

Annual Audit Letter

Brighton and Hove City Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	7
Closing remarks	12

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.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the 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.

Audit Opinion

- 1 I issued an unqualified audit opinion on the Council's financial statements on 30 September 2009.

Financial Statements

- 2 The financial statements presented for audit were complete, of a good standard and were supported by good quality working papers in the main. However, improvements are required in accounting for fixed assets. As a result of the issues identified an additional fee of £4,100 was billed.

Value for money

- 3 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

Audit fees

- 4 An audit plan for 2008/09 was issued in June 2009 which set out the expected fees. Table 1 shows details. As noted above additional fees of £4,100 was billed as a result of extended work required on the audit of fixed asset accounting. Our non-audit work was an independent assessment of the effectiveness of tenant and resident participation in the Council's housing services and to review the housing income management arrangements.

Table 1 Audit and non-audit work fees

Audit activity	Actual	Proposed	Variance
Financial statements and annual governance statement	£195,528	£191,428	£4,100
Value for money	£132,040	£132,040	Nil
Total audit fees	£327,568	£323,468	£4,100
Non-audit work - housing services	£13,800	£13,800	Nil

Independence

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

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds.

Significant issues arising from the audit

- 6 I identified a number of errors and uncertainties from my audit work and I set out details of the more significant items in our Annual Governance Report. Some amendments were made to the financial statements as a result of the audit work. The errors which were not amended did not impact on the issue of an unqualified opinion.
- 7 The main matters arising which I reported to the Audit Committee on 29 September 2009 related to:
 - incorrect use of prior period adjustments which resulted in some of the 2007/08 comparative figures being changed inappropriately;
 - the residual values of the library and school PFI projects were incorrectly shown as having nil value;
 - the bank overdraft originally shown in the balance sheet as £6.58 million was overstated by £2.8 million; and
 - fixed asset records and capital accounting arrangements which are explained more fully in the section below.

Accounting Practice and financial reporting

- 8** I considered the qualitative aspects of your financial reporting as part of my responsibilities and concluded that the financial statements presented for audit were complete. They were of a good standard and were supported by good quality working papers in the main. However, significant improvements are required in the maintenance of fixed assets records and associated capital accounting practices. A related matter had been raised in the annual audit and inspection letter 2007/08 since which time the Council introduced a new fixed asset accounting system to address the concerns raised.
- 9** Many of the capital accounting issues in 2008/09 arose from difficulties that officers had encountered in making adjustments to the fixed assets register system, Asset 4000. Officers were unable to transfer assets in the register itself without undertaking impairment and revaluation accounting entries, which in most cases created errors in the general ledger and led to mis-statements in the financial statements. I concluded a better understanding of how to use Asset 4000 effectively is needed. With the implementation of International Financial Reporting Standards for the Council's financial statements in 2010/11, which impact on the accounting for fixed assets particularly, the Council should address this as a priority.

Material weaknesses in internal control

- 10** I did not identify any significant weaknesses in your internal control arrangements, although I did refer to the need for improved internal control arrangements in one area of the payroll system which was also raised in last year's letter.

Internal Audit

- 11** Being able to place reliance on the work of Internal Audit is a key theme in my audit approach and in order to do this, I have to carry out a full review of Internal Audit every three years. Internal Audit is also a key component of the Council's internal control framework and contributes significantly to the Council's overall governance arrangements. My review was mainly based on the Chartered Institute of Public Finance and Accountancy Code of Practice for Internal Audit in Local Government in the United Kingdom (the CIPFA Code).
- 12** My overall conclusion was that Internal Audit provides an effective service. It has a positive reputation and standing within the Council which allows it to contribute fully to the corporate governance framework. As Internal Audit had complied fully with the CIPFA Code no recommendations were made.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 13** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 14** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 15** As part of my Annual Governance Report I set out the findings from the use of resources work. Table 2 shows the scores awarded and in the paragraphs that follow I highlight the key matters in forming my view.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources (natural resources and asset management only)	3
Overall use of resources score	3

Managing finances

- 16** The Council achieves its medium-term financial plans through effective targeted budget management process. Its financial health remains sound at 31 March 2009 despite settling a substantial equal pay claim, which has been met mainly from internal resources. The Council's medium term financial strategy is now firmly based on directorate service plans and linked to the Council's overall financial strategy where risks, opportunities and service pressures are considered in detail. There is a strong and well documented consultation process with residents and engagement with members to ensure the Council's priorities are matched to those of residents where possible.
- 17** There is a good understanding of the needs and drivers of costs locally. Although the Council has higher costs overall than the national average, after taking account contextual issues they are in line with comparable councils. A root and branch review of all costs was undertaken in 2007/08 which is driving a value for money improvement programme and the corporate critical budget review processes. There is a systematic approach to managing, monitoring and addressing higher spending services. A culture of comparative assessment is embedded within the Council with senior managers regularly reviewing relative costs against performance.
- 18** The Council's performance reporting is sophisticated and clear with outturns published for all of its Local Area Agreement targets on a quarterly basis. A traffic light system is used to indicate performance that is deviating from target and specific actions are identified to improve performance in those areas. Some key areas for improvement have not been achieved despite the Council's efforts such as the achievement of decent homes standard for all its dwellings. During the year, I have monitored the Council's proposal to set up a Local Delivery Vehicle (LDV) to bring in additional investment to improve council dwellings. I have noted that the Council is in contact with the Government Office of the South East about the detailed arrangements and that there is no certainty over the at this time..
- 19** The Council's financial performance reporting has improved significantly with detailed budget monitoring on a monthly basis. As noted earlier in this letter, the financial statements presented for audit were complete, of a good standard and were supported by good quality working papers in the main. However, improvements are required in accounting for fixed assets.

Value for money and use of resources

Governing the business

- 20** The Council has a clear understanding of the needs of its communities and where the greatest inequalities lie. A Joint Strategic Needs Assessment has been completed and the Community Strategy identifies how the Council aims to tackle these issues. There is a procurement strategy in place that is relevant to commissioning activity. However, it is less clear how the Council can provide itself with assurance that the strategy has delivered its aspirations.
- 21** Procurement officers and contract managers have a good understanding of the markets that the Council operated in locally. Work is also underway to support the voluntary sector better by the use of social enterprise arrangements. The Council has weaker overall control of contracts and 'off contract' spend. It is undertaking a substantial piece of work to ensure it knows all the contracts it has entered into and the main areas of spend such that it can realise opportunities for amalgamation and synergy of contracts in the future.
- 22** There is a clear programme of reviews that is identifying service improvements. Emerging outcomes from these processes are starting to identify and support innovative ways to deliver services.
- 23** Data quality (DQ) arrangements are in development. Departmental management teams consider DQ regularly and aim to improve consistency and approach. Information for decision making has been developed to meet Council needs and detailed reports have good levels of analytical data that informs options appraisals. Our review of a sample of three national performance indicators confirmed that they were reported correctly.
- 24** The Council also manages data security effectively to ensure that access is controlled. Members receive quarterly performance updates which are based upon delivery outcomes, progress against corporate priorities and the corporate health of the Council. The Chief Officers' Management Team has monthly performance focus sessions to provide additional challenge to reported performance.
- 25** The Council's governance arrangements are generally sound but there are some opportunities for further enhancement. The internal control environment is sound, and there are good formal governance arrangements in place that set out codes of conduct for officers and members with a robust standards procedure. The Council publishes officers' and members' roles and responsibilities within its Constitution and has formalised arrangements for officers and members to perform their respective roles. There are decision making structures in place with a scheme of delegation and the approach for dealing with legislative issues and to ensure legal advice is sought where relevant is appropriate. The approach to councillors' development is effective. Portfolio holders have annual reviews, new councillors have an induction programme and the Council's democratic services provide support to members to identify training opportunities. However, some members do not engage effectively in taking advantage of training opportunities. The scrutiny process has lacked rigour, although the Council has continued to develop these arrangements during 2009/10. I have made recommendations in the Good Governance review to suggest ways in which the Council can continue to improve its arrangements.

26 During 2008/09 the Council sought to mitigate two of its most significant corporate risks: long-term financing of educational premises by bidding for support through the Building Schools for the Future programme; and negotiating and settling a substantial equal pay claim without any long term impact to its financial health. Both these outcomes have been achieved through detailed consultation with members regarding the impact on Council priorities, a holistic review of reserve funds held and collective responsibility for the management of budgets in-year.

Managing resources

27 The Council has had a sustainability strategy in place since 2001, has a good track record of delivering reductions in the use of its natural resources, and has achieved associated cost efficiencies. It has a clear understanding of its own carbon emissions, water usage, other materials, air quality and the maintenance of habitats. There are clear links from the strategy into the wider delivery of services and to the procurement strategy.

28 The Council has an asset management plan which has strong links to its strategic priorities and the accommodation strategy, and it recognises the importance of proper maintenance of its assets and justifying its continued ownership. The Council is aware that under-utilised and/or inefficient assets can be a financial drain and has invested in new software to improve the effectiveness of asset management. Data is now held on the condition, suitability and resource usage of its assets. However, the Council is constrained by its limited financial resources to invest in improving these properties, the most notable issue being its own dwelling stock where about 48 per cent is below the decent homes standard.

VFM Conclusion

29 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources after assessing your arrangements against the criteria specified by the Audit Commission.

Housing advice and assistance work

30 The purpose of our work was to independently assess the effectiveness of tenant and resident participation in the Council's housing services and to review the housing income management arrangements and to identify improvements. The key messages from this work were:

- positive relationships had been built with residents since 2006;
- the Council had strong self-awareness of current service delivery and areas that needed to be improved;
- there was evidence of solid progress in improvement and effective improvement planning; and
- understanding of costs and use of benchmarking to improve value for money was an area for development.

Value for money and use of resources

31 More detailed analysis of these findings was provided and an assessment of the Council's prospects to improve was given. The prospects included:

- there was a recent track record on strengthening trust with tenants;
- performance indicator trends were generally positive;
- the Housing Revenue Account business plan reflected the principles of effective service planning and the full range of housing management challenges faced by the Council;
- some aspects of business planning could be improved by means such as establishment of improvement milestones;
- high staff turnover and sickness was a barrier to improvement but is being addressed; and
- the Council was aware of what needed to be done to improve its housing services.

Closing remarks

- 32** I have discussed and agreed this letter with the Chief Executive, Director of Strategy and Governance and the Director of Finance and Resources. I will present this letter at the Audit Committee on 15 December 2009 and will request officers to provide copies to all Council members.
- 33** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date issued
Housing advice and assistance	March 2009
Health Inequalities	September 2009
Annual Governance Report	September 2009
Final Accounts Report	December 2009
Review of Internal Audit	November 2009
Good Governance	December 2009

- 34** The Council has taken a positive and constructive approach to our audit. I wish to thank the officers for their support and co-operation during the audit.

Helen Thompson
District Auditor
December 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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