



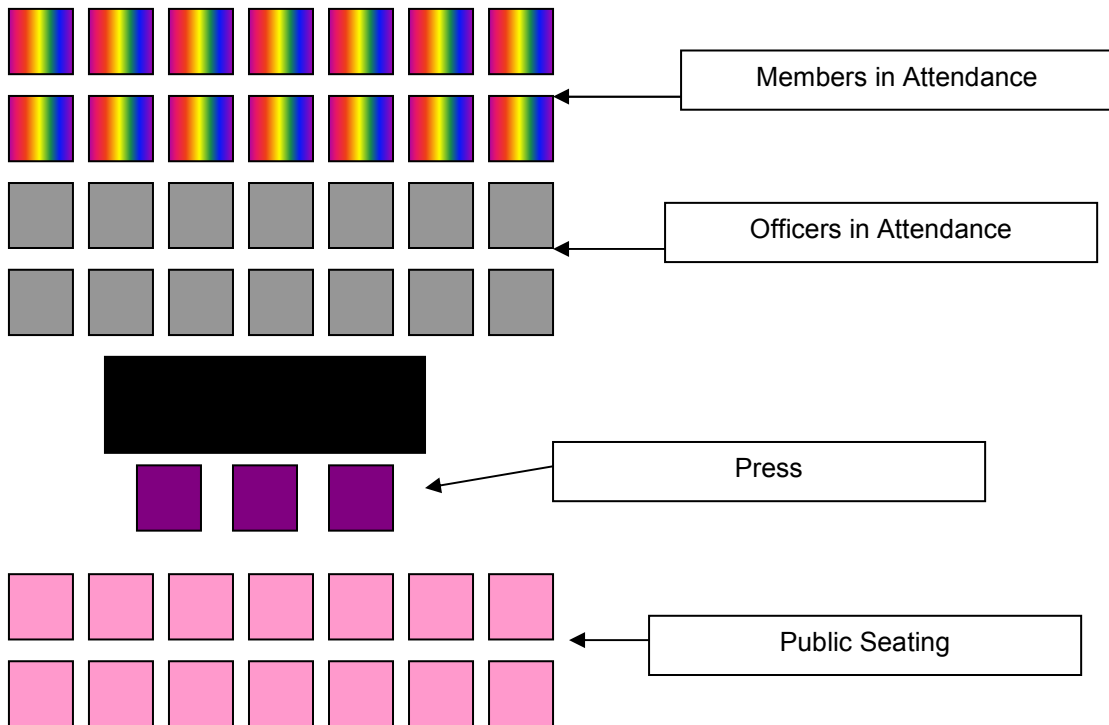
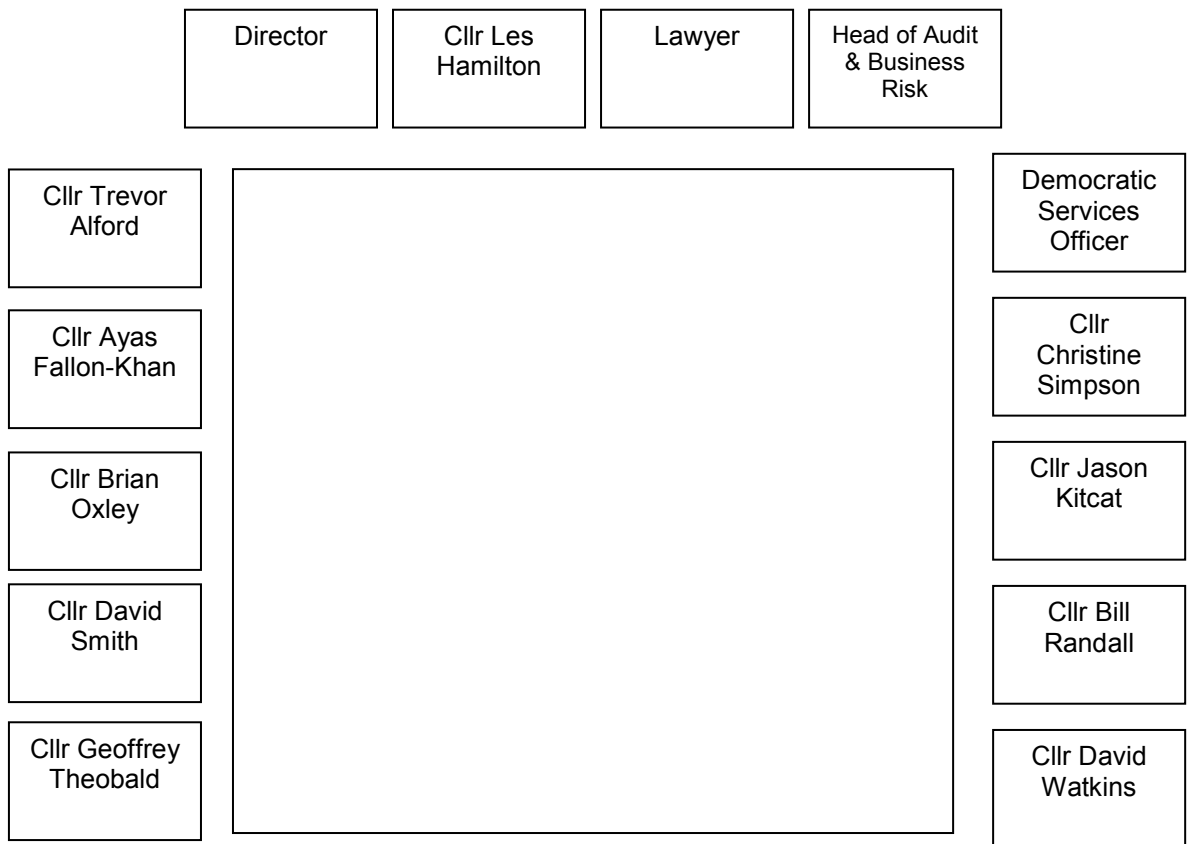
Brighton & Hove
City Council

Audit Committee

Title:	Audit Committee
Date:	18 May 2010
Time:	4.00pm
Venue	Committee Room 1, Hove Town Hall
Members:	Councillors: Hamilton (Chairman), Watkins (Deputy Chairman), Alford, Fallon-Khan, Kitcat, Oxley, Simpson, Smith, Taylor and G Theobald
Contact:	John Peel Democratic Services Officer 01273 291058 john.peel@brighton-hove.gov.uk

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Democratic Services: Meeting Layout



AGENDA

76. PROCEDURAL BUSINESS

- (a) Declaration of Substitutes - Where Councillors are unable to attend a meeting, a substitute Member from the same Political Group may attend, speak and vote in their place for that meeting.
- (b) Declarations of Interest by all Members present of any personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- (c) Exclusion of Press and Public - To consider whether, in view of the nature of the business to be transacted, or the nature of the proceedings, the press and public should be excluded from the meeting when any of the following items are under consideration.

NOTE: Any item appearing in Part 2 of the Agenda states in its heading the category under which the information disclosed in the report is exempt from disclosure and therefore not available to the public.

A list and description of the exempt categories is available for public inspection at Brighton and Hove Town Halls.

77. MINUTES OF THE PREVIOUS MEETING

1 - 8

Minutes of the meeting held on 30 March 2010 (copy attached).

78. CHAIRMAN'S COMMUNICATIONS

79. PETITIONS

No petitions received by date of publication.

80. PUBLIC QUESTIONS

No public questions received by date of publication.

81. DEPUTATIONS

No deputations received by date of publication.

82. WRITTEN QUESTIONS FROM COUNCILLORS

No written questions have been received.

83. LETTERS FROM COUNCILLORS

AUDIT COMMITTEE

No letters have been received.

- 84. UPDATE ON INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING - STATEMENT OF RECOMMENDED PRACTICE (SORP)** 9 - 16
(Supplementary presentation to be given)
Contact Officer: Patrick Rice Tel: 29-1268
- 85. AUDIT COMMISSION: PROGRESS REPORT 2009/10** 17 - 26
- 86. ASSURANCES FROM THE AUDIT COMMITTEE AS THE BODY CHARGED WITH GOVERNANCE 2009/10** 27 - 28
- 87. INTERNAL AUDIT STRATEGY AND ANNUAL PLAN 2010/2011** 29 - 42
Contact Officer: Ian Withers Tel: 29-1323
- 88. RISK AND OPPORTUNITY MANAGEMENT (ROM)**
(Verbal Update)
Contact Officer: Jackie Algar Tel: 29-1273
- 89. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT**
(Verbal item from Councillor Hamilton)
- PART TWO**
- 90. PART TWO MINUTES- EXEMPT CATEGORY 3** 43 - 46
To approve the Part Two minutes from the previous meeting
- 91. CORPORATE RISK MANAGEMENT ACTION PLAN FOCUS - HOUSING- EXEMPT CATEGORY 3**
Contact Officer: Jackie Algar Tel: 29-1273

AUDIT COMMITTEE

The City Council actively welcomes members of the public and the press to attend its meetings and holds as many of its meetings as possible in public. Provision is also made on the agendas for public questions to committees and details of how questions can be raised can be found on the website and/or on agendas for the meetings.

The closing date for receipt of public questions and deputations for the next meeting is 12 noon on the fifth working day before the meeting.

Agendas and minutes are published on the council's website www.brighton-hove.gov.uk. Agendas are available to view five working days prior to the meeting date.

Meeting papers can be provided, on request, in large print, in Braille, on audio tape or on disc, or translated into any other language as requested.

For further details and general enquiries about this meeting contact Jane Clarke, (01273 291064, email jane.clarke@brighton-hove.gov.uk) or email democratic.services@brighton-hove.gov.uk

Date of Publication - Wednesday, 12 May 2010

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 30 MARCH 2010

COUNCIL CHAMBER, HOVE TOWN HALL

MINUTES

Present: Councillors Watkins (Chairman), Alford, Cobb, Kitcat, Oxley, Pidgeon, Simpson, Smart and Taylor

PART ONE

56. PROCEDURAL BUSINESS

56a Declaration of Substitutes

- 56.1 Councillor Cobb declared that she was substituting for Councillor Smith.
- 56.2 Councillor Smart declared that he was substituting for Councillor Fallon-Khan.
- 56.3 Councillor Pidgeon declared that he was substituting for Councillor Theobald.

56b Declarations of Interests

- 56.4 Councillor Simpson declared a personal but not prejudicial interest in item 65: Comprehensive Area Assessment and item 70: Targeted Budget Management (TBM) Month 9 for the reason that she was a Board Member for the Local Delivery Vehicle: Brighton and Hove Seaside Delivery Homes.

56c Exclusion of the Press and Public

- 56.5 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).
- 56.6 **RESOLVED** - That the press and public be excluded from the meeting during consideration of item 72, Non-Public Minutes of the Previous Meeting, item 73, Corporate Risk Management Action Plans Focus, and item 74, National Fraud Initiative 2008/2009 Outcomes 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).

Note: The Deputy Chairman, Councillor David Watkins, took the Chair for the entirety of the meeting.

57. MINUTES OF THE PREVIOUS MEETING

57.1 **RESOLVED** – That the minutes of the meeting of the previous meeting held on 15 December 2009 are approved and signed by the Chairman as a correct record.

58. CHAIRMAN'S COMMUNICATIONS

58.1 There were none.

59. PETITIONS

59.1 There were none.

60. PUBLIC QUESTIONS

60.1 There were none.

61. DEPUTATIONS

61.1 There were none.

62. WRITTEN QUESTIONS FROM COUNCILLORS

62.1 There were none.

63. LETTERS FROM COUNCILLORS

63.1 There were none.

64. TREASURY MANAGEMENT POLICY STATEMENT

64.1 The Committee considered a report from the Director of Finance & Resources regarding the Treasury Management Policy Statement.

64.2 Councillor Oxley noted the reference to a consultation document regarding housing finance and asked if there were any further updates of this. Councillor Simpson responded that an announcement was shortly to be made from the Housing Minister and that it was expected that the housing finance allocation system would be revised.

64.3 The Director of Finance & Resources, Ms Vaughan, noted it was too early to assume any financial implications, but welcomed this as a positive step and stated that a consultation document would be released shortly.

65.4 **RESOLVED** – That the Treasury Management Police Statement is noted.

64 .1 ANNUAL INVESTMENT STRATEGY 2010-2011

64a.1 The Committee considered a report from the Director of Finance & Resources regarding the Annual Investment Strategy 2010-2011.

64a.2 **RESOLVED** – That the Annual Investment Strategy 2010-2011 report is noted.

65. COMPREHENSIVE AREA ASSESSMENT

65.1 The Committee considered a report from the Director of Finance & Resources on the Comprehensive Area Assessment.

65.2 Ms Thompson, District Auditor for the Audit Commission, introduced the report and stated that the Audit Commission were required to see output reporting from the Council and the Comprehensive Area Assessment took into account work done on Use of Resources and Managing Performance. The Assessment was published on the One Place website in December.

65.3 Councillor Taylor noted concerns around sustainable transport provision in the report and felt there was a need to refresh the sustainable transport strategy. Councillor Oxley replied that the position of the administration had been clearly set out at the last Full Council meeting when this issue had been discussed. The Chairman stated that the Audit Committee was not the appropriate forum to discuss this issue further.

65.4 **RESOLVED** - That the Comprehensive Area Assessment report is noted.

66. AUDIT COMMISSION: THE ROLE OF THE AUDIT COMMISSION

66.1 The Committee considered a presentation from the Audit Commission regarding the Role of the Audit Commission.

66.2 Ms Thompson and Mr Mathers, Audit Manager for the Audit Commission, made the presentation and noted the emerging wider role of the Audit Commission, the new International Standards on Auditing, which were being more important for local authorities, the role of the Comprehensive Area Assessment and the roles of Audit and Governance Committees.

66.3 Councillor Smart noted that Brighton & Hove City Council Housing Service had received the only red flag and asked what was taken into consideration when issuing a red flag. Ms Thompson replied that all factors were taken into consideration, but ultimately confidence was needed in plans for improvement of a service, and the likely pace of change to that service.

66.4 Councillor Kitcat asked if it would be beneficial to merge both the Audit and Governance Committees, as this appeared to be normal practice for other authorities. Ms Thompson replied that it was not the place of the Audit Commission to comment on how an authority structured its governance arrangements, but she recognised that the Council's arrangement was fairly uncommon.

- 66.5 Councillor Kitcat felt that if the Audit and Governance Committees were combined it would give the committee more authority to deal more in-depth with complex issues. Ms Thompson replied that there was always an opportunity for committees to ask challenging questions and to examine officer's actions, however they were arranged. Ms Vaughan, Director of Finance and Resources added that there was a challenge in understanding the breadth of responsibility over the assurances the committee was required to give, but stated that Councillors needed to rely on officer advice to a certain extent. The over-arching responsibility of the Audit Committee was to shape and influence the internal audit plan and to give assurances on the state of the audit function within the Council.
- 66.6 Councillor Oxley responded that the issue of separate committees had been dealt with in the last constitutional review. He recognised there was some overlap between the committees, but the Governance Committee was concerned with more than just audit issues. He felt the system was working well and recognised some important achievements of the Audit Committee in terms of the Corporate Risk Register developments.
- 66.7 The Chairman agreed that the Governance Committee had a greater remit than the Audit Committee, but felt that the Audit Committee did not have a great enough scrutiny of reports, which concerned him. He recognised that the arrangements had been reviewed in two constitutional reviews however and felt the system was progressing well since set-up. He felt the Audit Committee needed more continuity in terms of membership and dedication of Members.
- 66.8 Councillor Smart stated that scrutiny was often performed by officers before a report was submitted to Committee and felt that officer's judgements needed to be trusted.
- 66.9 Ms Vaughan stated that it was important to distinguish between scrutiny and effectiveness of controls. Scrutiny was ultimately a political judgement and an assessment on progress of policy statements. Audit was a narrower scope, focussed on the need for assurance around the discharge of functions. She believed the Committee was an extremely useful tool to ensure her responsibilities to the Council were carried out effectively, and she believed the Audit Committee was currently working very well.
- 66.10 **RESOLVED** - That the Role of the Audit Commission oral report is noted.

67. AUDIT COMMISSION: AUDIT PROGRESS REPORT 2009/2010

- 67.1 The Committee considered a report from the Audit Commission on the Audit Commission Progress Report.
- 67.2 Ms Thompson asked if the Committee would like this to become a standing item for each meeting and the Chairman agreed.
- 67.3 **RESOLVED** – That the Audit Progress Report 2009/2010 is noted.

68. AUDIT COMMISSION: CERTIFICATION OF CLAIMS AND RETURNS - ANNUAL REPORT

- 68.1 The Committee considered a report from the Audit Commission regarding the Certification of Claims and Returns - Annual Report.
- 68.2 Mr Mathers stated that this report was a new requirement and that the fee for grant claims is billed outside of the main audit fee, with the amount of time charged depending on the amount of work involved. It had been discharged quickly for the Council as there was a good control environment at Brighton & Hove.
- 68.3 Ms Vaughan stressed the importance of good systems in this area which was responsible for £250 million in Council expenditure.
- 68.4 **RESOLVED** – That the Certification of Claims and Returns – Annual Report is noted.

69. AUDIT COMMISSION: FEE LETTERS 2010/2011

- 69.1 The Committee considered a report from the Audit Commission regarding the Fee Letters 2010/2011.
- 69.2 Ms Thompson introduced the report and stated that there were two elements to the audit fee: the audit fee and the Comprehensive Area Assessment fee. There had been a year on year increase and was increased had last year increased by just under the amount set by the Audit Commission. New audit standards had necessitated this increase, but the Audit Commission had announced a refund of part of the fee which would be decided on in June. There were good arrangements at Brighton & Hove City Council, and so it was felt that the standard fee could be reduced slightly. A consultation process would take place around the Use of Resources regime for 2010/11 would take place. This document proposed a best estimate for the work needed for 2010/11, but if this was changed it would come back to the Audit Committee for information. She noted that the financial statements of the Council would look very different in a year's time under the new International Financial Reporting Standards (IFRS) requirements.
- 69.3 Councillor Alford asked for more information around the schedule of rebates and Ms Thompson replied that the scale fee was calculated in a certain way and for Brighton & Hove City Council this year it was calculated as the fixed element, the extra auditing work which was negotiated with the Council and a south east premium charge. There was also an inflationary element taken into account each year, and an increase due to the extra work around the new IFRS requirements. This was felt to be an unfairly large fee increase for Brighton and Hove City Council however, and so a rebate would be given for a proportion of the fee.
- 69.4 Ms Vaughan added that the increase for Brighton & Hove City Council was set below the normal scale fee. There was scope for investigating the quality of work under Use of Resources fee as the Council needed to ensure it received high quality work from the Audit Commission and better clarity around the work they performed.

- 69.5 The Chairman asked if there was anything else the Council could do to reduce the fee. Ms Thompson relied that the Audit Commission regime determined what type of work needed to be conducted for a Council the size and type of Brighton & Hove. If this varied by 5% or more, the Auditors for this region would be challenged on this. The variance for Brighton & Hove would be 5.8% for this year, but the Auditors believed they had very good reasons for proposing this.
- 69.6 Councillor Oxley asked if Members had seen the letter written to the Chief Executive regarding the rebate and Ms Thompson replied that the letter could be distributed to the Committee.
- 69.7 Councillor Kitcat stated that the Once Place website was a very positive improvement for value for money, but felt that the work of the Audit Commission needed to be submitted in a more timely manner.
- 69.8 Councillor Smart asked if the Audit Commission were only consultants regarding issues such as the Local Delivery Vehicle and Ms Thompson replied that the Audit Commission provided a watching brief and would comment on the entire process and supporting Officers by offering a "friendly challenge".
- 69.9 **RESOLVED** - That the Fee Letters 2010/2011 are noted.

70. TARGETED BUDGET MANAGEMENT (TBM) MONTH 9

- 70.1 The Committee considered a report from the Director of Finance & Resources regarding the Targeted Budget Management: Month 9.
- 70.2 **RESOLVED** - That the Targeted Budget Management: Month 9 report is noted.

71. RISK AND OPPORTUNITY MANAGEMENT (ROM): UPDATE

- 71.1 The Committee considered a report from the Director of Finance & Resources regarding the Corporate Risk and Opportunity Management Update.
- 71.2 The Risk and Opportunity Manager stated that this item stemmed from the December 2009 Audit Committee meeting and that the six monthly Corporate Register Review was now underway. The Corporate Risk Register was now much clearer on roles, responsibilities and timescales regarding issues.
- 71.3 **RESOLVED** - That the Risk and Opportunity Management Update is noted.

72. NON-PUBLIC MINUTES OF THE PREVIOUS MEETING - EXEMPT PARAGRAPH 3

- 72.1 **RESOLVED** – That the non-public minutes of the meeting held on 15 December 2009 are approved and signed by the Chairman as a correct record.

73. CORPORATE RISK MANAGEMENT ACTION PLAN FOCUS - EXEMPT PARAGRAPH 3

73.1 The Committee considered an oral report from the Risk and Opportunity Manager and the Schools Futures Project Director regarding the Corporate Risk Management Action Plan Focus.

73.2 **RESOLVED** – That the Corporate Risk Management Action Plan Focus oral report and Corporate Risk Management Action Plan for CR3 is noted.

74. NATIONAL FRAUD INITIATIVE 2008/2009 OUTCOMES - EXEMPT PARAGRAPH 3

74.1 The Committee considered a report from the Director of Finance & Resources regarding the National Fraud Initiative.

74.2 **RESOLVED** – That the Audit Committee noted the current status and outcomes so far for the Council from the National Fraud Initiative 2008-09 as contained in Appendix 1.

After the meeting it was decided that a sanitised version of the outcomes should be released. The subsequent report will be available at the next meeting on 18 May 2010.

75. PART TWO ITEMS

75.1 **RESOLVED** – That the items and decisions listed as exempt categories above should remain exempt from disclosure to the press and public.

The meeting concluded at 6.50pm

Signed

Chair

Dated this

day of

Subject:	2009/10 Statements of Accounts and International Financial Reporting Standards (IFRS).		
Date of Meeting:	18th May 2010		
Report of:	Director of Finance & Resources		
Contact Officer:	Name:	Patrick Rice	Tel: 29-1268
	E-mail:	Patrick.rice@brighton-hove.gov.uk	
Wards Affected:	All		

FOR GENERAL RELEASE

1 SUMMARY AND POLICY CONTEXT

- 1.1 This report provides the Audit Committee with information on the changes for the 2009/10 Statement of Accounts together with an update on the council's progress in implementing International financial reporting standards (IFRS) for the 2010/11 Statement of Accounts.
- 1.2 Implementation of IFRS will mean major changes to how we prepare and then present the accounts and so regular updates will be provided to the Committee on our progress towards achieving IFRS compliance.

2 RECOMMENDATION:

- 2.1 The Committee is recommended to note the changes for the 2009/10 Statement of Accounts
- 2.2 The Committee is recommended to note the implications for the council of the introduction of IFRS.

3 REASON FOR RECOMMENDATION

- 3.1 To ensure the Committee has up to date information on the changes that the council is required to make to its accounting practices to comply with the statutory frameworks for producing its accounts for both the 2009/10 and 2010/11 financial years.

4 BACKGROUND INFORMATION

- 4.1 Under the Accounts and Audit Regulations, the council's accounts must comply with proper practice. Local Government accounts are currently prepared using accounting principles based on UK Generally Accepted Accounting Practices (UKGAAP). Compliance with UK GAAP is currently achieved through the application of the "Code of Practice in Local Authority Accounting – A Statement of Recommended Practice" (the SORP). The SORP

is published annually by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 4.2 In England and Wales, the SORP is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 21 of the Local Government Act 2003, therefore we have a statutory duty to comply with the SORP requirements.
- 4.3 The 2009 SORP which relates to the financial year commencing on 1 April 2009 introduces a number of changes in accounting practice which the council needs to comply with. These changes are detailed in Section 5 below.
- 4.4 The move to IFRS for government bodies, for producing the Statement of Accounts and Whole of Government Accounts, was announced as part of the March 2007 HM Treasury Budget Report. Central Government and Health were required to adopt IFRS for their 2009/10 annual accounts (with comparatives for 2008/09). The adoption by Local Government will be required for annual accounts from the 2010/11 financial year (with comparatives for 2009/10).
- 4.5 The main reason for adopting IFRS is to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.
- 4.6 CIPFA has issued the first IFRS based Code of Practice on Local Authority Accounting which will apply to local authority budgets and accounts from 1st April 2010. Comparative analyses between the latest SORP and the IFRS based Code of Practice highlight a substantial number of differences where the move to IFRS will bring a number of accounting changes.
- 4.7 The impact of many of the IFRS's will be presentational with new terminology and statements being introduced and a significant increase in the level of disclosure notes required. However, there are a number of IFRS's which will have a significant impact on the accounts for 2010/11 and also the 2009/10 accounts with the early introduction of changes in accounting for Private Finance Initiatives (PFI's).

5 2009/10 STATEMENTS OF ACCOUNTS

- 5.1 The 2009 SORP has introduced a number of changes that will need to be implemented for the 2009/10 accounts. The key issues which will affect the council's financial statements are detailed below.
- 5.2 **Private Finance Initiatives (PFI) arrangements (IFRIC 12)**
 - 5.2.1 Recognition and measurement of PFI and other similar arrangements are significantly different under IFRS than UK GAAP.
 - 5.2.2 Currently the council has three PFI schemes (Schools PFI, Waste PFI and Library PFI). All three schemes pass the control tests under IFRS and the PFI properties used to deliver these PFI services will be required to be recognised on the council's Balance Sheet together with a liability for the financing provided by the PFI provider.
 - 5.2.3 Regulations have been put in place to ameliorate any impacts on authorities' funding positions.

5.2.4 The change in PFI accounting will be implemented for the 2009/10 accounts under the 2009 Statement of Recommended Practice.

5.3 Accounting for Council tax

5.3.1 As a Billing Authority the council collects and distributes council tax on behalf of itself and other preceptors. The 2009 SORP concludes that billing authorities act as agents of major precepting authorities in collecting their attributable share of council tax and has introduced changes to the way the council accounts for Council tax.

5.3.2 Under the 2009 SORP only the billing authority's share of income and expenditure from the collection fund will be accounted for on the face of the financial statements, this differs from current practice, whereby all transactions resulting from the collection fund are included within the council's accounts.

5.4 Accounting for NNDR

5.4.1 The 2009 SORP confirms that the collection of National Non-Domestic Rates (NNDR) is carried out by authorities as an agent activity on behalf of central government and should be accounted for accordingly.

5.4.2 Under the 2009 SORP the NNDR taxpayers' debtor and creditor balances and impairment allowance for doubtful debts are not Balance Sheet items of the billing authority since it acts as an agent of the Government when collecting NNDR. This differs from current practice where NNDR taxpayers' debtor and creditor balances and an impairment allowance for doubtful debts would have been included on the council's balance sheet.

5.5 Senior Officers remuneration

5.5.1 Regulation 4 of the Accounts and Audit (Amendment No.2) Regulations (England) 2009 [SI 2009 No. 3322] introduces a new legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior officers.

5.5.2 The new requirements are intended to ensure comparable remuneration disclosure for all senior staff within local authorities and guarantee the same level of openness and transparency as central government and the private sector and comes into force on 31 March 2010 (except where a duty of confidentiality exists).

5.5.3 With effect from the 2009/10 financial year, the statement of accounts must be accompanied by a note of the number of employees whose remuneration fell in each bracket of a scale in multiples of £5,000 starting with £50,000. The amended disclosures are subject to the duty of confidentiality referred to above.

5.5.4 The amended Regulations introduce a new requirement to disclose individual remuneration details as follows:

- For senior employees whose salary is £50,000 or more per year but less than £150,000, they must be listed individually by way of job title only.
- For senior employees whose salary is £150,000 or more per year must also be identified by name.

A definition of senior employee is provided in the amended regulations and will include the Chief Executive, identified by job title and name, together with directors who report directly to the chief executive or hold a statutory post, identified by job title.

6 THE INTRODUCTION OF IFRS.

- 6.1 The implementation of IFRS is being managed as a project by the council. This project has been ongoing for several months. A Project Board has been established and a Project Manager appointed. A Project Initiation Document has been agreed and detailed project plans have been compiled and put in place to meet the statutory deadlines for producing the 2010/11 accounts within the statutory timeframes. Progress against the project plan is on track and significant progress is being made.
- 6.2 There are a number of areas which will have significant impact for the 2010/11 accounts following the implementation of IFRS. Individual working groups have been established to consider and implement the necessary changes, both in accounting and system and processes terms. The significant areas of change under IFRS are discussed below.
- 6.3 Leases (IAS 17)**
- 6.3.1 The recognition and measurement of leasing arrangements are changing with the likelihood that more leasing arrangements will have to be included on the council's Balance Sheet.
- 6.3.2 All existing leases (where the council is either lessee or lessor) are in the process of being reviewed with the potential need to reclassify leases. For accounting purposes there are two types of leases; finance leases and operating leases. Leases will need to be classified as either operating leases or financial leases with the associated accounting treatment being different for each
- 6.3.3 Whilst the reclassification of leases does not change the amount of money the council receives under a lease, IFRS has complex effects on the accounting treatment of income from leases which may have a potential adverse financial impact on the council's flexibility to apply resources from leases income to meet expenditure. Regulations are in place to delay this impact and as such will only apply to any new leases entered into by the council with effect from 1 April 2010.
- 6.3.4 The quantitative test, used under the SORP to recognise leases, no longer applies with more emphasis being placed on substance over form and the need to establish whether the risks and obligations of full ownership of an asset have passed over to the council by virtue of the lease agreement.
- 6.3.5 IFRS also requires the separation of land and building elements of property leases with the land element treated as an operational lease and buildings potentially treated as a finance lease. The potential impact of this would involve bringing the asset onto the council's Balance Sheet together with a corresponding liability.

- 6.3.6 IFRS introduces the concept of 'lease type arrangements' also referred to as 'Embedded Leases'. This requires assessment of whether any contract may involve the use of an asset, if a contract effectively gives the council 'control' over the use of an asset then this would involve bringing the asset onto the council's Balance Sheet.
- 6.3.7 There are resources implications in ensuring all leases have been recognised and accounted for correctly. The council has currently employed an external temporary resource to assist officers with this work.

6.4 Employee Benefits (IAS 19)

- 6.4.1 Under IFRS there is a requirement to accrue for the cost of employee benefits to be accounted for in the year in which the benefit is earned by the employee. This will include both untaken annual leave and accrued flexi hours at the year end.
- 6.4.2 Under UKGAAP, there has not been a requirement to previously accrue for annual leave and flexi leave not taken in the financial year to which it relates and the council, in common with most local authorities, currently makes no year end provision for accrued leave in the accounts. The collation of these balances as at 31st March, for non schools staff, is being obtained from service managers as part of the accounts closure process. The provision in respect of schools staff will be calculated using a formula supplied by CIPFA.
- 6.4.3 Regulations have been put in place to ameliorate any impacts on authorities' funding positions.

6.5 Fixed Assets

- 6.5.1 IFRS introduces some significant changes to the way Property, Plant and Equipment (previously known as Fixed Assets) will need to be accounted for.
Component Accounting.
- 6.5.2 IFRS introduces component accounting. There is no formal definition of a component although IFRS requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. The council will be required to account for material components of assets as they are replaced rather than having a single valuation for the whole asset. For example, lifts or roofs of buildings may need to be accounted for separately.
- 6.5.3 The council will need to collect additional information regarding its capital programme to be able to derecognise replaced components and this is likely to have implications for the council's asset management system. These issues are being considered by financial services staff in conjunction with property professionals with potential resource impacts in terms of more valuations needed and changes to systems and accounting treatment;

Valuation Methods

- 6.5.4 IFRS introduces changes to the valuation methods of assets with property assets valued at fair value; infrastructure assets, community assets, assets under construction and plant and equipment valued at historic cost and council dwellings valued at existing use value (investment properties and assets held for resale are discussed below). Future valuations can continue to be made on

a minimum five year cycle, as is currently the case under SORP, but if an asset experiences significant and volatile change in fair value that results in a material difference, then annual valuations are required. Impairment reviews must be made each year. These issues are being considered by financial services staff in conjunction with property professionals with potential resource impacts in terms of more valuations needed and changes to systems and accounting treatment;

Investment Property (IAS 40)

- 6.5.5 Under IFRS, there are changes in the valuation of investment properties with these assets being carried at fair value rather than the lower of net current replacement cost or net realisable value. There is also a tighter definition of investment properties under IFRS which may lead to some reclassification of assets; in addition, investment properties are to be valued each year (rather than on a five year rolling basis) which has a resource impact for the council.

Intangible Assets (IAS 38)

- 6.5.6 IFRS introduces new rules for valuing and capitalising intangible assets. IFRS recognises a wider range of intangible assets and internally generated intangible assets are capitalised where the recognition criteria are met; these changes may result in the recognition of more intangible assets.

Non-current Assets Held for Sale and Discontinued Operations

- 6.5.7 Under IFRS, assets classified as held for sale are measured at the lower of their carrying amount or fair value and are subject to depreciation. There will be implications for the council's asset management system. There is also a tighter definition of non current assets held for sale under IFRS which may lead to some reclassification of assets.

6.6 Group Accounts (IAS 27, 28, 31, IFRS 3)

- 6.6.1 A new definition of a subsidiary or associate is introduced under IFRS and is based around the power to control or significant influence. The definition of joint ventures covers jointly controlled entities, assets or operations. All partnership arrangements across the council will need to be reviewed to assess whether any fall under the IFRS definitions.

7 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

7.1 Impact on Budgets and Council Tax

Whilst some of the changes introduced by IFRS will give rise to a change in the net expenditure reported each year, any impact on Council Tax will be mitigated through statutory accounting adjustments.

Finance Officer Consulted: Melanie Bloom

Date: 19 April 2010

Legal Implications:

- 7.2 The recommendations in part 2 above are proper for the Audit Committee to consider and to note. Under the Accounts and Audit Regulations 2003, it is the responsibility of the Audit Committee to approve the council's statement of accounts (SoA).

Lawyer consulted: Oliver Dixon

Date: 21 April 2010

Equalities Implications:

- 7.3 There are no equalities implications arising directly from this report.

Sustainability Implications:

- 7.4 There are no direct environmental implications arising from this report.

Crime & Disorder Implications:

- 7.5 There are no direct implications for the prevention of crime and disorder arising from this report.

Risk and Opportunity Management Implications:

- 7.6 Risks in relation to the accuracy of the financial statements are considered as part of the statutory accounts process.

Corporate / Citywide Implications:

- 7.7 The quality of a public authority's financial statements is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the statements present fairly the financial position of the authority. The quality and accuracy of the Statement of Accounts also impacts on the council's score under the Comprehensive Area Assessment framework.

SUPPORTING DOCUMENTATION

Appendices

None

Documents in Members' Rooms

None

Background Documents

None

Audit Progress Report

March 2010

Brighton and Hove City Council

Audit 2009/10

Date

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3	Restate 2009/2010 accounts to IFRS	by 31/12/2010
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The Audit Commission

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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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Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

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Appendix 1 – 2009/10 Audit Risk Areas

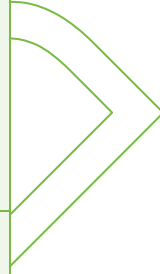
Risk Area Identified	Planned Work	Progress to date	Outcome
<p>The Council is to let a long- term contract for capital works and the repairs and maintenance of its housing stock in early 2009/10. Significant savings are expected through this approach. In order to achieve these, the contract must be soundly based and contract management arrangements effective.</p>	<p>We will review the contract arrangements to establish the reasonableness of the savings proposed, how the savings expected are reflected in the longer- term financial plans for the housing revenue account and the effectiveness of the proposed management of the contracts.</p>	<p>Work is underway and is expected to be completed by the end of June. A project specification and detailed work methodology has been agreed and we are currently awaiting documentary evidence and a self-assessment from the Council. The fieldwork for the Housing Repairs and Maintenance contract will also be used to inform our Area Assessment work. This work involves an assessment of the prospects for delivering Decent Homes Standards compliance in the condition of housing stock by the Council's target date of 2013. The work will also monitor progress in establishing the housing local delivery vehicle</p>	<p>The final report is due to be presented to the September 2010 meeting of the Committee.</p>

Appendix 1 – 2009/10 Audit Risk Areas

Risk Area Identified	Planned Work	Progress to date (see below).	Outcome
<p>The Council's proposed creation of a housing local delivery vehicle that will manage about 500 of its housing properties as a means of improving their condition is innovative. However, it requires appropriate arrangements to be established to safeguard the Council's assets and to ensure the company achieves the improvements required.</p>	<p>We will review the Council's arrangements at key stages and comment as necessary.</p>	<p>The Council has recently approved the adoption of the general consents route to lease up to 499 empty properties over 5 years to the local delivery vehicle over five years. We will continue to monitor developments and any consequential impacts on our Code responsibilities.</p>	<p>A watching brief will continue to be maintained.</p>
<p>The economic climate has impacted on the finances of local authorities including increased demand for some services; reduction in income from charges (such as car parking) raised and increased level of debtors. This places the Council's financial health at risk.</p>	<p>We will monitor the Council's financial performance to see how well it is managing the impact of the current economic climate and assess the impact of its overall financial health.</p>	<p>The effect of the recession in Brighton & Hove, and the consequential impact on the activities of the Council has been considered along with the experiences of other councils, have been considered for inclusion in an Audit Commission national report. Local work to assess the impact of the recession on the Council's financial performance has been undertaken and will be</p>	<p>The findings of local work in this area will be taken into account in the Use of Resources assessment.</p>

Appendix 1 – 2009/10 Audit Risk Areas

Risk Area Identified	Planned Work	Progress to date	Outcome
<p>The waste management PFI (in partnership with a neighbouring local authority) is a high profile arrangement and the operation of effective management of the contract with the service provider is essential. Failure to operate effective contract management could be costly to the Council.</p>	<p>We will undertake a high level overview of the Council's approach in order to ensure the arrangements in place ensure that the Council achieves value for money. This builds on our work at previous audits.</p>	<p>We have attended meetings with officers from the Council and from East Sussex County Council (the neighbouring local authority) to discuss arrangements. We are also taking advice from PFI technical specialists from our central technical unit.</p>	<p>We will continue to discuss issues with officers. This will include accounting arrangements as the introduction of new standards in 2009/10 will affect the valuation and accounting entries.</p>
<p>Participation in the Building Schools for the Future (BSF) programme is technically demanding and requires effective project management at all stages from the application phase to completion. The Council will invest a significant amount of money in reaching the application phase and there is a risk that application might not be accepted.</p>	<p>We will undertake a high level overview of the Council's approach in order to ensure the arrangements in place ensure the Council achieves value for money.</p>	<p>We have held a meeting with the BSF project officer and have received further documentation which we are currently evaluating. This includes examples of BSF project and performance management reports and the latest progress update for the Children & Young People Board.</p>	<p>A watching brief will continue to be maintained.</p>



Our reference HT/BHCC/0910TCWGassurances

5 May 2010

Councillor Les Hamilton
Chair of the Audit Committee
Brighton & Hove City Council

Direct line 0844 798 1790
Email helen-
thompson@audit-
commission.gov.uk

Dear Councillor Hamilton

Audit of Brighton & Hove City Council 2009/10 Financial Statements - Compliance with International Auditing Standards

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

- 1) How those charged with governance exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
 - identifying and responding to risks of fraud in the organisation;
 - communication to employees of views on business practice and ethical behavior; and
 - communication to those charged with governance the processes for identifying and responding to fraud.
- 2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.
- 3) Whether you have knowledge of any actual, suspected or alleged frauds
- 4) How you gain assurance that all relevant laws and regulations have been complied with.

Audit Commission, Suite 2, Ground Floor, Bicentennial House, Southern Gate, Chichester,
West Sussex, PO19 8SQ
T 0844 798 1717 F 0844 798 1705 www.audit-commission.gov.uk

A brief response by letter or e-mail, by 29 June 2010 will suffice. Please contact Simon Mathers, Audit Manager on 0844 798 1776 if you wish to discuss anything in relation to this request.

Yours sincerely

Helen Thompson
District Auditor

AUDIT COMMITTEE

Agenda Item 87

Brighton & Hove City Council

Subject: Internal Audit Strategy & Annual Audit Plan 2010/11
Date of Meeting: 18th May 2010
Report of: Director of Finance & Resources
Contact Officer: Name: Ian Withers Tel: 29-1323
E-mail: ian.withers@brighton-hove.gov.uk
Wards Affected: All

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report presents the Internal Audit Strategy and Annual Audit Plan for 2010/11
- 1.2 The audit Committee and ultimately the council, needs assurance that internal controls have been effectively designed and operates in practice. The audit coverage contained in the Annual Audit Plan aims to provide assurance over this.

2. RECOMMENDATION:

- 2.1 That the Audit Committee approves the Internal Audit Strategy and Annual Audit Plan for 2010/11 attached at Appendix A to this report.
- 2.2 That the Audit Committee approves the revised Terms of Reference for the Internal Audit Service.

3. BACKGROUND

- 3.1 The Accounts and Audit Regulations 2003 (as amended) require the council to 'maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper practice'. The proper practice being the CIPFA Code of Practice for Internal Audit in Local Government 2006.
- 3.2 Under the Code, the Head of Audit & Business Risk is required to prepare and Internal Audit Strategy and Audit Plan for each financial year. The aim is to provide independent and objective assurance on the control environment consisting of internal control, risk management and corporate governance.

- 3.3 The Internal Audit Strategy and Annual Plan provides the mechanism through which the Head of Audit & Business Risk can ensure the most appropriate use of internal audit resources to provide assurance on the council's control environment and management of risks.
- 3.4 The Annual Audit Plan is effectively a work programme of audits, inclusion of which is primarily based on the greatest perceived inherent risk. Other reviews may also be included based on criteria other than risk, for example 'mandatory' audits or requested/commissioned by management.
- 3.5 The Internal Audit Strategy and Annual Audit Plan also includes the revised terms of reference for Internal Audit.

4. DEVELOPMENT OF THE ANNUAL AUDIT PLAN

- 4.1 The Annual Audit Plan for 2010-11 was developed by the following:
- Linking with Directorate and Service Business Plans
 - Use of existing corporate and departmental risk registers to identify risks and controls
 - Our own cumulative knowledge and experience of the council's governance and control environment
 - Internal Audit Universe and Risk Assessment using cumulative audit knowledge and experience including previous audits, materiality, sensitivity, change
 - Information and requests from extensive consultation meetings with senior management.
- 4.2 There are considered to be sufficient resources available to achieve the 2010/11 Annual Audit Plan subject to there being no significant unplanned audit work or staff vacancies. To be better prepared in order to mitigate the risk of staff vacancies, we have now arranged to procure additional external resources as required, under a framework contract.

5. FINANCIAL & OTHER IMPLICATIONS:

5.1 Financial Implications:

Delivering the annual audit plan contributes towards the Chief Finance Officer meeting their Section 151 responsibilities (make arrangements for the proper administration of the Local Authorities financial affairs) by helping to achieve an effective control environment.

The financial implications of the Internal Audit Strategy and Annual Audit Plan have been fully costed and are within budget.

Alasdair Ridley
Accountant

4th May 2010

5.2 Legal Implications:

The recommendations in paragraph 2 are proper to be considered by the Audit Committee, in line with its terms of reference.

The statutory provisions relevant to this report are referred to in paragraph 3.1 .

Oliver Dixon
Lawyer

5th May 2010

5.3 Equalities Implications:

When carrying out audit work, any equality issues identified are reported to the appropriate level of management. The Internal Audit Strategy and Annual Audit Plan recognises the council's priorities in respect to Equality and Diversity and how Internal Audit will meet them.

5.4 Sustainability Implications:

When carrying out audit work, any sustainability issues identified are reported to the appropriate level of management.

5.5 Crime & Disorder Implications:

When carrying out audit work, any crime and disorder issues identified are reported to the appropriate level of management.

5.6 Risk and Opportunity Management Implications:

The preparation of the Internal Audit Strategy and annual Audit Plan has taken into account the outcomes of the council's risk management and other assurance processes. The work of Internal Audit assists the council in improving controls to mitigate risks. The Annual Audit Plan will be flexible to take account of emerging risks and priorities of the council.

5.7 Corporate / Citywide Implications:

Robust corporate governance arrangements are essential to the sound management of the City Council and the achievement of its objectives as set out in the Corporate Plan.

SUPPORTING DOCUMENTATION

Appendices:

1. Internal Audit Strategy and Annual Audit Plan 2010/11

Background Documents

1. Accounts & Audit Regulations 2003 (Amended 2006)
2. CIPFA Code of Practice for Internal Audit in Local Government 2006
3. Risk and Opportunity Strategy 2009
4. Corporate Risk Register 2009

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Appendix 1 – 2009/10 Audit Risk Areas

Risk Area Identified	Planned Work	Progress to date	Outcome
<p>The Council is to let a long- term contract for capital works and the repairs and maintenance of its housing stock in early 2009/10. Significant savings are expected through this approach. In order to achieve these, the contract must be soundly based and contract management arrangements effective.</p>	<p>We will review the contract arrangements to establish the reasonableness of the savings proposed, how the savings expected are reflected in the longer- term financial plans for the housing revenue account and the effectiveness of the proposed management of the contracts.</p>	<p>Work is underway and is expected to be completed by the end of June. A project specification and detailed work methodology has been agreed and we are currently awaiting documentary evidence and a self-assessment from the Council. The fieldwork for the Housing Repairs and Maintenance contract will also be used to inform our Area Assessment work. This work involves an assessment of the prospects for delivering Decent Homes Standards compliance in the condition of housing stock by the Council's target date of 2013. The work will also monitor progress in establishing the housing local delivery vehicle</p>	<p>The final report is due to be presented to the September 2010 meeting of the Committee.</p>

Appendix 1 – 2009/10 Audit Risk Areas

Risk Area Identified	Planned Work	Progress to date (see below).	Outcome
<p>The Council's proposed creation of a housing local delivery vehicle that will manage about 500 of its housing properties as a means of improving their condition is innovative. However, it requires appropriate arrangements to be established to safeguard the Council's assets and to ensure the company achieves the improvements required.</p>	<p>We will review the Council's arrangements at key stages and comment as necessary.</p>	<p>The Council has recently approved the adoption of the general consents route to lease up to 499 empty properties over 5 years to the local delivery vehicle over five years. We will continue to monitor developments and any consequential impacts on our Code responsibilities.</p>	<p>A watching brief will continue to be maintained.</p>
<p>The economic climate has impacted on the finances of local authorities including increased demand for some services; reduction in income from charges (such as car parking) raised and increased level of debtors. This places the Council's financial health at risk.</p>	<p>We will monitor the Council's financial performance to see how well it is managing the impact of the current economic climate and assess the impact of its overall financial health.</p>	<p>The effect of the recession in Brighton & Hove, and the consequential impact on the activities of the Council has been considered along with the experiences of other councils, have been considered for inclusion in an Audit Commission national report. Local work to assess the impact of the recession on the Council's financial performance has been undertaken and will be</p>	<p>The findings of local work in this area will be taken into account in the Use of Resources assessment.</p>

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Risk Area Identified	Planned Work	Progress to date	Outcome
<p>The waste management PFI (in partnership with a neighbouring local authority) is a high profile arrangement and the operation of effective management of the contract with the service provider is essential. Failure to operate effective contract management could be costly to the Council.</p>	<p>We will undertake a high level overview of the Council's approach in order to ensure the arrangements in place ensure that the Council achieves value for money. This builds on our work at previous audits.</p>	<p>We have attended meetings with officers from the Council and from East Sussex County Council (the neighbouring local authority) to discuss arrangements. We are also taking advice from PFI technical specialists from our central technical unit.</p>	<p>We will continue to discuss issues with officers. This will include accounting arrangements as the introduction of new standards in 2009/10 will affect the valuation and accounting entries.</p>
<p>Participation in the Building Schools for the Future (BSF) programme is technically demanding and requires effective project management at all stages from the application phase to completion. The Council will invest a significant amount of money in reaching the application phase and there is a risk that application might not be accepted.</p>	<p>We will undertake a high level overview of the Council's approach in order to ensure the arrangements in place ensure the Council achieves value for money.</p>	<p>We have held a meeting with the BSF project officer and have received further documentation which we are currently evaluating. This includes examples of BSF project and performance management reports and the latest progress update for the Children & Young People Board.</p>	<p>A watching brief will continue to be maintained.</p>



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