

<b>Subject:</b>	<b>Annual Audit &amp; Inspection Letter</b>		
<b>Date of Meeting:</b>	<b>31<sup>st</sup> March 2009</b>		
<b>Report of:</b>	<b>Director of Finance &amp; Resources</b>		
<b>Contact Officers:</b>	<b>Name:</b>	<b>Nigel Manvell</b>	<b>Tel: 29-1333</b>
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<b>Wards Affected:</b>	All		

### FOR GENERAL RELEASE

The special circumstances for non-compliance with Council Procedure Rule 23, Access to Information Rule 5 and Section 100B(4) of the Local Government Act 1972 as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) are that the final Annual Audit & Inspection Letter was received in accordance with the Audit Commission's timetable but too late to comment on in order to meet the committee deadline.

#### 1. SUMMARY AND POLICY CONTEXT

- 1.1 The purpose of this report is to present the Audit Commission's Annual Audit & Inspection Letter in respect of their overall assessment of the council.
- 1.2 The Audit Committee requires it to provide assurance to the Council that appropriate action is being taken on risk and internal control related issues identified by the external auditors.
- 1.3 The Annual Audit & Inspection Letter, as attached, has been discussed and agreed with the appropriate officers.

#### 2. RECOMMENDATIONS

- 2.1 That the Audit Committee notes the Annual Audit & Inspection Letter at Appendix A.

#### 3. BACKGROUND INFORMATION

- 3.1 The Annual Audit & Inspection letter attached at Appendix A provides an overall assessment of the council for the 2007/08 statutory audit, Use of Resources 2008 as well as other external inspections.
- 3.2 The Annual Audit & Inspection Letter confirms that under the Comprehensive Performance Assessment (CPA) framework the council is judged by the Audit Commission to be "improving well" and the council's classification has increased to four stars, being the highest classification.

3.3 A separate, more detailed report has been issued by the Audit Commission on the Use of Resources Assessment and this is attached for information at Appendix B.

3.4 The Use of Resources report highlights the scores for each of the five themes. All themes have scored 3 out of 4, with scores for Financial Reporting, Financial Standing and, critically, Value for Money all improving from 2 to 3. Scores for Financial Management and Internal Control have been maintained at level 3. Comments and responses to issues raised by auditors in respect of the five themes are detailed below:

3.5 **Financial Reporting (Improved from 2 to 3)**

The report notes a marked improvement in the presentation and accuracy of the annual accounts and working papers, particularly given the complex changes arising from the 2008 Statement of Recommended Practice (SORP) which determines the format of local authority accounts. This has resulted from improved planning for the closure of the accounts together with a greater degree of analytical and senior officer review of the accounts prior to submission for audit.

Going forward, the auditors have noted that further improvements could avoid the small number of remaining technical errors and have noted plans to improve fixed asset accounting further. The council's response to these issues will be to tightly control the closure of the accounts process to enable more time for a detailed review of the accounts prior to submission. The council has also procured a new asset management system (Asset 4000) which should further improve fixed asset accounting and ensure improved compliance with the SORP.

3.6 **Financial Management (Maintained score 3)**

The report notes the improvements to the council's medium term planning and that there is proper consideration of business risks. As the report suggests, the Medium Term Financial Strategy (MTFS) does not currently include forecasts of earmarked reserves. These reserves are generally based on best estimates but can change significantly at any time, primarily due to changes in levels of associated risk. However, these reserves, along with all other balances, are rigorously reviewed as part of the budget process and closure of accounts process each year. Consideration will be given to including more detailed information in future MTFS' where practicable.

The report also notes the improved reporting and corrective action being undertaken in respect of forecast overspends and the collective approach to managing financial performance. The report comments on the council's management of its asset base and council housing stock. There are separate plans being developed to address both areas including a corporate Accommodation Strategy and various initiatives in relation to council housing including a major procurement exercise and consideration of a Local Delivery Vehicle to secure additional investment.

### 3.7 **Financial Standing (Improved from 2 to 3)**

The report notes the efforts being made to improve income collection which are continuing through both the work of the Corporate Debt Management Group and improvement plans developed by the four collection units within the council.

### 3.8 **Internal Control (Maintained at level 3)**

The report notes that the council continues to embed risk management processes, knowledge and skills across the organisation and has an effective escalation process. The council will continue its commitment to training staff and members in this respect and consider further opportunities for reaching wider audiences to further embed the risk management framework.

The report highlights issues with controls surrounding the council's payroll system which have previously been reported to this committee. Although the Final Accounts Audit Report confirms that identified weaknesses in controls have not given rise to material errors, the committee will receive further updates in respect of actions to improve controls.

### 3.9 **Value for Money (Improved from 2 to 3)**

The report notes that council spending is in line with stated priorities and that council services represent good value for money. The report highlights the challenge of addressing high spending areas where the desired service improvements have not yet come through but recognises the council's successful record of investing in service improvement. The Audit Commission considers that the councils increased commitment to VFM and the corporate processes and reviews that it has put in place will enable measurable service improvements in the longer term.

The report also notes that a culture of comparison (e.g. with other authorities) is becoming embedded across the council and that managers are regularly reviewing cost and performance. There is also an effective approach to procurement which has contributed to the achievement of significant efficiency savings.

The council is continuing to develop its approach to Value for Money for "Phase II" of the review programme and continues to improve links between Value for Money reviews and improvement plans to its business and financial planning (MTFS) frameworks.

## 4. **FINANCIAL & OTHER IMPLICATIONS:**

### 4.1 Financial Implications:

The Annual Audit & Inspection Letter and Use of Resources assessments are of reputational importance to the council. As a 4 star authority, elected members, citizens, partners and other stakeholders are assured that the authority is achieving good value for money, financial performance and service outcomes. A Use of Resources score of 3 (out of 4) further assures all stakeholders that the council consistently performs well in respect of its arrangements for the management and control of resources and for securing value for money in the use of its resources. This can provide further

opportunities for partnership working and/or attracting external interest or funding.

*Finance Officer Consulted: Patrick Rice  
Head of Financial Services – Corporate & Environment*

*Date: 25 March 2009*

4.2 Legal Implications:

In relation to the carrying out of inspections of and issuing reports to local authorities in England, the duties and powers of auditors appointed by the Audit Commission are set out in the Local Government Act 1999. There is a reference to these in paragraph 12 of Audit Commission's Annual Audit and Inspection Letter.

There are no human rights implications arising from this report.

*Lawyer Consulted: Oliver Dixon, Lawyer*

*Date: 26 March 2009*

4.3 Equalities Implications:

The Comprehensive Performance Assessment framework and Use of Resources assessment incorporate judgements about the council's arrangements for embedding equality and diversity within all aspects of its business.

4.4 Sustainability Implications:

The performance assessment framework includes judgements about the sustainability of the council's medium term financial planning and use of other resources such as assets, energy and people.

4.5 Crime & Disorder Implications:

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

4.6 Risk and Opportunity Management Implications:

The management of performance is important and contributes to avoiding the risk that the council's improvement priorities will not be delivered. The Audit Commission's assessment of our performance and governance helps to inform our risk and opportunity management assessments.

4.7 Corporate / Citywide Implications:

Assessment of all aspects of the councils performance and governance arrangements are an important element of public scrutiny and the reported results for 2008 provide assurance that the council is well placed to manage and improve services across the city.

## **SUPPORTING DOCUMENTATION**

### **Appendices**

- A     Audit Commission - Annual Audit & Inspection Letter 2007/08
- B     Audit Commission - Use of Resources 2008

