

Annual Audit Letter

Brighton and Hove City Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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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Summary

This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (page 4) and my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 9).

Audit opinion and financial statements

1 The financial statements submitted for audit were of a good standard and my audit work detected only a small number of errors and uncertainties. Working papers to support the financial statements were also good. I was able to issue an unqualified opinion by the required deadline.

Value for money

2 I gave an unqualified value for money conclusion. This means that I am satisfied the Council has satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 Following the government's announcement in May 2010 work on the comprehensive area assessment (CAA), which included use of resources, stopped with immediate effect. I have reported my summarised findings in this letter as they contribute to the value for money conclusion, which is statutory requirement of the Code of Audit Practice.

Audit certificate

4 I have not yet been able to formally conclude the audit and issue the audit certificate. This is because I am currently considering an objection made by a local elector to the Council's 2009/10 financial statements. I am, however, satisfied the matters raised do not have a material effect on the Council's accounts and I have therefore been able to issue the audit opinion.

Current and future challenges

5 The Council continues to plan and manage its finances well, and service efficiencies and financial savings have been delivered over the last year. The economic downturn and the recent comprehensive spending review (CSR) are, however, imposing unprecedented financial pressures on the public sector. Although the Council's medium term financial strategy already considered expected cuts in funding this is being revisited, and it is likely that further difficult choices will need to be made by members and

officers to secure the necessary reductions in spending. The success of the recent management restructure and move to a new operating model, which is more focused on the strategic commissioning of services, will be critical to the future of the Council.

Financial systems and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September, which is the statutory target date.

Overall conclusion from the audit

6 Good quality financial statements were submitted for audit and I did not identify any significant errors or uncertainties. The draft financial statements were available over a week before the Council's internal deadline for approval of the accounts. This allowed for proper officer and member review of the statements, which helps to ensure the statements approved by committee and presented for audit are of a good quality. Queries arising during the audit were addressed quickly and comprehensively by officers.

7 Accounting practice at the Council is sound. In particular, it coped well with the complex accounting required for its joint waste management private finance initiative (PFI) scheme with East Sussex County Council. This is a complex contractual arrangement that has changed significantly since it began. The Council is making reasonable progress towards implementing international financial reporting standards (IFRS) in 2010/11. The good level of accounting competence demonstrated by the Council suggests it is well placed to implement IFRS successfully.

Significant weaknesses in internal control

8 I concluded that the Council's internal financial control environment is satisfactory overall. However, my work on the Council's significant financial systems identified some areas of weakness in the design or operation of controls. In particular, improvements are required to the control environment within the payroll system, which produces a large part of the Council's total expenditure. The reliable operation of effective controls provides assurance to management and members and allows me to complete my work more efficiently. I therefore raised recommendations in this area as part of my annual governance report.

Value for money

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

2009/10 use of resources assessments

9 At the end of May 2010, the Commission wrote to all chief executives to inform them that, following the government's announcement, work on CAA would end with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

10 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

11 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

12 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year which key lines of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

13 I reported my detailed findings as part of my 2009/10 annual governance report to the Audit Committee, as those charged with governance, on 28 September 2010. This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	N/A
Strategic asset management	Yes
Workforce	Yes

14 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing finances

15 The Council continues to plan its finances effectively, has sound financial standing and has shown that it is able to manage spending within available resources. Expected cuts in public sector funding are included in medium term financial plans, although this will need to be revisited now that the full details of the CSR are known.

16 The Council is responding well to secure financial savings and has a good track record of improving efficiency. However, overall costs exceed the national average and more needs to be done in this area. This is recognised by the Council. The success of the recent management restructure and move to a new operating model, which is more focused on the strategic commissioning of services, will be critical to Council's future ability to secure savings.

17 Internal and external financial reporting arrangements are good. The Council's financial statements are produced to a good standard and budget reporting is clear, timely and focused on risk areas.

Governing the business

18 The Council has a clear vision for the future of the city and is using this to develop a strategic commissioning role in partnership with other service providers. Procurement practices are satisfactory although the Council has yet to support the voluntary sector actively to create a social enterprise initiative agenda.

19 Performance reports covering all key services are produced to a high standard, and performance monitoring is good. Data quality spot checks have confirmed that performance indicators and other management information are based on good quality data which is processed accurately.

20 Governance arrangements at the Council have improved and are sound. The Council has also continued to strengthen its risk management arrangements.

Managing resources

21 Asset management arrangements for Council assets are generally good. The Council has a well established database of information that summarises the condition, energy use, maintenance requirements and revenue costs for each of its properties.

22 The Council has a good track record of developing staff and recruiting and retaining good people. There are, however, weaknesses in some areas. Sickness levels remain high and not all staff benefit from formal performance appraisals.

Risk-based performance reviews

23 I have undertaken work and maintained a watching brief on a number of risks and issues to inform my work of the VFM conclusion:

- I considered the effect of the recession in Brighton & Hove and its impact on the activities of the Council. I concluded that the Council had in general coped well with the impacts of the recession. This work also helped to inform an Audit Commission national report.
- My team regularly attended meetings with officers from the Council and East Sussex County Council to consider the adequacy of contract management and consider accounting arrangements proposed by the Councils for the joint waste management PFI.
- My team attended meetings with officers to maintain a watching brief on the Council's participation in the building schools for the future programme prior to its cancellation by government.

Review of the housing repairs and maintenance contract

24 To support my assessment of the VFM conclusion I also undertook a review of the Council's contract to deliver its housing repairs and maintenance and capital works with a long term partner contractor. As part of this, I assessed the risk of council dwellings not meeting the decent homes standard (DHS) by the government target of 2013, and risks created by the Council's plans to transfer some of its housing stock to a local delivery vehicle (LDV) to partly finance delivery of the 2013 DHS target. I have reported my detailed findings in this area to the Council in a separate report. This is a summary of my findings.

25 I concluded that the housing management service has made good progress over the last 18 months. Delivering decent homes is a key priority for the Council and its partners, and the contractor is strongly committed to working with the Council to meet the DHS. Resources have been shifted to support delivery of the DHS target by 2013.

26 The repairs and maintenance contract includes suitable aims and objectives. Arrangements for monitoring the outcomes of the contract are defined, although they are not yet fully in place. There is an effective approach to risk management.

27 The Council, in partnership with the contractor and residents, is improving services. This has already led to improved customer satisfaction. There has also been some improvement in value for money delivered. Housing management costs have reduced to average when compared to other councils. Outcomes are also improving, although from a low base, and there is more work to do to improve performance.

28 Financial planning to ensure the long term viability of the Council's housing revenue account is based on prudent assumptions. Delays to the start of the LDV are likely to impact on the timing of capital receipts the Council can realise to finance its plans. This raises a risk to achieving the DHS target by 2013, which is recognised and actively managed by the Council.

Approach to local value for money work from 2010/11

29 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

30 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

31 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Current economic climate

32 During 2009/10 the Council has demonstrated good financial management in difficult circumstances. However, in common with the rest of the public sector, it is facing significant financial challenges ahead. The scale of the financial savings required by the government's CSR are unprecedented.

33 The government has reported in the CSR that Councils will face a significant grant loss in real terms each year for the next four years. Alongside the grant reduction, the Secretary of State has announced a number of reforms affecting the administration of local authorities designed to reduce the burdens on authorities and promote innovation and flexibility. I will work with you over the coming months, sharing good practice where appropriate and providing support as a 'critical friend' where possible during my 2010/11 audit.

Future developments

34 In addition to the uncertainties as a result of the CSR, the Council is faced with a substantial change in the financial reporting regime in 2010/11. From 2010/11 the statement of accounts of all public sector organisations will be prepared under an IFRS based code of practice on local authority accounting. This is part of a wider public-sector move to international standards. It is a complex area and will require significant input from staff in finance and across the Council over the next year.

35 The Audit Commission carried out a national survey during 2010 and I assessed the Council's performance as 'amber'. The Council has a clear plan for implementation of IFRS as the basis of preparation for its 2010/11 financial statements. Members also have a reasonable understanding of the impact of IFRS implementation. There has, however, been some slippage against the Council's project plan in this area and successful implementation remains a key challenge for finance. I will continue to work with the Council over the coming months as it finalises its restated accounts.

Closing remarks

36 I have discussed and agreed this letter with the Chief Executive and the Director of Finance on 22 November 2010. I will present this letter at the Audit Committee on 14 December 2010.

37 Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan fee letter	April 2009
Opinion audit plan	June 2010
Annual governance report	September 2010
Review of the housing repairs and maintenance contract	September 2010

38 The Council has taken a positive and helpful approach to my audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Helen Thompson
District Auditor

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£196,585	£196,585	£0
Whole of Government Accounts	£3,670	£3,670	£0
Value for money including Use of Resources and local risk based performance work	£167,640	£167,640	£0
Total	£367,895	£367,895	£0

Appendix 2 Glossary

Annual governance statement

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

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

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

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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