

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 28 JUNE 2011

COMMITTEE ROOM 1, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chair), Follett (Deputy Chair), Jarrett, Mitchell, A Norman, Pissaridou, Smith, Summers, Wakefield and Wealls

PART ONE

1. PROCEDURAL BUSINESS

1a Declaration of Substitutes

1.1 Councillor Summers declared that she was substituting for Councillor Sykes.

1b Declarations of Interest

1.2 There were none.

1c Exclusion of the Press and Public

1.3 In accordance with section 100A of the Local Government Act 1972 ('the Act'), the 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 Item 16 onwards.

2. MINUTES OF THE PREVIOUS MEETING

2.1 **RESOLVED-** That the minutes of the previous meeting held on 5 April 2011 be approved and signed as the correct record.

- 2.2 As a matter arising, the Chair informed the Committee that he had provided a reply to the Audit Commission in response to their request for assurance from the Audit Committee as the body charged with governance. Copies of the letter were to be distributed at this meeting.

3. CHAIRMAN'S COMMUNICATIONS

- 3.1 The Chair welcomed the new Members attending the Committee. He explained that the main functions of the Audit Committee were to ensure good governance, monitor the management of risk, monitor actions on fraud, and maintaining and giving financial assurance. The Audit Committee was an apolitical body that could make decisions but could recommend items to Cabinet or Council for further consideration.
- 3.2 The Chair informed the Committee that in keeping with the meeting's apolitical status, Councillor Ann Norman would be attending pre-meetings along with the Deputy Chair and himself.
- 3.3 The Chair noted that Councillor Smith would be a permanent appointment to the Audit Committee in place of Councillor G Theobald.

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 AND UPDATE 2010/11

- 9.1 The Committee considered a Progress Report and update 2010/11 from the Audit Commission that detailed progress against their 2010/11 Audit Plan and was intended to provide a summary of progress made and any significant issues arising.
- 9.2 The Chair noted the District Auditor's satisfaction that some progress was being made in improving the payroll system as this had historically been a problem. He requested further information from the District Auditor on the future of the Audit Commission.
- 9.3 The District Auditor responded that the public consultation process was ongoing however, a letter from Sir Bob Kerslake, Permanent Secretary of the Communities and Local Government Department to local authority Chief Executives had provided further clarity to the issue. His letter had outlined that external advice had suggested that the best way to transfer the Audit Commission's work to the private sector was to out-source the in-house Audit Practice as it was believed that this would secure the best price. The District Auditor believed that the procurement process would include selection from four or five medium-sized firms and the Audit Commission had been asked by the Communities and Local Government Department to begin preparatory work for the transfer of the 2012/13 audits. The District Auditor added that she expected these contracts to be sold on a regional basis so local authorities would continue to work with much the same audit teams as before. Plans for an employee mutual were continuing.
- 9.4 **RESOLVED-** That the Audit Committee note the external audit progress report and briefing.

10. UNAUDITED STATEMENT OF ACCOUNTS 2010/11

- 10.1 The Committee considered a report of the Director of Finance that presented the unaudited Statement of Accounts for 2010/11. In previous years the Accounts and Audit Regulations 2003 legislation required the Statement of Accounts to be approved by Members by 30 June each year. Revisions to the regulations which came into force on 31 March 2011 meant that from 2010/11 onward, the unaudited Statement of Accounts were to be approved by the Chief Finance Officer by 30 June and the audited Statement of Accounts approved by Members by 30 September.
- 10.2 The Director of Finance supplemented that the change to the regulations reflected the challenges to Members in approving a Statement of Accounts that have yet to go through the audit process.
- 10.3 Councillor Follett enquired if there would be a significant impact from the net pension liability increasing as detailed in page seventy of the accounts.
- 10.4 The Director of Finance answered that the figure used for this item in the accounts was a 'snapshot' reflecting the financial market at the time. This figure would change daily in relation to stock market performance. Whilst the figure did show how well funded the pension scheme was, it had no impact upon council tax payers or the local authority. Liability could be properly assessed when the local authority were asked to produce an

actuary figure. At this point, the authority may need to increase the pension contribution and incorporate this into its budget. The Director of Finance added that several factors, including increasing life expectancy, was causing a strain upon the pension fund.

- 10.5 Councillor Summers asked for further information on the increase in Right to Buy sales of Houses and Flats for 2010/11.
- 10.6 The Director of Finance noted this represented only a very small rise in the number of properties sold from ten during 2009/10 to sixteen in 2010/11. For information, she informed Members that seventy-five per cent of income from Right to Buy sales was retained by central government with twenty-five per-cent going to the local authority.
- 10.7 **RESOLVED-** That the Audit Committee note the Statement of Accounts for 2010/11 and note that these are subject to audit.

11. DRAFT ANNUAL GOVERNANCE STATEMENT 2010/11

- 11.1 The Committee considered a report of the Director of Finance that provided a comprehensive assessment of the governance arrangements and the internal control environment across all activities of the council. Once approved, the Annual Governance Statement would be signed by the Chief Executive and Leader of the Council and published on its own as a separate document. Also, to comply with the Accounts and Audit Regulations 2011 it would accompany the Statement of Accounts for 2010/11.
- 11.2 Councillor Mitchell enquired if the Annual Governance Statement was monitored externally.
- 11.3 The Head of Audit and Business Risk clarified that it was monitored by the Audit Commission. Where the Statement is inconsistent with work undertaken, changes can be made as had happened around two years ago.
- 11.4 Councillor Wealls asked if the Fraud Risk Analysis and Measurement review had been undertaken and any recommendations adopted.
- 11.5 The Director of Finance replied that a report and presentation by Deloitte Public Sector Internal Audit had been considered at the December 2010 meeting. This had provided an overview of the biggest fraud risks and had been incorporated into the work undertaken by Internal Audit.
- 11.6 The Head of Audit and Business Risk highlighted that Brighton & Hove were one of very few local authorities examining fraud risk as part of their audit workplan.
- 11.7 **RESOLVED-** That the Audit Committee:

Approve the Annual Governance Statement for publication

Note the actions to further improve governance arrangements. The Committee will be updated during 2011/12 on progress made.

12. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 12.1 The Committee considered a report of the Director of Finance that presented the findings of the annual review of the effectiveness of Internal Audit. This report was also regarded as a part of the wider annual review of the council's governance arrangements and production of the Annual Governance Statement.
- 12.2 The Head of Audit and Business Risk supplemented that the review was undertaken in accordance with the proper standards of professional practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government (2006).
- 12.3 The Chair referred to the option for the Committee to establish a sub-group of the Committee to assist its effectiveness. If Members were agreed on establishing such a group, he suggested that representation be allocated on a cross-party basis.
- 12.4 Members were in agreement with the proposals put forward and confirmation of membership was to be made to the Head of Internal Audit and Business Risk.
- 12.5 Councillor Wealls noted that the assessment had been conducted internally then reviewed by the Assistant Director Audit for the London Borough of Bromley. He asked if this review had challenged any elements of the assessment.
- 12.6 The Head of Audit and Business Risk answered that no challenges had been made but more information was requested. The Director of Finance added that the test was very prescriptive in nature, requiring yes or no responses. She informed the Committee that it was her responsibility to sign off the report after assessing its findings.
- 12.7 **RESOLVED-** That the Audit Committee:

Note the findings of the review of the effectiveness of the system of internal audit for 2010/11 and notes the actions arising for minor improvement.

Note that based upon the results, the council's Internal Audit is considered to be operating in accordance with accepted professional practice and remains effective and that the council can continue to place reliance on its Internal Audit arrangements for the purpose of the Annual Governance Statement.

13. AUDIT COMMITTEE ANNUAL REPORT 2010/11

- 13.1 The Committee considered a report of the Director of Finance that provided a summary of the Audit Committee's performance and achievements during 2010/11. The preparation of an annual report is recognised as best practice for an Audit Committee in providing assurance on its role as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 13.2 **RESOLVED-**

- (1) That the draft Annual Report be noted; and
- (2) That the draft Annual Report be referred to Full Council for information.

14. TARGETED BUDGET MANAGEMENT PROVISIONAL OUTTURN 2010/11

- 14.1 The Committee considered a report of the Director of Finance that set out the provisional outturn position (month 12) on the revenue and capital budgets for the financial year 2010/11. The report had been considered and approved by Cabinet on 9 June 2011.
- 14.2 Councillor Follet asked why concessionary fares had a significant variance of -12.3% for month 12.
- 14.3 The Director of Finance explained the local authority had secured a fixed price deal with the local providers. She was delighted that such a deal had been agreed as variables such as in-year changes in schemes and fares, made it very hard to determine a budget for the service leading to variance both plus and minus. This decrease would be applied in the budget of 2012/13.
- 14.4 Councillor Pissaridou enquired how underspends were incorporated into the budget.
- 14.5 The Director of Finance clarified that sometimes underspends, ideally within the threshold, were needed to off-set unexpected overspends in other sectors. The Director of Finance added that departments that regularly overspend were held to account for this by the Overview and Scrutiny Commission. In cases of an overall budget underspend, this was added to the unallocated general reserves unless there is a need to allocate funds to a specific reserve.
- 14.6 Councillor Wealls noted that he believed the Future Jobs Fund programme had stopped with immediate effect yet the report suggested funding for a future extension of this programme had been secured.
- 14.7 The Director of Finance replied that she too was unsure of the current status of the Future Jobs Fund. She would investigate the matter and provide clarification.
- 14.8 **RESOLVED-** That the Audit Committee notes the report.

15. RISK & MANAGEMENT UPDATE: THE PERFORMANCE AND RISK MANAGEMENT FRAMEWORK

- 15.1 The Committee considered a report of the Director of Finance which set out the risk management aspects of the council's Performance and Risk Management Framework.
- 15.2 **RESOLVED-** That the Audit Committee note the framework diagram which sets out the risk management aspects of the council's Performance & Risk Management Framework.

16. STRATEGIC RISK MANAGEMENT ACTION PLANS FOCUS

16.11 **RESOLVED-** That the Audit Committee:

Considered and provided comments on the Strategic Risk Assessment Report

That the Risk Owner for Strategic Risk SR6 'Safeguarding vulnerable members of our community including looked after children' be requested to attend the next Audit Committee meeting on 27 September 2011.

That the Risk Owner for Strategic Risk SR1 'Readiness for opportunities and impacts of localism' be requested to attend the Audit Committee meeting on 20 December 2011.

17. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2010/11

17.6 **RESOLVED-** That the Audit Committee notes the Internal Audit Annual Report and Opinion 2010/11 including the Head of Audit & Business Risk's Opinion for 2010/11 on the adequacy and effectiveness of internal control and notes the internal audit coverage and any significant issues emerging.

18. PART TWO ITEMS

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

The meeting concluded at 6.34pm

Signed

Chair

Dated this

day of

