

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 19 MAY 2009

COMMITTEE ROOM 1, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chairman), Alford, Kitcat, Oxley, Randall, Simpson, Simson, Smith, G Theobald and Watkins (Deputy Chairman)

PART ONE

103. PROCEDURAL BUSINESS

103a Declaration of Substitute Members

103.1 Councillor Simson declared that she was substituting for Councillor Lainchbury.

103b Declarations of Interest

103.2 Councillor Simpson declared a personal but not prejudicial interest in items 112, Annual Audit and Inspection Fees Letters (including Broad Coverage) and 114, Internal Audit Strategy and Annual Plan 2009/2010 arising from being involved with the Local Delivery Vehicle.

103.3 Councillor Randall declared a personal but not prejudicial interest in items 112, Annual Audit and Inspection Fees Letters (including Broad Coverage) and 114, Internal Audit Strategy and Annual Plan 2009/2010 arising from being involved with the Local Delivery Vehicle.

103.4 Councillor Smith asked the Legal Officer if he needed to declare an interest on items where there was a direct link to his portfolio. The Legal Officer stated that it would depend on the recommendation for the item and whether the Committee needed to make a decision on that item.

The Legal Officer stated that technically, a Members role within the Council does not amount to a personal interest for the purposes of the Code of Conduct, but he advised that if a Member was in doubt as to whether to declare an interest then they should do so, whenever it became apparent that they might have an interest. He confirmed that such interests would usually be personal in nature.

103c Exclusion of the Press and Public

103.5 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).

103.6 **RESOLVED** - That the press and public be excluded from the meeting during consideration of item 117, Non-Public Minutes of the previous meeting, as this item was exempt under Paragraph 3 of Schedule 12A of the 1972 Act (information relating to the financial or business affairs of the authority).

104. MINUTES OF THE PREVIOUS MEETING

104.1 **RESOLVED** – That the minutes of the meeting held on 24 February 2009 be approved and signed by the Chairman as a correct record.

105. CHAIRMAN'S COMMUNICATIONS

105.1 The Chairman confirmed that Committee Members had received the two additional addendums to the Committee papers and welcomed District Auditor, Helen Thompson to the meeting.

106. PETITIONS

106.1 There were none.

107. PUBLIC QUESTIONS

107.1 There were none.

108. DEPUTATIONS

108.1 There were none.

109. LETTERS FROM COUNCILLORS

109.1 There were none.

110. WRITTEN QUESTIONS FROM COUNCILLORS

110.1 There were none.

111. AUDIT COMMISSION UPDATE REPORT

- 111.1 The Committee considered an oral report from the Audit Commission regarding updates to the work progress of the Audit Commission.
- 111.2 The District Auditor addressed the Committee and stated that a more detailed report would be brought to Committee in June 2009, but there was one outstanding audit review regarding the Review of Good Governance, which would possibly not be reported to the June 2009 Audit Committee. She noted there were two outstanding grants claims but these had now been certified and cleared.

Work to be completed for the coming year included the audit of Financial Statements and Whole of Government Accounts, which had a deadline for 30 September 2009. The Audit Commission had no concerns regarding this audit at this stage. A supplementary plan for the Value for Money Statement and the Use of Resources Statement would be submitted to the next Audit Committee in June 2009, with indicative scores from the Annual Governance Report to be included in September 2009. The Review of Health Inequalities was progressing and a report was in draft form. The Council's Internal Audit function was undertaking work on the National Fraud Initiative, and an Audit Fees supplementary opinion plan would be brought to the next meeting, although there were currently no changes expected to the agreed fee from last year.

- 111.3 Councillor Oxley asked if the Audit of the Financial Statements and Whole of Government Accounts and the Value for Money Statement would be published together. The District Auditor stated that the final scores would be collated in September 2009 and a report on the Organisational Assessment and Comprehensive Area Assessment would be available in November 2009.
- 111.4 **RESOLVED** – That the Audit Commission Update Report is noted.

112. ANNUAL AUDIT AND INSPECTION FEES LETTERS (INCLUDING BROAD COVERAGE)

- 112.1 The Committee considered letters from the Audit Commission regarding the Annual Audit and Inspection Fees Letters (including Broad Coverage) (for copy see minute book).
- 112.2 The District Auditor addressed the Committee and stated that two letters had been submitted because of the changes relating to the new Comprehensive Area Assessment (CAA). The Comprehensive Area Assessment Lead for Sussex, Sandra Prail, would be completing a plan for the Audit Committee regarding the inspection element of the CAA. It was noted that this would be a joint inspection judgement and so it was more appropriate to report the fees element separately.

The new CAA audit arrangements were grant funded by the Department for Communities and Local Government at no cost to the Council and there were no identified needs for risk based inspections for the 2009/10 financial year. This would be reassessed on the basis of the CAA outcomes in November 2009 however.

The Annual Audit Fee letter related to an indicative fee which was set nationally by the Audit Commission. An increase in work generated by the Value for Money Statement and the Use of Resources had an impact on the fee set, as did the significant work the Commission would be undertaking on long term contracts for the Council and the Review of Repairs and Maintenance of Housing Stock.

The District Auditor informed the Committee that there would be a change to the Audit Commission team to comply with ethical standards for Auditors of the Audit Commission, and Simon Mathers would begin working in the area from September in place of Grahame Brown as Audit Manager. The District Auditor hoped that Mr Mathers would be present at the September 2009 meeting.

- 112.3 Councillor Kitcat noted that the Annual Audit Fee would be increasing by 14 per cent from last year. He recognised that the authority had been underpaying for a series of years but believed that the Commission had sought to remedy this last year. He asked why there had been another large increase to the fee this year. The District Auditor stated that last year's increase had brought the authority closer to the national average, but a further increase this year was required to bring Brighton & Hove to the accepted limit. She stated that the Audit Commission's Audit Scales Fee gave an idea of what an authority the size and type of Brighton & Hove should be paying. She also noted that the amount of work that the Audit Commission was required to do had changed, and this increase in part reflected that. The Council had a number of innovative arrangements for providing services and these arrangements had to be reviewed to ensure value for money and effectiveness, which again impacted on the fee. Finally, changes in the economic climate had increased the risk factors to authorities and this had to be reflected in the work of the Commission.
- 112.4 Councillor Hamilton asked if there was any negotiation on the fee charged and the District Auditor stated that Officers were able to discuss what risks it was appropriate for the Commission to review in a year, and the Committee could write a letter to the Audit Commission if they were unhappy with the fee. She agreed that the fee was fixed by the Audit Commission however.
- 112.5 Councillor Oxley asked whether the prevailing rate of increase for authorities across the country had been at 14 per cent and the District Auditor replied that in general it had increased around 4 per cent. The innovative arrangements at Brighton & Hove affected work on the Use of Resources element of the fee however, and the authority had previously been 13 per cent below the scale fee for this size of authority. The increase this year would bring Brighton & Hove to the scale fee.
- 112.6 Councillor Oxley expressed concern that the fee seemed to increase by large amounts year on year and asked when this trend would stop. The District Auditor realised that this was a large jump for the Council to accept, but noted that she would not expect the fee to jump up any more after this year.
- 112.7 Councillor Theobald expressed dissatisfaction that there was not an opportunity to dispute the fee. He stated that Sussex Police had written to the Audit Commission previously regarding high Audit Fees, without success, and so was not confident that this procedure would produce results for the Council.

- 112.8 The Chairman asked what was to stop the fee from increasing year on year and the District Auditor replied that a consultation document for scale fees was produced by the Audit Commission each year and sent out to local councils. She noted that usually very few responses were received, indicating satisfaction with fee levels, but recognised that last year many District Councils responded as a 14 per cent increase had been proposed. The District Auditor confirmed that the proposed increases were very small, around 1 per cent and she offered to circulate the Scale Fees document to Committee Members, which provided comparisons with other similar sized Councils, and to inform Councillors of when the consultation document would become available for this year.
- 112.9 Councillor Randall stated that the Housing inspection had not been carried out to the Audit Commission's satisfaction last year and a review was carried out. He noted that this inspection was not on the Audit Commission's work plan for 2009/10 and asked for an explanation. The District Auditor stated that the Comprehensive Assessment Area Lead for Sussex, Sandra Prail, would have more information on this and that she would update the Committee Members at a later date, but confirmed that the risk was not sufficient this year to warrant a further review. The situation would continue to be monitored however.
- 112.10 Councillor Alford asked how the Scale Fees were derived and the District Auditor stated that a formula was used that included assessing the skill mix that the Commission would require to complete the work for the year and the number of days it would take. The skill mix being used to perform reviews and audit was now greater than in previous years and the Commission had reduced the number of unqualified staff they used to perform reviews.
- 112.11 Councillor Watkins asked how risks were monitored by the Commission and the District Auditor replied that they regularly reviewed committee reports and maintained ongoing dialogue with Officers.
- 112.12 Councillor Hamilton asked where future reports from the Audit Commission on the CAA and Use of Resources Statement would go and the District Auditor stated that this was still under discussion. The Annual Governance Report and the Annual Audit Letter had to come to the Audit Committee for approval, but other reports may be sent to Full Council, Cabinet or the Audit Committee.
- 112.13 **RESOLVED** – That the Annual Inspection Fee 2009/10 letter and the Annual Audit Fee 2009/10 letter are noted.

113. ASSURANCES FROM THOSE CHARGED WITH GOVERNANCE

- 113.1 The Committee considered a report from the Audit Commission regarding Assurances from Those Charged with Governance (for a copy see minute book).
- 113.2 The District Auditor introduced the report and stated that it contained a description of the work required to complete the Financial Statement satisfactorily. A response would be required from the Chairman at the next scheduled Committee meeting regarding the works, and Officers were required to prepare a separate response.

113.3 The Chairman stated that the report needed to be discussed on a cross party basis before the next meeting, in order for a complete response to be given.

113.4 **RESOLVED** – That the Assurances to Support the Financial Statement 2008/09 report is noted, and that a cross-party response is prepared from the Chairman before the next regular meeting of the Audit Committee.

114. INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2009/2010

114.1 The Committee considered a report from the Director of Finance & Resources regarding the Internal Audit Strategy and Annual Plan 2009/10 (for a copy see minute book).

114.2 The Head of Audit and Business Risk presented the report and stated that it was a comprehensive document detailing the full work programme for Internal Audit for the coming year. There were considered to be sufficient resources within the team to complete the work at this stage. There are also 104 audit reviews planned compared to 137 for 2008/09 and this reflects larger ones, in terms of content and complexity, being carried out.

The Head of Audit and Business Risk stated that the key issues for this year include data security, management and quality, value for money, and business transformation or change. He noted that the Audit Committee was responsible for approving the plan.

114.3 Councillor Hamilton asked how flexible the plan was and the Head of Audit and Business Risk stated that contingency was built into the plan for unplanned work to take place and any major changes would be reported back to the Audit Committee.

114.4 The Chairman expressed concern that staff shortages in the team might present a risk to the plan. The Head of Audit and Business Risk stated that more staff would be recruited in the coming year to negate this problem.

114.5 Councillor Simson noted that a large amount of time was allocated to completing the Fraud and Corruption investigation for this year, and asked what the normal time planned for this would be. The Head of Audit and Business Risk replied this was the time planned for reactive investigations and the level of referrals was increasing the workload.

114.6 Councillor Simson asked how the Brighton & Hove Annual Plan compared with other authorities and the Head of Audit and Business Risk stated that comparisons were made both formally and informally to set benchmarks with similar authorities.

114.7 Councillor Randall noted that 16 days had been allocated for work on whistle-blowing and asked for clarification on this. The Head of Audit and Business Risk stated that Internal Audit wanted to ensure that the current process for this was effective, including case management.

- 114.8 Councillor Randall noted that a review had been added on Councillors' and Staff expenses and asked if this was an annual review, or motivated by the current climate. The Head of Audit and Business Risk stated that the Staff Expenses Audit was not carried out annually and it was a coincidence that it had been scheduled for this year. He also stated that the audit of declarations of interest, gifts and hospitality for Councillors is carried out annually as part of the review of governance arrangements.
- 114.9 Councillor Oxley noted that the email system used by the Council was rated only as a medium risk. Given the amount of work conducted via email by the Council, he asked why this was not rated higher. The Head of Audit and Business Risk stated that a number of factors were used in assessing any risk to the Council, and based on these factors the email system had been categorised as a medium risk.
- 114.10 Councillor Hamilton asked whether the Overview & Scrutiny Commission had accepted a review of ICT systems onto their work programme, as requested by the Audit Committee. The Democratic Services Officer stated that it had been, and that a report would be going to the 2 June 2009 meeting.
- 114.11 Councillor Watkins asked if any significant equalities issues had been noted by Internal Audit when conducting the work programme. The Head of Audit and Business Risk stated that any issues found would be referred to the Directorate and/or Equalities Team to deal with.
- 114.12 Councillor Simson asked for assurances that this process was happening and action was being taken to remedy any issues that did arise, and the Head of Audit and Business Risk confirmed that the relevant Manager would be informed as appropriate if issues did arise. He stated that equalities issues were not part of the formal work programme for Internal Audit although in the past audit work had been carried out on the Equalities Standard.
- 114.13 The Chairman stated that the appropriate Councillor needed to be informed if any high level equalities issues occurred within the Council's departments and Councillor Simson agreed. She would confirm with the Equalities Team that any issues were being forwarded onto them as a result of audit reviews.
- 114.14 **RESOLVED** – That the Internal Audit Strategy and Annual Plan 2009/10 is approved.

115. REVIEW OF THE EFFECTIVENESS OF SYSTEMS OF INTERNAL AUDIT

- 115.1 The Committee considered a report of the Director of Finance & Resources regarding the Review of the Effectiveness of Systems of Internal Audit (for a copy see minute book).
- 115.2 The Head of Audit and Business Risk presented the report and stated that this review was required under the Accounts and Audit Regulations and was part of the wider review of the Council's Governance Arrangements that was due to be completed in June 2009 to produce the Annual Governance Statement.

The review was carried out by self-assessment initially against the CIPFA Code of Practise for Internal Audit, then a peer review with the London Boroughs of Bexley

and Bromley to provide independent challenge and scrutiny. He further stated that the use of a peer review was recommended best practice from the Audit Commission. Councillors Alford and Watkins had been further involved in scrutinising the draft review and their input was valued. The outcome of the review was that out of thirty seven individual areas of the Code, the Council was considered to be compliant with all except one. This was considered to be partially compliant and related to the recording of audit assignments, in particular document retention. This has since been rectified with the updating of the Document Retention Policy.

- 115.3 Councillor Watkins stated that scrutiny of the review had been extremely interesting and given him a valuable insight into Internal Audit. He recommended other Councillors to be involved with the next review. He stated that there was a concern over the staffing structure and not having an Audit Trainee. He hoped that a scheme to employ an Audit Trainee would be taken forward, and felt that similar schemes could be extended across the Council.
- 115.4 Councillor Oxley agreed and noted that the LEP programme would soon be taking on 50 trainee posts across the Council. He undertook to speak to the Cabinet Member for Central Services regarding this issue and feed back to the Committee at a later date.
- 115.5 **RESOLVED** – That the Review of the Effectiveness of Systems of Internal Audit is noted.
- 116. RISK AND OPPORTUNITY MANAGEMENT (ROM) UPDATE - CORPORATE RISK REGISTER 2009-10**
- 116.1 The Committee considered a report from the Assistant Director of Finance & Resources regarding the Risk and Opportunity Management (ROM) Update – Corporate Risk Register 2009/10 (for copy see minute book).
- 116.2 The Head of Audit and Business Risk introduced the report and stated that the complete suite of risks had now been reviewed and the Committee would need to decide the way forward in reviewing Risk Maps. He stated that there were 13 Risk Maps available and these were being updated and would be reported at the next meeting in June. The Head of Audit and Business Risk stated that scores relating to two of the thirteen corporate risks had changed. CR2 Financial Outlook had changed from amber to red and CR1 Housing Stock Condition had gone from red to amber.
- 116.3 Committee Members recommended that the corporate risks Council Housing Stock Condition, Sustainable Funding for Improving Social Issues and Equal Pay should be reviewed at the next meeting.
- 116.4 **RESOLVED** – That the Risk and Opportunity Management (ROM) Update – Corporate Risk Register 2009/10 report is noted.
- 117. PART TWO MINUTES - EXEMPT CATEGORY 3**
- 117.1 The Chairman was requested to approve and sign the non-public minutes of the meeting held on 31 March 2009.

The meeting concluded at 5.20pm

Signed

Chair

Dated this

day of