly authorised. This creates a risk that payments could be made to suppliers who do not meet the Council's criteria.</p> <p>See recommendation 10.</p>
Schools	A monthly reconciliation of all income and expenditure takes place for each school	<p>There is evidence of the reconciliation taking place where the school sends a monthly return. However, this is not compulsory and there is no central check.</p>

System	Control	Control weakness and risk
	between the school's monthly return and general ledger.	This creates a risk that any differences in income and expenditure records may not be detected. See recommendation 11.
Accounts receivable	Invoices are not produced directly by the debtors' team. They are separately produced from the system by the Financial Information Services team at Hove Town Hall.	There is no evidence of checking of invoices produced and delivered to the debtors' team. There is therefore a risk that invoices produced are not complete. See recommendation 12.

Recommendation
R5 Ensure that all documentation supporting changes in the payroll database is properly completed, authorised and filed.
R6 Keep evidence that the payroll 'unactioned changes report' is reviewed and cleared for each payroll run.
R7 Ensure that an appropriate senior manager checks and authorises any changes to payroll system parameters.
R8 Undertake accuracy checks for National Non-Domestic Rates rate relief adjustments, systematically and regularly throughout the year. Evidence of checking should be kept.
R9 Ensure that manual journals are formally checked and approved.
R10 All new providers on the Carefirst systems should be supported by correctly approved documentation.
R11 Require all schools to send a monthly financial return. This will allow the Council to undertake and evidence a monthly reconciliation of income and expenditure between the school monthly return and the general ledger.
R12 Introduce a check of monthly invoices produced from the accounts payable system by the Financial Information Services team to ensure they are complete.

Letter of representation

22 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 5 contains the draft letter of representation.

Key areas of judgement and audit risk

23 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my detailed work. I reported these to you at the June meeting of the Audit Committee as part of my 2009/10 Audit Opinion Plan.

Table 2 Key areas of judgement and audit risk

Issue or risk 1:

International Financial Reporting Standards (IFRS) will apply to local government financial statements from the 2010/11 financial year.

However, the requirements of International Financial Reporting Interpretations Committee (IFRIC) note 12, service concession arrangements, will apply from 2009/10. The Council will therefore need to identify and account correctly for service concession arrangements in its 2009/10 financial statements. This has a particular impact on the Council's libraries, schools and waste management PFI schemes, but not just these areas.

Finding:

The Council has followed a reasonable and clearly defined process to identify any service concession arrangements under IFRIC12 outside its PFI schemes. It has conducted an exercise to identify and review its major contracts with private sector entities to identify potential service concession arrangements. This highlighted a contractual arrangement with Shoreham Airport, which has the potential to fall within the scope of IFRIC12. Having considered the available evidence I am satisfied with the Council's conclusion that this contractual arrangement did not form a service concession arrangement under IFRIC12. It is therefore appropriate that any assets connected to the contractual arrangement are not accounted for on the Council's balance sheet. The Council also considered whether voluntary-aided schools fall within the scope of IFRIC12. I consider this issue more fully at paragraph 30.

The Council has also determined that its libraries, schools and waste management PFI schemes all fall within the scope of IFRIC12 and has therefore accounted for assets under these contracts on its balance sheet. This is consistent with my understanding of those contractual arrangements.

My work in this area has highlighted some minor disclosure errors made in the financial statements because of the early implementation of IFRIC12. Waste management facilities at Hollingdean, Maresfield and Whitesmith are now correctly accounted for on the Council's balance sheet. These assets were, however, omitted from Note 19 showing the Council's fixed asset holdings. Officers have amended the disclosure at

Note 19 of the financial statements for this finding.

Under IFRIC 12 Maresfield and Whitesmith waste management PFI assets are accounted for on the Council's balance sheet. During 2009/10 the Council spent around £6.6 million on the Maresfield and Whitesmith facilities. This was correctly treated and disclosed as capital in the primary statements and supporting notes. However, this has been excluded from the analysis of expenditure in the explanatory foreword as this did not form part of the Council's programmed capital spend for the period.

Although capital expenditure for the year can be reconciled between the explanatory foreword and primary statements and supporting notes, it is not disclosed consistently. Officers have adjusted the financial statements for these issues.

Issue or risk 2:

The Council's joint waste management PFI with East Sussex County Council is a complicated contractual arrangement that has changed significantly since it began. The accounting treatment adopted for this in the Council 2009/10 financial statements will need to comply with the requirements of IFRIC 12, and should be consistent with that adopted by East Sussex County Council. Transactions to account for the waste PFI will impact across the income and expenditure account, balance sheet and some of the notes to the financial statements. Interpretation of the accounting rules is a subjective exercise.

I have identified the accounting treatment adopted for the waste management PFI as a significant risk to my 2009/10 opinion on the financial statements. Auditing standards require me to undertake some extra work and testing on significant risks before I am able to give my opinion on the financial statements.

Technical specialists from our central technical services directorate have attended meetings with relevant officers from both Brighton & Hove City and East Sussex County Council throughout the year. Those specialists will undertake a review of the accounting treatment adopted in the financial statements.

I am also aware there is a complaint from a local elector at East Sussex County Council about changes to the waste management contract. I am talking to the auditor responsible and I will consider whether there is any need for extra disclosure within the financial statements for Brighton & Hove City Council in respect of this complaint.

Finding:

The Council has assessed the waste management PFI and concluded that it falls within the scope of IFRIC12. It has therefore accounted for its share of waste management assets under the contract on its balance sheet. This is consistent with my understanding of the contract. The accounting model for the waste management PFI is based on reasonable assumptions and agrees to the evidence currently available. The modelling is also consistent with underlying guidance. I am satisfied there is no evidence to suggest the accounting entries produced through the financial modelling are materially inaccurate. I am also satisfied the accounting entries produced through the financial modelling have been correctly reflected in the financial statements.

I have liaised with the auditor of East Sussex County Council on the complaint received

from the local elector. I am satisfied that no further disclosure is required in the Council's financial statements on this issue.

As part of my work in this area I have also reviewed the accounting treatment for the Council's schools and libraries PFI schemes. As part of this I noted the Council has capitalised life cycle costs for schools PFIs to the value of £706,000 at the end of 2009/10. In doing this, the Council should satisfy itself that processes are set up to review works funded from life cycle costs to determine that it is correct to capitalise the expenditure in line with existing financial reporting requirements. I also note the Council intends to capitalise around £64 million life cycle costs on the waste management PFI in 2020. It is therefore important from a financial planning perspective that it assures itself that it is correct to capitalise these costs.

See recommendation 13.

Issue or Risk 3:

The Council introduced a new fixed asset register, Asset 4000, during the 2008/09 financial year. As part of my 2008/09 post-statement audit work I noted that officers were unable to provide reports from Asset 4000 to support balances and disclosures appearing in the financial statements. I raised a recommendation to address this issue in my 2008/09 annual governance report.

My team held meetings with finance officers during the year to track progress on this issue. My team has specified the working papers it will need from Asset 4000 as part of my 2009/10 working paper requirements. I will review the adequacy of reports from Asset 4000 as part of my post-statement work in this area.

Finding:

Significant improvements were made to working papers supporting fixed asset balances and disclosures in the financial statements, including reports from the Asset 4000 system. My work identified one minor error on fixed assets which is considered at paragraph 15.

Issue or risk 4:

The Council settled a significant part of its total equal pay liability during the 2008/09 financial year. At the end of 2008/09 there remained around £14 million in the equal pay reserve. The 2009/10 financial statements should account for further settlement of the total liability.

Finding:

Only minor further settlements have been made during 2009/10, but the Council kept a single status liability provision of around £1.25 million and single status reserve of around £13.3 million at the balance sheet date. Notes 29 and 30 of the financial statements describe the provision and reserve.

I am satisfied the provision and reserve are fairly stated and the distinction between

them is correct and accords with the requirements of FRS 12 - provisions and contingencies.

Recommendation

R13 Establish processes to review works funded from PFI life cycle costs to decide whether it is correct to capitalise the expenditure in line with existing financial reporting requirements.

Accounting practice and financial reporting

- 24** I consider the non-numeric content of your financial reporting.
- 25** As part of my work I undertake an overall review of the financial statements. This is an efficient way of assessing whether the financial statements are internally consistent, meet disclosure requirements and are consistent with my expectation based on my knowledge of the audit. I use this review to plan and inform my detailed testing of the financial statements. The greater the disclosure in the financial statements the more assurance I can take from my overall review. This year I fed back to the Council the overall review could be improved by full disclosure of movements on the capital adjustment account and revaluation reserve. The Council has, in response to this, included full disclosure of movements on these reserves as part of an updated Note 30 to the financial statements. The disclosure included by the Council goes beyond minimum requirements.
- 26** Under Section 75 of the National Health Service Act 2006, National Health Service (NHS) bodies and local authorities can form partnership arrangements for lead commissioning, integrated provision of services and pooled budgets. The Council is involved in a number of these joint arrangements with local NHS bodies. Note 7 to the financial statements sets out details of these. The accounting entries for the pooled budgets are complex and partly reliant on information prepared and provided by NHS partners. The pooled budgets should be accounted for as JANEs under the requirements of FRS 9. This requires each of the pool partners to account in its financial statements for its own share of pool income, expenditure, assets, liabilities and cash flows.
- 27** My work in this area has identified some weaknesses in governance and accounting arrangements for pooled budgets.
- The pooled budget agreements for some of the adult and social care pooled budgets, and the children and young people's trust pooled budget, are unsigned, do not relate to the period of account and refer to Section 31 of the NHS Act 1999 rather than Section 75 of the NHS Act 2006. The Council's own annual governance statement recognises this.

Financial statements

- None of the partners in the pooled budgets in which the Council participates are accounting for the pooled budgets as JANEs. This does not comply with FRS 9, and will not comply with International Accounting Standard 31 from 2010/11. This has resulted in non-trivial errors in the Council's balance sheet - see paragraph 14 and unadjusted misstatements at Appendix 3. Each partner is simply accounting for its own contribution to the pooled budget which potentially undermines any intended risk sharing arrangements as part of the pools.
- Accounting timetables are not aligned across the partners. Health partners are required to produce financial statements to an earlier timetable than in local government.

See recommendation 14.

- 28** The Chancellor of the Exchequer announced in his emergency budget on 22 June 2010 the consumer prices index rather than the retail prices index is the basis for estimating future public sector pension increases. Under FRS 21 - events after the balance sheet date - the financial impact of this change should be disclosed as a non-adjusting post balance sheet event. The Council, in consultation with the actuary, has disclosed the estimated fall of 19 per cent or £64.85 million in its net pension liability because of this change at note 33 to the financial statements.
- 29** As part of my work I noted that one of the Council's valuers undertaking fixed asset valuations was not a qualified member of the Royal Institute of Chartered Surveyors (RICS). Although the work of this valuer was subject to proper supervision and review, both the Council and the Local Government Statement of Recommended Practice (LGSORP) require a RICS qualified professional to undertake all fixed asset valuations. **See recommendation 15.**
- 30** In previous years the Council accounted for voluntary-aided schools on its balance sheet based on a consideration of the risks and rewards of ownership under FRS 5 - reporting the substance of transactions. The Council has reviewed whether this approach remains correct judged against IFRIC 12, which applies to the 2009/10 financial statements. The Council's conclusion is that voluntary-aided schools fall outside the scope of IFRIC 12. The Council has therefore continued to account for voluntary-aided schools based on its assessment under FRS 5. I am satisfied with this approach. The Council will, however, need to reconsider whether this approach remains appropriate when IFRS apply in full from 2010/11. **See recommendation 16.**
- 31** There were a small number of minor disclosure errors in the financial statements presented for audit. Table 3 sets these out in more detail.

Table 3 Disclosure errors in the financial statements

Item of account	Description of error and value	Amendment made
Cash Flow Statement (CFS).	'National Non-Domestic Rates (NNDR) payments to the national pool' and 'NNDR receipts' were disclosed as separate lines within the revenue activities section of the	Yes

Item of account	Description of error and value	Amendment made
	CFS. These values should have been netted-off and disclosed as 'other liquid resources' within the management of liquid resources section of the CFS. Only the NNDR cost of collection allowance should remain in the revenue activities section.	
Housing Revenue Account (HRA) Note 1 - Housing Stock.	The Council disclosed the vacant possession value of its HRA dwellings as required by the LGSORP. The date of the valuation was disclosed as at 31 March 2010 rather than the actual date of valuation of 1 April 2009.	Yes
Core financial statements Note 9 - Members' Allowances.	There was a minor difference of around £6,600 between members' allowances disclosed as paid in the financial statements and the amount disclosed as paid on the Council's website. The figure disclosed in the financial statements has been amended so it includes members' allowances scheme allowances only, and now agrees to the website disclosure.	Yes
Explanatory foreword.	The explanatory foreword disclosed that savings of over £12 million had been delivered in 2009/10. The actual savings delivered was around £10 million.	Yes

Recommendation

R14 Improve accounting and governance arrangements for pooled budgets. Specifically:

- ensure that pooled budget agreements are up to date, refer to the correct enabling legislation and are signed by all partners to the agreement;
- from 2010/11 account for pooled budgets under the requirements of IAS 31; and
- align accounting timetables so IAS 31 requirements can be complied with by pool partners across health and local government.

R15 Ensure that all Council valuers certifying fixed asset valuations are qualified member of the Royal Institute of Chartered Surveyors.

Financial statements

R16 Continue to consider whether it remains correct for voluntary-aided schools to be accounted for on the Council's balance sheet in the 2010/11 financial statements when International Financial Reporting Standards apply in full.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the use of resources judgement.

Value for money conclusion

- 32** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5. I have summarised my key findings and conclusions for the criteria in paragraphs 34 to 44 below.
- 33** I intend to issue an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Managing Finance

- 34** The Council continues to plan its finances effectively. Its financial plans are informed by good stakeholder consultation which it uses to agree spending priorities and shape financial plans. The Council links its annual budget to detailed directorate service plans and medium term plans include realistic and prudent forecasts of future income and expenditure. Expected cuts in public sector funding are included in medium term spending plans which set challenging but manageable limits for individual directorate spending. These include savings of £12.3 million in the 2010/11 budget. During 2009/10 the Council reviewed its treasury management strategy and has repaid £30 million of medium and long-term debt to secure annual savings of £1.2 million. It has also reviewed those organisations to which it is prepared to lend money in the current economic climate. These measures contribute to the Council's current sound financial standing and its ability to manage spending within available resources.
- 35** The Council is responding well to the need to secure financial savings but more needs to be done in this area. It has a good track record of improving efficiency. Since 2007/08 it has completed value for money reviews in all key services which have delivered significant savings without having a damaging effect on service performance. Senior managers regularly review relative costs against performance and take action to address high spending services. Budget reporting is clear, timely and focused on risk areas and, where overspending is forecast, remedial action is prompt and effective. However, considerable challenges remain. Overall costs exceed the national average and budget shortfalls are forecast in both 2011/12 and 2012/13. In response to this, the Council is reviewing its approach to service delivery and intends to introduce more strategic commissioning of services.

Value for money

36 Financial reporting arrangements are good. The Council prepared its 2009/10 financial statements in line with statutory requirements and to a good standard. They were also supported by good working papers. The Council has a clear plan for implementation of International Financial Reporting Standards (IFRS) as the basis of preparation for its 2010/11 financial statements. Members also understand the impact of IFRS implementation. There has, however, been some slippage against the Council's project plan in this area and successful implementation remains a key challenge for Finance. Financial information such as the audited accounts, annual report and annual audit letter is available to the public on the Council's website. Internal financial monitoring and reporting information is of a good standard overall. Members receive regular budget monitoring reports which summarise current expenditure as well as estimating the position at the end of the financial year. Officers provide detailed explanations of variations which are clear and easy to understand. Where necessary, senior managers take prompt and effective action to tackle potential overspends.

Governing the Business

- 37** The Council has a clear vision for the future of the city. This vision provides good direction about how the Council will work in the future and describes the Council's aim to develop a strategic commissioning role in partnership with other service providers. Currently, however, this joint strategic approach to commissioning is at an early stage. There are some examples of successful joint projects, such as delivering services for the supporting people initiative and pooled budget arrangements in social care, but overall there is not yet a consistent and systematic approach across all areas.
- 38** Procurement practices are satisfactory. Procedures to secure compliance with European Union procurement directives, contract standing orders, financial regulations and codes of conduct are routinely followed and all capital expenditure proposals must be supported by a comprehensive business case. The Council keeps a contract register to manage existing contracts but does not use this to identify opportunities to negotiate council-wide contracts for similar services or joint procurement with partners. Officers responsible for buying goods and services have a good understanding of the local market. Contracts include provisions to promote community well-being and sustainability, although the Council has yet to support the voluntary sector actively to create social enterprise initiatives agenda.
- 39** The Council produces high quality performance reports covering all key services. Data quality spot checks have confirmed that performance indicators are based on good quality data which is processed accurately. Specifically our testing has shown improvement in the quality of data on performance against the decent homes standard (DHS), which was the key area of weakness in my 2008/09 assessment. An important aspect of the improvement has been in the way the Council oversees performance of its housing repairs and maintenance contractor. As a result the Council can accurately gauge progress towards its target of securing compliance with the DHS by the end of 2013.
- 40** Performance monitoring is good. Cabinet considers performance reports each quarter. These reports are very comprehensive and include all relevant background information, performance and financial information, as well as outlining legal, equality, sustainability and city-wide implications. The reports also refer to partner organisations

where relevant and carry good quality narrative describing benchmarking and baseline evaluations. Information is well presented, easily understood and uses a traffic light system to show direction of travel for each indicator. This enables Cabinet to take better informed decisions and to support measures being taken to improve performance for those services that are not achieving targets.

- 41** Governance arrangements at the Council are sound. Following a review of governance arrangements in 2008/09, the Council has implemented improvements. The Chief Executive has developed positive relationships with all members and provides clarity about the respective roles and responsibilities of officers and members. The Council is working hard to make scrutiny more effective. It has introduced tripartite meetings between scrutiny chairs, cabinet members and directors. This has resulted in more policy development items being brought to scrutiny. In addition individual training for members and targeted training for some chairs and deputies is being provided. There is good induction and training programme for members and protocols for dealing with issues of ethical standards and conduct are generally effective. There are positive working relationships between the Council and its partners.
- 42** The Council has continued to strengthen its risk management arrangements. The corporate risk register is regularly reviewed and detailed response plans are in place for individual risks. There are good arrangements to identify fraud and errors highlighted from National Fraud Initiative data and other counter fraud and corruption arrangements are in place. No significant instances of fraud have been identified during the year. The Council has an effective Internal Audit function. The Audit Committee oversees the implementation of measures to tackle shortcomings and provides positive challenge. The overall financial control environment is sound with no significant internal control issues.

Managing Resources

- 43** Asset management arrangements for Council assets other than housing are good. The Council has a well-established database of information that summarises the condition, energy use, maintenance requirements and revenue costs of each of its properties. It uses this information to secure good value for money from these properties and is addressing outstanding maintenance. In contrast only 60 per cent of council dwellings met the Decent Homes Standard at the end of 2009/10. The Council is tackling this and aims to achieve full compliance by the end of 2013.
- 44** 2009/10 is the first year that workforce planning has been assessed at unitary authorities, and the Council is performing adequately. It has a good track record of developing staff and recruiting and retaining good people. However, despite achieving Investors in People accreditation, there are no effective council wide procedures in some important activities. Examples include workforce planning, where workforce plans are being developed as part of the service planning process - absence management, where sickness levels remain high and personal performance management where not all staff benefit from formal appraisals.

Glossary

Annual governance statement

45 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

46 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

47 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

48 The auditor has some reservations or concerns.

Unqualified

49 The auditor does not have any reservations.

Value for money conclusion

50 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor’s report to Members of Brighton & Hove City Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Brighton & Hove City Council, for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Brighton & Hove City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance & Resources and auditor

The Director of Finance & Resources’ responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks

Appendix 1 – Independent auditor’s report to Members of Brighton & Hove City Council

and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit

Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Brighton & Hove City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson

District Auditor

Audit Commission, Bicentennial House, Southern House, Chichester, West Sussex PO19
8EZ

29 September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 4 Amendments to the draft accounts

Item of account	Description of error
<p>Statement of Total Recognised Gains and Losses (STRGL).</p> <p>Note 2 to the Core Financial Statements - Prior Period and Exceptional/Extraordinary items.</p>	<p>Total recognised gains and losses disclosed in the STRGL did not agree to the movement in net worth between the 2007/08 and 2008/09 balance sheets. The difference related to an error in the disclosure of the prior period adjustment for the surplus on revaluation of PFI fixed assets.</p> <p>Impact on the STRGL: The 2008/09 comparative disclosure of the total recognised loss for the year was understated by £415,000. The 2008/09 comparative disclosure of the surplus arising on the revaluation of fixed assets was overstated by £415,000.</p> <p>Impact on Note 2: The 2008/09 comparative disclosure of the total recognised loss for the year was understated by £415,000. The 2008/09 comparative disclosure of the surplus arising on the revaluation of fixed assets was overstated by £415,000.</p>
<p>Note 15 to the Core Financial Statements - Summary of Capital Expenditure and Fixed Asset Disposals.</p>	<p>During the period the Council correctly reversed a prior year impairment of council dwelling values in the balance sheet to reflect increases in property prices during 2009/10. There were mis-classifications in the disclosure of this impairment reversal at Note 15 to the financial statements which shows in year movements in the Council's operational assets.</p> <p>Impact on Note 15: Impairments of the book value of council dwellings were overstated by approximately £12.5 million. Reversal of past impairments of the book value of council dwellings was overstated by approximately £12.5 million. The reversal of accumulated depreciation brought forward of approximately £12.5 million was originally mis-classified.</p>

Appendix 2 – Amendments to the draft accounts

Item of account	Description of error
Note 42 to the Core Financial Statements - Financial Assets and Liabilities - Financial Instruments	<p>As part of my work I challenged the Council's approach to identifying trade debtors and creditors that should be classified as financial assets and liabilities in the disclosure of financial instruments at Note 42 of the financial statements.</p> <p>Impact on Note 42:</p> <p>Trade debtors classified as financial assets were understated by approximately £14.2 million. Trade creditors classified as financial liabilities were understated by approximately £5.7 million.</p>

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5 Unadjusted misstatements in the accounts

Item of Account	Description of error
Children and Young People's Trust (CYPT) Pooled Budget.	<p>The CYPT pooled budget is not being accounted for in the financial statements as a joint arrangement that is not an entity as is required by FRS 9. The Council's share of pooled budget debtors, creditors and imputed cash are therefore not completely disclosed in the Balance Sheet.</p> <p>Impact on the Balance Sheet: Creditors are understated by £1,467,000 Debtors are understated by £960,000 Imputed cash is understated by £507,000.</p>
Adults and Older People Pooled Budget.	<p>The Adults and Older People pooled budget, which is hosted by Brighton & Hove Primary Care Trust, is not being accounted for in the financial statements as a joint arrangement that is not an entity as is required by FRS 9. The Council's share of pooled budget debtors, creditors and imputed cash have been omitted from its Balance Sheet</p> <p>Impact on Balance Sheet: Creditors are understated by £197,000 Debtors are understated by £61,000 Imputed cash is understated by £136,000.</p>

Appendix 3 – Unadjusted misstatements in the accounts

Item of Account	Description of error
<p>Income and Expenditure Account - net cost of services / net operating expenditure.</p>	<p>The Council holds approximately £179 million of investment properties which it classifies as non-operational assets on its balance sheet. Income and expenditure related to those investment properties is currently accounted for within the Council's net cost of services disclosed in the Income and Expenditure Account. This is not correct as the assets are non-operational and therefore do not contribute to service delivery. Income and expenditure should properly be classified as relating to a trading operation and disclosed as part of the Council's net operating expenditure. The net value of this misclassification in the Income and Expenditure Account is £2.4 million.</p> <p>Impact on Income and Expenditure Account: Net cost of services is understated by £2.4 million.</p>

Appendix 4 – Uncertainties in the accounts

Table 6 Uncertainties in the financial statements

Item of account	Description of uncertainty
Fixed Assets - Balance Sheet value and depreciation charge to the Income and Expenditure Account.	Approximately £9 million (gross book value) of fixed assets are fully depreciated but still in use. These assets have a useful life on the Council's asset register of five years, but remain in use after eight years. I have undertaken work to estimate the possible impact of this finding on the financial statements. From this I have concluded that depreciation charged on these assets was over-stated by a maximum of £675,000 a year in years one to five of the assets' lives, and was under-stated by a maximum of £1.125 million a year in years six to eight of the assets' lives. I am therefore satisfied that this has no material impact on the financial statements.
Housing Revenue Account and Income and Expenditure Account - council dwelling rental income.	I noted weaknesses in the Council's cut off arrangements to ensure that income and expenditure is accounted for in the correct financial year. Although 52 weeks of council dwelling rental income has been accounted for the value disclosed in the 2009/10 financial statements includes two days from the end of the 2008/09 financial year, and excludes three days from the start of the 2009/10 financial year. I have calculated the maximum possible error in the financial statements based on the information available. I estimate this to be approximately £806,000. I am therefore satisfied that this has no material impact on the financial statements.
Balance Sheet - net pensions liability and reserve.	The estimated fair value of pension contributions made by the Council in respect of unfunded benefits, which were considered by the pension fund actuary in its valuation of pension fund assets and liabilities, was understated by approximately £1.15 million. An accurate estimate was passed by the Council to East Sussex County Council, as the administering authority for the pension fund, but this was not considered by the actuary. This has partly contributed to a difference arising between the value of the net pension liability and reserve shown in the

Appendix 4 – Uncertainties in the accounts

Item of account	Description of uncertainty
	<p>Council's closing balance sheet and the valuation of the net pension liability and reserve shown in the actuary's report. The difference between the net pension fund liability and reserve in the Council's balance sheet and actuaries report is £3.3 million, and therefore is not material. I am also satisfied that the actuary's valuation of the net liability will not have been materially affected by the understatement of the estimate of pension contributions made by the Council in respect of unfunded benefits.</p>

Appendix 5 – Draft letter of representation

To:

Helen Thompson

District Auditor

Audit Commission

Bicentennial House

Southern Gate

Chichester

West Sussex

PO19 8EZ

Brighton & Hove City Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Brighton & Hove City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with "the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice", which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. The reasons for not adjusting the accounts are:

Pooled Budgets

- The accounting treatment is consistent with that adopted in previous years;
- It matches the practice followed by our partners in the pooled budget arrangements and therefore provides a consistent approach;

- The accounting treatment will be reviewed for 2010/11 following the implementation of the new IFRS accounting standards.

Investment Properties

- Significant resources would be required to complete a full review of all investment properties, any changes required would not have a material affect on the accounts or impact on the net Surplus of the Income & Expenditure Account;
- A full review will be undertaken of all properties in preparation for the implementation of the new IFRS accounting standards for the 2010/11 accounts.

Supporting records

51 All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Appendix 5 – Draft letter of representation

Fair Values

52 I confirm the reasonableness of the significant assumptions within the financial statements. For all significant assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events do not require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. We have no lines of credit arrangements.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 September 2010.

Signed:

Name: Catherine Vaughan

Position: Director of Finance and Resources

Date: 28 September 2010.

Appendix 6 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	N/A
Strategic asset management	Yes
Workforce	Yes

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2009/10 - Recommendations					
9	R1 Continue to review the investment property portfolio to decide whether all assets are non-operational, or whether some of those assets support the service or wider strategic objectives of the Council.	3	Head of Central Financial Services/Principal Accountant – Central Accounting	Yes	A review is underway as part of the IFRS implementation for the restatement of the 2009/10 accounts.	December 2010
9	R2 Review the accuracy of asset lives on the fixed asset register to ensure they reflect the true useful life of all fixed assets.	2	Head of Central Financial Services/Principal Accountant – Central Accounting	Yes	A process of reviewing asset lives will be discussed, agreed and implemented with relevant officers. It should be noted that because of the size of the council's asset base a rolling programme approach is likely to be	December 2010

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9	R3 Ensure that an accurate estimate of contributions for unfunded benefits is provided to the actuary. This will need to be done in consultation with East Sussex County Council as the administering authority for the pension fund.	3	Head of Central Financial Services/Principal Accountant – Central Accounting	Yes	adopted. Discussions are underway between the council and ESCC as the administering authority to ascertain the information produced and supplied to the actuary.	October 2010
10	R4 Undertake reasonableness checks on the valuation of the net pension liability received from the actuary before entries are processed in the financial statements. If estimated contributions differ from the year-end actual consider the reason for the difference, and any impact on the actuarial valuation of the pension liability, before it is disclosed in the financial statements.	3	Head of Central Financial Services/Principal Accountant – Central Accounting	Yes	Additional procedural guidance will be drawn up following discussion with ESCC as the administering authority for the pension fund. A more comprehensive review of the pension costs will be carried out as part of the 2010/11 timetable.	October 2010
12	R5 Ensure that all documentation supporting changes in the payroll database is	1	Head of People Central, Human Resources	Yes	We accept that this has been an ongoing problem that has made it difficult for audit assurance to be given	March 2011 (or earlier if additional resource is

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	properly completed, authorised and filed.				on the end to end process of paying staff. All procedures are being reviewed as part of the implementation of the new HR/Payroll system and improved controls will be implemented as part of this process.	identified)
12	R6 Keep evidence that the payroll 'unactioned changes report' is reviewed and cleared for each payroll run.	3	Head of People Central, Human Resources	Yes	This control measure will no longer be required when the new iTrent system is fully operational for payroll in November as the audit functionality with the software will track users initiating and authorising changes to the system. A final check of the old TeamSpirit system will be completed before the end of the financial year to ensure that every change on the system has been	November 2010

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12	R7 Ensure that an appropriate senior manager checks and authorises any changes to payroll system parameters.	1	Head of People Central, Human Resources	Yes	actioned and evidenced. This is a standard procedure that happens every year but could not be evidenced at the time of audit. However in subsequent discussions with the Audit Commission we confirmed that the new system was run in parallel for a period of time and that for each payroll run a selection of manual gross to net calculations are performed and evidenced to aid payroll accuracy. We were advised that these could constitute appropriate controls.	Immediately
12	R8 Undertake accuracy checks for National Non-Domestic Rates rate relief adjustments, systematically and regularly throughout the year. Evidence	3	Revenues & Benefits Manager	Yes	The audit checks were re-established after the audit visit. There is now a stock of completed checks and they are undertaken	Implemented

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	of checking should be kept.				regularly.	
12	R9 Ensure that manual journals are formally checked and approved.	2	Acting Assistant Director Financial Services & Financial Services Management Team	Yes	There are other safeguarding control measures; however, a review of current procedures will be taken.	December 2010
12	R10 All new providers on the Carefirst systems should be supported by correctly approved documentation.	1	Ambrose Page, Contracts Manager	Yes	This will continue to be standard practice. A concern arose due to a performance issue regarding a particular staff member, who is no longer undertaking the same duties.	Implemented
12	R11 Require all schools to send a monthly financial return. This will allow the Council to undertake and evidence a monthly reconciliation of income and expenditure between the school monthly return and the general ledger.	3	Head of Business Engagement 2 – CYPT & Environment	Partial	Following discussions with Internal Audit, we have put in place a system of quarterly reconciliation whereby all schools are requested to provide the schools finance team with a full Authority Financials to	Implemented

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Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					FMS (i.e. the schools system) every quarter. It is considered that a quarterly reconciliation to be a satisfactory control measure.	
12	R12 Introduce a check of monthly invoices produced from the accounts receivable system by the Financial Information Services team to ensure they are complete.	1	Head of Central Financial Services/Principal Accountant – Income & VAT	No	The FIS team who produce the invoices are now located and sited together with the Central Collection team. Reasonableness checks are undertaken in terms of the number of invoices expected.	n/a
16	R13 Establish processes to review works funded from PFI lifecycle costs to decide whether it is appropriate to capitalise the expenditure in line with existing financial reporting requirements.	3	Acting Assistant Director Financial Services in liaison with Heads of Financial Services and Strategic Finance	Yes	A review of the accounting treatment will take place.	October 2010
18	R14 Improve accounting and governance	2	Acting Assistant Director Financial	Yes	A full review of the accounting and governance	December 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<p>arrangements in respect of pooled budgets. Specifically:</p> <ul style="list-style-type: none"> ensure that pooled budget agreements are up to date, refer to the correct enabling legislation and are signed by all partners to the agreement; from 2010/11 account for pooled budgets in accordance with the requirements of IAS 31; and align accounting timetables so that IAS 31 requirements can be complied with by pool partners across health and local government. 		Services		arrangements will be carried out by the Acting Assistant Director of Financial Services and relevant Heads of Financial Services in discussion with other relevant council officers and health partners, in preparation for the 2010/11 accounts production.	
18	R15 Ensure that all Council valuers certifying fixed asset valuations are qualified member of the Royal Institute of Chartered Surveyors.	3	Assistant Director Property Services	Yes	Relevant officers will be reminded of the requirement	September 2010
19	R16 Continue to consider whether it remains appropriate for voluntary aided schools	2	Head of Central Financial Services/Principal	Yes	This will be considered as part of the IFRS implementation for the	December 2010

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	to be accounted for on the Council's balance sheet in the 2010/11 financial statements when International Financial Reporting Standards apply in full.		Accountant – Central Accounting		restatement of the 2009/10 accounts.	

The Audit Commission

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