

**BRIGHTON & HOVE CITY COUNCIL**

**AUDIT COMMITTEE**

**4.00pm 29 SEPTEMBER 2009**

**COUNCIL CHAMBER, HOVE TOWN HALL**

**MINUTES**

**Present:** Councillors Hamilton (Chairman), Watkins (Deputy Chairman), Alford, Fallon-Khan, Kitcat, Simpson, Smith, Taylor and G Theobald

**PART ONE**

**20. PROCEDURAL BUSINESS**

**20a Declaration of Substitutes**

20.1 Councillor Fallon-Khan declared that he would be replacing Councillor Lainchbury as a permanent Member of the Committee.

20.2 Councillor Taylor declared that he would be replacing Councillor Randall as a permanent Member of the Committee.

**20b Declarations of Interest**

20.3 There were none.

**20c Exclusion of the Press and Public**

20.4 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).

20.5 **RESOLVED** - That the press and public be excluded from the meeting during consideration of item 35, Non-Public Minutes of the Previous Meeting, and item 36, Corporate Risk Management Action Plans Focus 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).

**21. MINUTES OF THE PREVIOUS MEETING**

- 21.1 **RESOLVED** – That the minutes of the previous meeting held on 30 June 2009 are approved and signed by the Chairman as a correct record.

**22. CHAIRMAN'S COMMUNICATIONS**

- 22.1 There were none.

**23. PETITIONS**

- 23.1 There were none.

**24. PUBLIC QUESTIONS**

- 24.1 There were none.

**25. DEPUTATIONS**

- 25.1 There were none.

**26. WRITTEN QUESTIONS FROM COUNCILLORS**

- 26.1 There were none.

**27. LETTERS FROM COUNCILLORS**

- 27.1 There were none.

**28. AUDIT COMMITTEE WORK PROGRAMME**

- 28.1 The Committee considered a report from the Director of Finance & Resources regarding the Audit Committee Work Plan (for copy see minute book).

- 28.2 The Head of Audit & Business Risk introduced the draft work plan and stated that it had been developed in consultation with the Chairman and Deputy Chairman of the Audit Committee, and he was seeking approval from the Committee to carry this plan forward.

- 28.3 The Chairman noted that the Comprehensive Area Assessment (CAA) report from the Audit Commission would soon be published and he asked if it would be ready to submit to the 15 December 2009 meeting and include in the Work Plan. Mr G Brown, Audit Manager for the Audit Commission stated that Ms S Prail was the CAA Lead for Sussex, and the report was expected to be ready for December, although he could not confirm this. The Chairman requested that Ms Prail be invited to the meeting where the CAA report was taken.

- 28.4 The Chairman noted that there was not a Targeted Budget Management report listed in the work plan for the December 2009 meeting and asked if this could be included. The

Director of Finance & Resources agreed that the Month 6 Targeted Budget Management report would be added to the Work Plan.

- 28.5 Councillor Taylor raised concern over the negotiation of PFI contracts, in particular the Education PFI contract. He asked that an audit review of this situation take place and requested a report to come to Committee. The Head of Audit & Business Risk stated that a major review of PFI contracts had taken place last year, and a follow up review would take place around December 2009. He stated that this would not necessarily come to Committee, but if there were concerns it could be added to the Work Plan.

The Chairman stated that this issue was more appropriate for the Overview & Scrutiny Commission to investigate. The Director of Finance & Resources agreed and stated that the remit of the Audit Committee was to ensure they were satisfied with the controls and governance arrangements of the Council. Decisions about how, where and why money was spent were more appropriately scrutiny issues and should be investigated by these Committees.

Councillor Watkins asked if the risk element of the issue should be brought before the Audit Committee and then referred onto a Scrutiny Committee for further investigation. The Risk & Opportunity Manager stated that Building Schools for the Future funding was analysed as a Risk MAP, and aspects of the Education PFI contract were considered as part of the Long Term Future for Education Corporate Risk. The Education PFI contract issues were remote in relation to the entire scope of the Risk MAP submitted to the Audit Committee.

- 28.6 Councillor Taylor expressed further concern that this was a reactive rather than proactive approach and felt the issue should be dealt with before potentially huge increases in costs to the Council arose. The Chairman noted that the issue had not been raised at Cabinet and felt it was premature for the Audit Committee to raise it as a risk. Councillor Kitcat agreed with Councillor Taylor and believed the risk should be analysed as it had been raised as a valid concern by a Member of the Committee. The Director of Finance & Resources stated that she would investigate the matter further and speak separately to Councillor Taylor.
- 28.7 Councillor Theobald referred to a briefing paper that had been received by School Governors concerning PFI contracts in the City and suggested that this may have been the source of the concern raised. He stated that Cabinet Members were unaware of any issues around this matter. The Chairman noted that Cabinet Members were unaware of any risks arising in this matter and felt that it could be reviewed by the Committee at a later date if a risk did become apparent.
- 28.8 **RESOLVED** – That:
1. The draft Work Plan for the Audit Committee is approved, and
  2. That the Head of Audit & Business Risk is requested to keep the Work Plan updated to reflect new items as they are identified.

**29. AUDIT COMMISSION: ANNUAL GOVERNANCE REPORT 2008/09**

- 29.1 The Committee considered a report from the Audit Commission regarding the Annual Governance Report (for copy see minute book).
- 29.2 The District Auditor introduced the report and noted that the action plan was now agreed with Officers and would be brought to the next meeting of the Audit Committee in December 2009. She was proposing an unqualified audit opinion on the Council's financial statements for 2008/09. She noted that in common with other authorities, there had been problems around fixed assets relating to the treatment of impairments. She believed that the difficulties experienced in implementing a new fixed assets accounting system, which had recently been purchased by the Council, was a contributory factor. She was satisfied with the progress of internal audits within the Council and reported on her assessment of Use of Resources, which was scored at 3 out of 4 which means the Council exceeds minimum requirements and performs well. The themes of Managing Finance and Managing Resources had been scored as 3 out of 4, whilst the Governing the Business theme was meeting minimum requirements and had been scored as 2 out of 4. However, she recognised that it was particularly difficult to show demonstrable outcomes for this theme. Due to the extra work that had been undertaken by the Audit Commission on the Council's accounts, the recommended fee had been raised by £4,100.
- 29.3 Councillor Kitcat asked why there were so many changes in the accounts for this year compared with last year, especially in regard to the termination of the NCP contract. The Audit Commission considered that a certain amount of errors were to be expected with the introduction of any new system, but noted that the audit process had revealed a misinterpretation of accounting guidance in terms of recording certain impairment transactions on the new system. He added that the errors which had occurred around the termination of the NCP contract had arisen because the Audit Commission had disagreed with the judgement that this had been an impairment event. This erroneous judgement had then precipitated several subsequent errors which needed to be corrected. Therefore, although there appeared to be a series of errors in relation to this transaction, there was in fact only one initial interpretation error which resulted in all related transactions needing amendment.
- 29.4 Councillor Kitcat asked why this error of judgement had been made in the first place and the Assistant Director Financial Services replied that it had occurred because the guidance on the categorisation of impairment events was complex and that many of the changes to the fixed assets were unique and not always clearly covered by available guidance. He added that the number of errors in this years' accounts were small by comparison to the many hundreds of transactions relating to a wide variety of fixed assets including impairments, new capital expenditure, disposals, changes of use, revaluations and so on. He advised that a number of errors had also been identified by Officers of the Council and were reported to the Audit Commission during the course of the audit of the accounts.
- 29.5 Councillor Theobald noted the adjusted misstatements in the accounts listed at appendix 2 and asked if these adjustments resulted in a better financial position for the Council. The Audit Commission replied that the overall deficit had been overstated by

£7.2 million, but the misstatements were not cash items and so did not affect the Council's financial position in real terms. He added that there had been very few amendments in terms of cash on the balance sheets. An overall correction of £11.2 million on fixed assets was reported, however these were of a technical nature and again did not affect the Council's financial position. The Director of Finance & Resources assured the Committee Members that the Council was no better or worse off as a result of these corrections and they made no difference to the Council's financial position. The accounting errors contributed to by the new system had been identified and procedures tightened to deal with this in future years.

- 29.6 Councillor Theobald asked if the Council's assets were valued independently, especially in terms of car parks. The Assistant Director of Financial Services stated that they were and that one fifth of all the Council's assets were valued each year, whilst the entirety of the housing stock was valued yearly.
- 29.7 Councillor Theobald asked if there was a difference in the Council's valuation of the car parks compared with the Audit Commission's valuation. The Audit Commission agreed that there was an adjustment, but this was linked to the errors created when the transaction was input into the new system.
- 29.8 Councillor Fallon-Khan noted the increase in the Audit Commission's fee for 2008/09. He asked if there was comparative data available for the Council to assess if this was a fair increase in line with other Councils in the area. The District Auditor replied that comparative data was submitted to the Committee when the planned fees were recommended and again when the actual fee was agreed by the Committee. She added that the Audit Commission included comparative data for all authorities on its website to ensure they were providing value for money services. Councillor Fallon-Khan thanked the District Auditor for the explanation and commended Council Officers on the complex work they had done in the past year to gain good scores from the Audit Commission, which he appreciated was more difficult under the new Comprehensive Area Assessment framework.
- 29.9 Councillor Simpson asked for clarification on a statement in the report concerning controls within the payroll system. The Audit Manager from the Audit Commission agreed that this issue had been raised previously and work had been undertaken with the Council's Internal Audit Division to resolve it. He added that the current controls present in the payroll system had not led to any material errors but extra safe-guards had been suggested by the Commission to further protect the Council's position.
- 29.10 The Chairman noted that payroll was a high risk element for the Council and the Head of Audit & Business Risk stated that his division was continuing to work with the Payroll Division on implementing actions arising from the internal audit review completed in June 2009.
- 29.11 Councillor Smith asked if any payroll overpayments had been written off as debts owed to the Council and the Assistant Director Financial Services replied that the number of overpayments were small and that the Council rarely wrote off any debts that it was owed. He stated that the normal practice for unpaid debts would be to exhaust the full debt recovery process including legal action.

29.12 Councillor Theobald was concerned about the increase in the Audit Commission's fee and noted that the Council had no option but to use the Audit Commission. He felt this was unfair and related poorly to efficient use of resources. Councillor Theobald asked why the Audit Commission had raised the fee for 2008/09. The District Auditor acknowledged Councillor Theobald's comments but stated that the Audit Commission always planned their work to come in under the fee proposed in normal circumstances. She added that this year had been particularly difficult for fixed assets accounting across the country which had impacted on the work of the Commission. This extra work needed to be reflected in the fee charged and was in fact quite modest when compared with other similar sized Councils for the year 2008/09. The District Auditor added that the Commission had aimed to bring in all work for the Council under the fee proposed in the Supplementary Opinion Plan 2008/09 although this year had been particularly difficult for several reasons. She was confident the errors for this year had been resolved however, and the planned fee for 2009/10 would be on target.

29.13 The Legal Advisor to the Committee pointed out an omission in the draft Letter of Representation. He stated that the beginning of line 2 of the paragraph headed "Uncorrected misstatements" should read "...misstatements listed below are immaterial, either individually or in aggregate."

29.14 **RESOLVED** – That:

1. The Director of Finance & Resources, as the Section 151 Officer, is authorised to sign the financial statements on behalf of the Committee.
2. The Committee notes the adjustments to the financial statements set out in the report.
3. The Committee agrees to set out in the Letter of Representation the reasons for not adjusting the errors in the financial statements.
4. The Committee notes the Value for Money conclusion and Use of Resources finding set out in the report.
5. The Committee approves the Letter of Representation (as amended in accordance with paragraph 29.13 and resolution 3 above) on behalf of the Council.

#### **29A. STATEMENT OF ACCOUNTS 2008/09 - UPDATE**

29A.1 The Committee considered a report from the Director of Finance & Resources regarding the Statement of Accounts 2008/09 Update (for copy see minute book).

29A.2 The Assistant Director Financial Services presented the report and noted that the Audit Commission had identified two unadjusted misstatements. The first related to adjustments made to comparative (last year's) figures because Officers considered that, although not strictly in keeping with Financial Report Standards, on balance these changes were beneficial in terms of improving the accessibility and readability of the accounts from the public perspective. A second adjustment recommended by the Audit Commission in relation to PFI residual values had been agreed by Officers, but it was considered that as the misstatement was identified very late in the audit of the accounts process and would not affect the audit opinion on this year's accounts, the change would be made in future financial statements.

29A.3 The District Auditor concurred with this opinion and stated that Councils should not normally make prior change adjustments to the accounts unless there would be a substantial effect on the presentation of the accounts. The District Auditor confirmed that the misstatements to be adjusted would not have a material effect on the accounts of Brighton & Hove City Council and therefore would not change her audit opinion if they remained unadjusted.

29A.4 **RESOLVED** – That the Audit Committee:

1. Notes the results of the Public Inspection of the Accounts.
2. Notes the amendments to the 2008/09 Statement of Accounts.
3. Notes the advice in relation to the Auditor's recommendation on prior period adjustments.
4. Notes the position statement regarding the annual report and summary of accounts.

### **30. AUDIT COMMISSION: HEALTH INEQUALITIES ASSESSMENT REPORT**

30.1 The Committee considered a report from the Audit Commission regarding the Health Inequalities Assessment Report (for copy see minute book).

30.2 The District Auditor began by summarising the report and stating that the Health Inequalities Assessment Report had been included in the 2008/09 audit plan for the Primary Care Trust and Brighton & Hove City Council. The report examined partnership working in Brighton & Hove on health inequalities and acknowledged the work already being done in this area. A focus on housing issues had been chosen and the conclusion had been good, but it was noted that more work needed to be done on sharing priorities and identifying and addressing need.

30.3 Councillor Watkins asked why the report had been submitted to the Audit Committee as an item for discussion. The Director of Finance & Resources stated that it was part of the Committee's remit to take this item and the District Auditor added it was for information only but demonstrated part of the work the Commission was doing for the audit fee they charged.

30.4 The Chairman asked if this item would be taken forward to the Health Overview & Scrutiny Committee (HOSC) and the District Auditor stated that this would be a matter for Officers to decide.

30.5 Councillor Kitcat asked why more joined up working in terms of the Primary Care Trust making representations at Licensing Panels was not considered. The District Auditor stated that only one theme had been chosen for the basis of the report and this related to housing issues. She recognised there was still much progress to be made on further joint working between partners however.

30.6 Councillor Watkins was concerned about how the recommendations from the report would be followed up and actions monitored, and the Chairman agreed, asking who would implement the recommendations of the report. The District Auditor stated that the implementation of recommendations would form part of the action plan and it was the responsibility of Officers to monitor this.

- 30.7 The Chairman proposed that this item be referred to HOSC, and this was seconded by Councillor Watkins.
- 30.8 **RESOLVED** – That:
1. The Health Inequalities Assessment report is noted.
  2. The Health Inequalities Assessment report is referred to the Health Overview and Scrutiny Committee for noting and monitoring of the recommendations.

### **31. TARGETED BUDGET MANAGEMENT (TBM) MONTH 4**

- 31.1 The Committee considered a report from the Director of Finance & Resources regarding the Targeted Budget Management Month 4 report (for copy see minute book).
- 31.2 The Director of Finance & Resources highlighted that this report was for information only and any issues about overspend on the accounts would be an Overview and Scrutiny or Cabinet issue.
- 31.3 The Chairman noted that further recovery measures would be ongoing and results expected by month 6. The Director of Finance & Resources confirmed this, but felt it was likely that month 6 would not show significant recovery to a breakeven position. She noted there was a significant overspend, but this was not out of line with the position at this point in previous years.
- 31.4 **RESOLVED** – That the report is noted.

### **32. AUDIT & BUSINESS RISK PROGRESS REPORT**

- 32.1 The Committee considered a report from the Assistant Director of Finance & Resources regarding the Audit & Business Risk Progress Report (for copy see minute book).
- 32.2 The Head of Audit & Business Risk noted that progress on planned audits was currently low. He felt that staff recruitment problems within the Division had had a significant impact on the plan this year but hoped this would soon be rectified and that the target of 95 percent of the plan would be achieved. He further added that there had been a high level so far this year of unplanned advisory work, in particular Single Status where Internal Audit is playing a critical role to the process. There was currently one audit review where limited assurance had been given with an extraordinary high number of audit recommendations. The Head of Audit & Business Risk would continue working with the service for the implementation of theses and improvement of the service.
- 32.3 The Chairman asked if the vacancies in the Division were due to a freeze on posts and the Head of Audit & Business Risk replied that it was due to several issues including a long term secondment of the Audit Manager that had recently ended with the Officer being appointed to the post with East Sussex County Council. There was no freeze on posts in the Division and he hoped the situation would be resolved soon.

- 32.4 Councillor Fallon-Khan asked if up-skilling of employees already in the organisation had been considered and the Head of Audit & Business Risk agreed that secondments to the department had taken place in the past and would be considered for the future.
- 32.5 The Chairman stated that he would like a report on the implementation of audit recommendations, for any audits where limited or no assurance had been given to come to the Audit Committee and the Head of Audit & Business Risk agreed to this.
- 32.6 Councillor Alford noted the low number of audits that had been completed and the Head of Audit & Business Risk agreed, but stated that this figure would significantly rise through the year as the audits were completed.
- 32.7 Councillor Smith felt that comparative figures from last year's position should be included in the periodic progress reports. The Head of Audit & Business Risk stated this is carried out for the annual report and agreed to include in future periodic progress reports.
- 32.8 **RESOLVED** – That the report is noted.

### **33. RISK & OPPORTUNITY MANAGEMENT UPDATE**

- 33.1 The Committee considered an oral report from the Risk and Opportunity Manager regarding the Risk and Opportunity Management (ROM) Update.
- 33.2 The Risk and Opportunity Manager addressed the Committee and stated that this was the first update since Committee had approved the ROM programme 2009/10 at its meeting on 30 June 2009. She provided an update in respect of the approved programme:
- ROM training had been offered to all political parties.
  - Officer training courses had been delivered.
  - The Corporate Risk Register is due for refresh in November and refreshed or new Risk MAPs would come to the Audit Committee in December 2009.
  - A CYPT Assurance Group had recently met to look at risk management issues across its partnership work and the Risk and Opportunity Manager felt confident that this was heading in the right direction.
  - A ROM workshop at the Local Strategic Partnership meeting is scheduled for 12 October 2009 to consider risks around the new Sustainability Community Strategy, which will influence the targets of the Local Area Assessment.
  - The new ROM software was currently being configured
  - Project risks were being reviewed.

### **34. ICT RISKS - BUSINESS CONTINUITY**

- 34.1 The Committee considered a report from the Director of Strategy & Governance regarding the proceedings of the Overview & Scrutiny Commission (OSC) relating to ICT Risks – Business Continuity (for copy see minute book).
- 34.2 The Head of ICT addressed the Committee and stated that the report that had been submitted to the OSC had been a brief outline of ongoing work to improve business

continuity within ICT services. Significant work had taken place on this issue over the summer period and the Head of ICT was now confident that business continuity plans for ICT were robust and appropriate.

- 34.3 Councillor Watkins noted that a Member Working Group to monitor progress had been suggested at the OSC meeting and asked if this had been taken forward. The Head of ICT stated that the group was currently being set up and Councillor Fallon-Khan, as Cabinet Member for Central Services stated that he was in the process of inviting cross-party members to join the group.
- 34.4 Councillor Kitcat raised concerns about the proposed use of non-geographic numbering and felt that residents may be put off contacting the Council if they felt it was likely there call would be rerouted to a call-centre. Councillor Simpson echoed this and felt the cost implications could also put some residents off. The Head of ICT stated that there was no intention to use a call centre to reroute calls to, and the non-geographic numbers would only be used in emergency situations where local call service providers could not cope with the demand.
- 34.5 **RESOLVED** – That the proceedings of the Overview and Scrutiny Commission on 2 June 2009 are noted.

### **35. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING**

- 35.1 The Chairman was requested to approve and sign the non-public minutes of the meeting held on 30 June 2009.

### **36. CORPORATE RISK MANAGEMENT ACTION PLAN FOCUS**

- 36.1 The Committee considered a report from the Director of Finance & Resources regarding the Corporate Risk Management Action Plan Focus.
- 36.2 **RESOLVED** – That the report is noted.

The meeting concluded at 6.30pm

Signed

Chair

Dated this

day of