

BRIGHTON & HOVE CITY COUNCIL

AUDIT COMMITTEE

4.00pm 5 APRIL 2011

COMMITTEE ROOM 1, HOVE TOWN HALL

MINUTES

Present: Councillors Hamilton (Chair), Watkins (Deputy Chair), Kitcat, A Norman, Randall, Simpson and Young

PART ONE

62. PROCEDURAL BUSINESS

62a Declaration of Substitutes

62.1 Councillor Young declared that she was substituting for Councillor Drake.

62b Declarations of Interest

62.2 Councillors Simpson and Randall declared a personal but not prejudicial interest in all reports referring to Brighton and Hove Seaside Community Homes (LDV).

62c Exclusion of the Press and Public

62.3 In accordance with section 100A of the Local Government Act 1972 ('the Act'), the 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).

62.4 **RESOLVED** - That the press and public be excluded from the meeting during consideration of Item 81.

63. MINUTES OF THE PREVIOUS MEETING

63.1 **RESOLVED-** That the minutes of the previous meeting held on 14 December 2010 be approved and signed as the correct record.

64. CHAIRMAN'S COMMUNICATIONS

64.1 The Chairman observed that this was the last meeting of the Audit Committee in the four-year Council cycle. He passed his regards to all officers and Members for their support with specific thanks to Councillor Watkins, the Audit Commission, the Head of Audit & Business Risk and the Risk & Opportunity Manager for their input and assistance.

65. PETITIONS

65.1 There were none.

66. PUBLIC QUESTIONS

66.1 There were none.

67. DEPUTATIONS

67.1 There were none.

68. LETTERS FROM COUNCILLORS

68.1 There were none.

69. WRITTEN QUESTIONS FROM COUNCILLORS

69.1 There were none.

70. ANNUAL STATEMENT OF ACCOUNTS 2010/11 PROGRESS UPDATE & INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) VERBAL UPDATE

70.1 The Committee considered a verbal report of the Acting Head of Financial Services which gave a progress update on the Annual Statement of Accounts for 2010/11 and International Financial Reporting Standards (IFRS). The report provided a brief review of the 2009/10 audit and progress on completing the 2010/11 Statement of Accounts, including the impact IFRS would have to the presentation of the accounts. The report

also summarised the main issues and risks associated with the move to IFRS and changes to the accounts and audit regulations in 2011.

- 70.2 Councillor Watkins queried if both parties could include the same asset on their respective balance sheets giving the example of photocopiers used by the Council on its premises.
- 70.3 The Acting Head of Financial Services responded that this possible but unlikely to ever be the case.
- 70.4 Councillor Kitcat asked that if any assets were to be added to the Balance Sheet as a result of IFRS accounting changes, the Council would depreciate its value.
- 70.5 The Acting Head of Financial Services responded that this would be the case. The Director of Finance supplemented that this would be a notional charge that would serve as an accounting entry only.
- 70.6 Councillor Kitcat asked if software had been developed for analysis of accounts under IFRS.
- 70.7 The Acting Head of Financial Services clarified that he was unaware of such software in existence but hoped this would be forthcoming as it would aid comparison.
- 70.8 The District Auditor praised the presentation for its quality and clarity and complemented the work of officers at the Council who had adapted to the IFRS very well.
- 70.9 The Director of Finance highlighted the phenomenal amount of work involved for the authority in moving to IFRS and commended the work of officers thus far, specifically those in the Property and Estates Management department whose workload had been particularly strenuous.
- 70.10 Councillor Randall asked if the work undertaken to adapt to IFRS had been of overall benefit.
- 70.11 Councillor Young answered that from a Members perspective, the accounts would become more complicated but more detailed, thorough and explanatory. The Director of Finance added that IFRS would primarily be of benefit for asset information and decision-making.
- 70.12 The Director of Finance highlighted to the Committee that Members no longer had to approve the unaudited accounts by 30 June as had previously been the case. They therefore had a choice to either; bring the accounts unaudited in June as normal but for noting only, approve just the final audited accounts on 30 September or receive an informal briefing on the accounts in advance of the 30 September deadline.
- 70.13 The Chairman suggested the decision be made by the Chairman after the local elections in May 2011.
- 70.14 Councillor Watkins asked if there would be substantial changes made to the accounts from June to September.

- 70.15 The Director of Finance replied that she hoped not although there were inevitably adjustments in that period as had been the case in previous years. A key aspect of the approval by the Committee was to consider any unadjusted misstatements.
- 70.16 Councillor Watkins stated his belief that the unaudited accounts be brought to the meeting in June to maintain the open decision-making process.
- 70.17 The Chairman noted that he also believed it best to present the unaudited accounts in June but the decision would be left with the Chair of the Audit Committee subsequent to the upcoming local elections.
- 70.18 **RESOLVED-** That the Annual Statement of Accounts 2010/11 Progress Update and IFRS update be noted by the Committee.

71. TARGETED BUDGET MANAGEMENT (TBM) MONTH 9

- 71.1 The Committee considered a report of the Director of Finance that set out the revenue and capital forecast outturn position as at month 9. There report had been previously agreed at the Cabinet Meeting held on 17 February 2011.
- 71.2 **RESOLVED-** That the report is noted.

72. TREASURY MANAGEMENT POLICY STATEMENT

- 72.1 The Chairman noted that item 72 and item 73 would be taken together.
- 72.2 The Committee considered reports of the Director of Finance. Item 72 recommended a Treasury Management Policy Statement for the financial year commencing 1 April 2011. Item 73 sought approval to the Annual Investment Strategy 2011/12. Both reports were approved by the meeting of Cabinet on 17 March 2011 and Item 73 approved by Council on 24 March 2011.
- 72.3 The Chairman enquired as to why building societies had a lower rating than banks as listed in Schedule 1 of Item 73.
- 72.4 The Loans & Technical Manager answered that the rating generally related to the size of the financial organisation and in turn, its security.
- 72.5 Councillor Watkins asked if there was a possibility of joint financial working between East Sussex County Council and Brighton & Hove City Council as evidenced in other agreements.
- 72.6 The Loans & Technical Manager responded that this was a possibility. Although, whilst there was a similar financial practice between the two authorities there was clear

difference such as the differing views on risk and investment. The Loans & Technical Manager advised the Committee that the council currently undertook treasury management for the South Downs National Park Authority.

72.7 Councillor Watkins suggested a future report on joint working would be very helpful for Members.

72.8 **RESOLVED-** That the Treasury Management Policy Statement and the Annual Investment Strategy be noted by the Committee.

73. ANNUAL INVESTMENT STRATEGY 2011/12

73.1 Discussed and noted under the previous item.

74. INTERNAL AUDIT STRATEGY AND ANNUAL AUDIT PLAN 2011/12

74.1 The Committee considered a report of the Director of Finance that presented the Council's Internal Audit Strategy and Annual Audit Plan for 2011/12.

74.2 Councillor Simpson asked if there were adequate staff to undertake and complete the work plan.

74.3 The Head of Audit & Business Risk answered that he believed the work plan would be delivered to schedule with the in-house team and its partner Deloitte Public Sector Internal Audit.

74.4 Councillor Kitcat asked if the adoption of IFRS, which had been used in the private sector for a number of years, would make recruitment of staff easier.

74.5 The Head of Audit & Business Risk replied that he did not believe so as the root of the problem was a market shortage in personnel. However, the financial downturn would assist this somewhat.

74.6 Councillor Kitcat enquired if there would be a requirement for free schools and academies to be audited.

74.7 The Head of Audit & Business Risk answered that no requirement or arrangement in place to do so. The Director of Finance supplemented that as stand alone organisations; there would be no requirement to do so although such institutions could purchase the Council's service.

74.8 **RESOLVED-** That the Audit Committee approves the Internal Audit Strategy and Annual Audit Plan for 2011/12.

75. RISK & OPPORTUNITY UPDATE & STRATEGIC RISK REGISTER

- 75.1 The Committee considered a report of the Director of Finance that provided a Strategic Risk Register and an update on the risk management input to the Council's new Performance & Risk Management Framework. The Strategic Risk Register had replaced the Corporate Risk Register and was designed to provide a more understandable format.
- 75.2 The Director of Finance reflected that due to the new structure and changes to personnel as well as changes at national level, it was appropriate to refresh the former Corporate Risk Register with the Strategic Risk Register which provided an improved analysis. Under the new format, performance and risk management would be much more aligned.
- 75.3 Councillor Kitcat asked why there appeared to be fewer risks in the Strategic Risk Register than there had been in the Corporate Risk Register.
- 75.4 The Director of Finance responded that the new Strategic Risk Register captured the more pressing issues which would be reported to the Committee members. The remaining risks were still analysed and accounted for and would be escalated and deescalated according to perceived risk level at that time.
- 75.5 Councillor Simpson enquired how Members would be aware of the next level of risk.
- 75.6 The Director of Finance replied that this was contained within the Performance Compact.
- 75.7 The Chairman asked whether the Brighton & Seaside Community Homes (LDV) would appear on the Strategic Risk Register.
- 75.8 The Director of Finance answered that individual projects such as the LDV would have their own risk logs and management and would continue to be reported to the Committee.
- 75.9 The Director of Finance supplemented that the Risk Management Action Plans and a better picture of how risk is distributed down the organisation would be reported to the next Audit Committee scheduled for June 2011. In the meantime, attention would be paid to how to publicise the Performance Compact.
- 75.10 Councillor Watkins communicated to Committee his absolute conviction that any risk that necessitated the attention of Members would be provide to Members by Officers as had been evidenced with all previous reporting.
- 75.11 **RESOLVED-** That the Audit Committee:
- 1) Notes the Strategic Risk Register 2011/12 at Appendix 1 and its improved format and clarity of text.
 - 2) Notes that the Risk Management Action Plans (Risk MAP's) which detail work to address Strategic Risks will be reported to the next Audit Committee meeting in June 2011.

76. AUDIT COMMISSION: PROGRESS REPORT 2010/11

- 76.1 The Committee considered a report of the Audit Commission that gave a progress report on the 2010/11 audit plan from which the Audit Manager highlighted two issues of importance. Firstly, there had been improvements to the payroll system. Secondly, whilst the Council's IFRS position was strong, progress had slipped slightly and there was still some work to do to ensure completion by April 2011.
- 76.2 The Head of Financial Services noted that the majority of work on IFRS had been completed and he believed the April 2011 deadline would be met.
- 76.3 **RESOLVED-** That the progress report on the 2010/11 audit plan be noted by the Committee.

77. AUDIT COMMISSION: CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT

- 77.1 The Committee considered a report of the Audit Commission that summarised the findings and conclusions from their 2009/10 audit of claims and returns prepared by the Council. The findings showed that the Council has good arrangements for preparing and managing claims.
- 77.2 **RESOLVED-** That the Committee notes the report.

78. AUDIT COMMISSION: FEES LETTERS 2011/12

- 78.1 The Committee considered a report of the Audit Commission that outlined the audit fee for 2011/12. The audit fee had been calculated following discussions with the Department for Communities and Local Government (DCLG) and would be reduced by 10 per cent with expectation of a further rebate fee. There would also be further reduction in fees in 2012/13 if the legislative timetable for the abolition of the Audit Commission was met.
- 78.2 Councillor Kitcat asked if the Audit Commission could provide any update concerning the proposed abolition.
- 78.3 The District Auditor answered that there was uncertainty on a decision date on abolition although draft legislation was expected in October 2011. There was currently a Select Committee inquiry of the decision in progress and a public consultation document available.
- 78.4 Councillor Kitcat enquired how the proposals for mutualisation would be impacted by the decision to pass the Audit Commission reserves to Local Authorities.

- 78.5 The District Auditor clarified that the practice proposed would set up separately to the Audit Commission and a review of options was ongoing.
- 78.6 The Director of Finance noted her concern that Local Authorities had no choice over the audit fee set adding her belief that the Council was paying too much for much reduced work She asked the members of the Audit Committee to monitor this.
- 78.7 The District Auditor acknowledged this was a valid point however; she assured the Committee that the Audit Commission would always look to guarantee as much value from their fee as possible.
- 78.8 **RESOLVED-** That the 2011/12 audit fee and fee letter be noted by the Committee.

79. AUDIT COMMISSION: 2010/11 OPINION AUDIT PLAN

- 79.1 The Committee considered a report of the Audit Commission that set out the 2010/11 Opinion Audit Plan. The Plan set out the risks the Audit Commission would consider and the audit work they would undertake for the 2010/11 audit of financial statements and value for money conclusion.
- 79.2 Councillor Kitcat asked how the Audit Commission would detail their conclusion on the Council restructure as detailed on page 216 s.25.
- 79.3 The Audit Manager clarified that as the restructure would not be completed until 2012, it would mainly be an opinion on the impact of the comprehensive spending review and value for money conclusions.
- 79.4 **RESOLVED-** That the note the risks and proposed approach to the 2010/11 audit of financial statements and value for money conclusion.

80. AUDIT COMMISSION: ASSURANCES FROM THE AUDIT COMMITTEE AS THE BODY CHARGED WITH GOVERNANCE 2010/11

- 80.1 The Committee considered a report of the Audit Commission that requested assurances from the Audit Committee as the body charged with governance.
- 80.2 **RESOLVED-** That the Chair of the Committee provide a response on behalf of the Audit Committee to the specific questions set out in letter from the Audit Commission.

81. PART TWO MINUTES OF THE PREVIOUS MEETING

- 81.1 **RESOLVED-** That the Part Two minutes of the previous meeting held on 14 December 2010 be approved and signed as the correct record.

82. PART TWO ITEMS

82.1 **RESOLVED-** That the above items remain exempt from disclosure from the press and public.

The meeting concluded at 6.05pm

Signed

Chair

Dated this

day of

