

Annual Audit Letter

Brighton and Hove City Council

Audit 2010/11



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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
 - **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk

Unqualified audit opinion



Proper arrangements to secure value for money



Our findings

Audit opinion and financial statements

I gave an unqualified audit opinion on your financial statements on 28 September 2011.

This year you had to produce financial statements which fully comply with the requirements of International Financial Reporting Standards (IFRS) for the first time. Restating the accounts to comply with IFRS has been a complex task that caused significant difficulties for many local government bodies. By properly planning your work in this area you were able to produce good quality financial statements, which were supported by good working papers, with little slippage against your planned timetable.

Value for money

I gave an unqualified value for money conclusion on 28 September stating that you have proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

You responded well to government funding reductions and the need to adjust current and future budgets. You have good financial governance, financial planning is effective and forward looking and internal financial control is generally sound. However, your overall costs remain high compared with similar councils with your 2009/10 total net spending per head in the top 20 per cent of your statistical nearest neighbours. You are aware of the significant financial challenges you face over the medium term and your move to an intelligent commissioning operating model is challenging both service commissioners and providers to challenge traditional ways of working and improve value for money.

Current and future challenges

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed economies remains difficult. Since taking office in May 2010 the Coalition Government has focused its attention on deficit reduction measures and the public sector has faced an unprecedented squeeze on its funding.

You face significant challenges in the context of this broader economic downturn and increased pressure on the public sector. These include reducing funding, increasing demographic pressures and demand, and rising customer expectations. You will therefore need a continued focus on improving the value for money of the services you deliver.

You have ambitious medium term plans to bring the Council closer to residents, businesses and visitors to achieve a stronger, healthier and thriving city. The Coalition Government's comprehensive spending review (CSR) is requiring all public sector bodies to consider the way they work and you, like many other local councils, are exploring new ways of working to achieve your ambitions with decreasing resources. As part of your transformation programme you are seeking to develop your approach to how you commission services. Your aim is to maximise the benefits offered by working in partnership and better understand exactly what needs to be delivered and how that can be best achieved.

You have positioned yourself well to ensure that you remain financially resilient. In 2010/11 you responded quickly to in-year grant reductions and other decreases resulting from CSR. You delivered an underspend against the general fund budget of around £2.5 million, and an underspend against housing revenue account budgets of around £1.4 million. However, at the end of month 4 of 2011/12 you are predicting a full-year general fund overspend of approximately £1.3 million. You are putting actions into place to address the overspending, have some risk provisions to mitigate against it and have a good track record of managing in-year over-spending to achieve your budget by the end of the year.

Changes to local government financing

The Department for Communities and Local Government (DCLG) is consulting councils on a number of proposed technical reforms to council tax. The proposed changes are intended to further empower local communities as part of the Coalition Government's wider agenda for decentralisation and localism, and keep the overall level of council tax down. You have responded to the consultation on a joint basis with other councils in East and West Sussex and have expressed some concerns about the proposed changes.

The Coalition Government is also proposing to make further changes to local government financing. One of these changes would allow councils to keep locally collected business rates. Although you support the intention to provide greater financial incentives for local authorities to encourage business growth, you have concerns about the current proposals. In particular, you believe the proposed scheme is too complicated and transfers too much financial risk to you relative to the levers you have available to promote business growth.

Council housing

April 2012 spells the end of the housing revenue account subsidy system. Under plans in the Localism Bill, English councils will take control of their housing rental income enabling them to plan effectively for the long-term management of these key assets. In return councils will take on a share of the national £28 billion housing debt as part of the self-financing settlement. The financial impacts of this change in financing are potentially significant to the Council.

Plans to transfer 499 properties to Seaside Community Homes (Seaside) are also now approaching fruition, with the initial transfer of properties starting in November 2011. Seaside, which is a charitable company limited by guarantee, will be responsible for providing accommodation and services for certain disadvantaged client groups. It will also have responsibility for management of the transferred properties. You plan to use the receipt arising from the transfer to help fund works to your remaining council homes with the aim of achieving compliance with the requirements of the Decent Homes Standard by the end of 2013. The transfer of properties and resulting receipt creates some detailed accounting issues which I plan to consider as part of my 2011/12 audit.

Other legislative changes

In addition to the planned changes to local government financing the Coalition Government has announced a significant number of other wide-ranging reforms to the public sector since taking office in May 2010. The Localism Bill is advanced in its parliamentary progress and if passed will have a significant impact on local government. Key aspects of the bill are:

- the abolition of the Standards Board regime;
- introducing a general power of competence for local authorities;
- introducing rights for communities to buy local assets threatened with closure and challenge the way services are provided; and
- substantial reforms of the planning system.

In addition other government reforms are planned to the welfare system, which will impact on your future work in managing housing and council tax benefits.

You will need to continue to monitor and forecast the impact of these changes to fully assess the challenges and opportunities they create.

Financial statements and annual governance statement

Your financial statements and annual governance statement are an important means by which you account for your stewardship of public funds.

Overall conclusion from the audit

I gave an unqualified opinion on your financial statements on 28 September 2011.

The quality of accounting practice and financial reporting at the Council is good. You were able to provide me with high quality draft financial statements, which were supported by comprehensive working papers, before the 30 June deadline. This was a particular achievement given the need to produce IFRS compliant accounts in 2010/11, which was a time-consuming and complex task requiring significant input from council officers both within and outside the finance team. Your approach was well planned and coordinated. I identified a relatively small number of errors and other qualitative weaknesses from my work. I reported detailed findings from my audit of your financial statements, including details of adjustments made and recommendations for improvement, in my 2010/11 annual governance report at the Audit Committee on 27 September 2011.

Significant weaknesses in internal control

Your internal financial control arrangements are sound overall. However, I was not able to rely on the operation of controls within your new Midland iTrent payroll system to support my work on the financial statements. As a result I needed to test detailed payroll transactions to gain assurance. This is a time-consuming process which reduces the efficiency of my audit. I found that you had significant difficulties in locating records to support the expenditure tested, which caused delays in completing my work. This difficulty in locating supporting records is consistent with my findings in previous years. Given the high level of expenditure generated by the payroll system this needs to be addressed.

I raised recommendations to improve internal financial control, including recommendations to address the control weaknesses in the payroll system, as part of my annual governance report.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that you have adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion

1. Financial resilience
The organisation has proper arrangements in place to secure financial resilience.
Focus for 2010/11:
The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Key messages

To assess your arrangements to secure financial resilience I specifically considered:

- the changes you made to your 2010/11 budget because of in-year funding reductions;
- the changes made to the 2011/12 budget to accommodate continued reductions in funding following the comprehensive spending review (CSR). In particular I considered the realism and achievability of those changes; and
- the impact of funding reductions on your priorities.

I have also considered your plan to move to an intelligent commissioning operating model as part of my work in this area. To do this I reviewed financial governance arrangements in adult social care, where there is an established commissioner/ provider split.

In my work to consider changes to budgets I found that:

- you planned well for in-year cuts in funding, including undertaking scenario planning before CSR;
- you plan to call on earmarked reserves to cover the transitional costs of changing the way you operate and managing the short-term impact this change has on services. I am satisfied that this approach is prudent; and
- funding reductions have been accommodated in budgets without any significant planned short-term changes in your high level priorities.

In my work to consider financial governance arrangements in adult social care, where there is an established commissioner/ provider split, I found that:

- both the commissioner and provider believe that better value service outcomes can be achieved from the intelligent commissioning model. In particular there is confidence the model is providing a service that is better aligned to the needs of the individual;
- financial and performance management arrangements are operating effectively. However, you need to further develop financial and performance modelling and forecasting to better inform commissioning decisions; and
- the detailed agreement between the commissioner and provider, the compact, provides an explicit link to your overarching priorities and clear accountability for delivery. The control that this provides needs to be balanced against the need to secure improved outcomes and not creating constraints about how this might be achieved.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

To assess your arrangements to challenge how you secure economy, efficiency and effectiveness I:

- audited in detail the savings you reported as achieved from the continuing value for money programme in adult social care and the children and young people's trust; and
- reviewed your costs using the Audit Commission's value for money profiles, both globally and specifically for the two service areas reviewed in detail.

I found that:

- The reported value for money programme savings in adult social care and the children and young people's trust are supported by evidence. Processes to oversee the achievement of value for money improvements are sound and the actual level of savings achieved exceeded targets for the year in both service areas reviewed in detail. However, further work is needed to completely identify and fully understand how changes made as part of the value for money programme have resulted in cost savings. You recognise that further improvements in the use of financial and performance data are essential to gain a better understanding of which initiatives have worked well, and which have worked less well.
- The use of external consultants to inform the value for money programme has been useful in identifying the potential for value for money improvements and suggesting possible changes to commissioning arrangements to achieve this. Although service managers have not always understood at a detailed level how value for money programme targets have been set, external challenge of your traditional approach to budget setting and ways of working has helped to prompt change.
- Overall, your service costs remain relatively high, although costs are falling. There is, however, evidence for the services considered in detail that areas of higher comparative spending do match your priorities.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 20 December 2011 and will provide copies to all members.

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.

Report	Date issued
Fee letter	March 2010
Opinion plan	April 2011
Annual governance report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual audit letter	November 2011

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

Helen Thompson
District Auditor
November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit fee ⁱ	£389,500	£389,500	-
Non-audit work	£4,000	£4,000	-
Total	£393,500	£393,500	-

ⁱ During 2010/11, the Commission issued a rebate of £23,240 against the one-off cost of audit work relating to the first year of IFRS. In addition, the Commission issued a further rebate to unitary councils of 3 per cent of their 2010/11 scale fee. This is £14,470 for the Council.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

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 based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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