

Annual Audit and Inspection Letter

January 2006



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Brighton and Hove City Council

Audit 2004/2005

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Key messages

Council performance

- 1 The Council is improving well and demonstrates an overall three-star performance under the Comprehensive Performance Assessment (CPA). Many of its services for the public have improved.
 - The Office for Standards in Education (Ofsted) and the Commission for Social Care Services (CSCI) judged the Council's education and social services for children and young people to be delivering consistently above minimum requirements. Areas of improvement include its services for older children and those excluded from school or with special needs.
 - CSCI concluded that the Council's Adult Social Care services have shown gradual improvement building on performance year on year. It is helping more older people live at home through intensive home care and through partnership working it is improving the quality of care.
 - The Council is housing more homeless people and improving the quality of housing for vulnerable people. However, its landlord services were only judged to be 'fair'. Strengths included tackling anti-social behaviour and supporting vulnerable tenants sustain tenancies. Opportunities to improve the service to tenants, improve service management and cost effectiveness were identified.
 - The Council continues to make progress against its key priorities. Transport is improving and local people are more satisfied with this. It is improving the economy and helping people get qualifications for jobs in the city's changing economy. Key projects such as the King Alfred regeneration are developing. Performance in some priority areas compares less well to other similar authorities including planning, waste and housing stock management.
 - The Council's overall use of resources is adequate.
- 2 Common conclusions from external reviews of the Council's services (including an inspection of cultural services - which was not included in the 2005 CPA score) were as follows.
 - **There is a strong commitment to design services from the user perspective** - users of services are strongly encouraged and provided with opportunities, to be involved in the design and development of services. For example, the Older Persons' Council provides such an opportunity and housing tenants' participation is well resourced and is influencing positively the service. Whilst children and young people are also encouraged to influence the design of services, the impact of their involvement is not clearly demonstrable.

- **Ensuring fair access to services is a priority for the Council** - housing tenants find it easy to assess the landlord services and good quality information about service provision, eligibility and complaints is available to adult social care users and carers. The focused support within children and young people services for minority groups, such as on bullying and the traveller education service is of high quality. Access to cultural services is widening using new technologies, but the service has had limited success in encouraging some communities to participate in cultural activity.
- **The Council supports equalities and diversity** - there is a good understanding of the needs of the diverse population that the Council serves and there is evidence for example, in its landlord services, that its approach to diversity is having a positive effect on service delivery. There are successful examples of cultural services promoting diversity proactively through its targeted support and activity. However, the Council recognises it lacks good data on the affordability and accessibility of its cultural services to some communities and sees this as an area for development.
- **The Council works effectively with a range of partners to increase the range and level of services it provides** - some key examples include, good multi agency working is helping to reduce substance misuse and preventing high numbers of children in need being placed in care. There are strong partnerships with independent housing associations which support the development of independent living for older people and the Council delivers cultural improvements through the Private Finance Initiative (PFI), partnerships and grant aiding to maximise the impact of its resources on the community. We concluded that the Council's work with partners in older peoples' services could be enhanced by the development of a joint performance framework.
- **Prospects for future improvement are 'promising'** - the Council has a track record of improvement and plans to address areas of weakness.

Accounts and governance

- 3 An unqualified opinion was given on the 2004/05 accounts on 31 October 2005. Overall, the Council continues to perform well in producing and publishing its accounts in line with its plans and meeting the statutory deadline for publication.
- 4 Financial standing is sound, although debt collection arrangements could be strengthened. Appropriate arrangements are in place to prevent and detect fraud and corruption. Systems of internal control are adequate. Key areas for improvement are risk management reporting and training for members, and the reporting of the assurance framework.

Action needed by the Council

- 5 Key areas for the Council to take action include:
- integrating fully the issues identified in external inspections with the Council's improvement planning processes;
 - progress the implementation of workforce planning to build capacity by improving recruitment and retention of key staff and developing the skills of existing staff;
 - continue to improve performance management arrangements across the Council and promote the use of performance management within its work with partners; and
 - prepare and implement an action plan to improve matters raised from the Use of Resources assessment.

Performance

CPA scorecard

- 6 The CPA scorecard for 2005 was published by the Audit Commission on 15 December 2005 and an extract is shown at Table 1 below.

Table 1 Brighton & Hove City Council - CPA scorecard 2005

Element	Assessment
Overall	3 star
Direction of Travel label	Improving well
Current performance:	
Benefits	3
Children and young people	3
Culture	2
Environment	2
Housing	3
Social care (adults)	3
Use of resources	2
Council ability (based on 2002 CPA)	3

(Note: scale for star rating is 0 - 4 and for others is 1 - 4 with 4 being the highest in both cases).

- 7 The Audit Commission revised the CPA framework in 2005 and a new methodology, 'CPA - the harder test', has been introduced. As the title implies, a more stringent test is being applied with increased emphasis on outcomes for local people and value for money. The score was reached by assessing:
- how well the Council operates its main services;
 - how well the Council uses its resources; and
 - the Council's ability to run its business.
- 8 The Council demonstrates performance at a three-star level (on a scale of zero to four-star with the latter being the top level). This rating was achieved by just over 40 per cent of single tier and county councils with around 25 per cent being scored as four-star.

Direction of Travel

- 9 The Direction of Travel label that measures how well the Council is improving has been added to this year's CPA assessment. We judged the Council to be 'improving well':

It is improving its well researched priorities. It has improved services for older children, and those excluded from school or with special needs. It is helping more older people live at home through intensive home care, housing more homeless people and improving the quality of housing for vulnerable people. The Council is also improving transport and local people are more satisfied with this. It is tackling anti-social behaviour, improving the economy and helping people get qualifications for jobs in the city's changing economy. Performance in some priority areas compares less well to other similar authorities including planning, waste and housing stock management.

The Council's shared ambitions and priorities clearly set out what it wants to achieve. Resource, financial and performance management is effective and the Council is re-prioritising services to target resources more effectively to the most vulnerable. The Council provides value for money in some services balancing cost and performance. It has a track record of improving services and has strengthened its capacity, both internally and with partners to deliver its plans for the future.

- 10 The Council's vision is articulated through high level strategies and these are supported by a medium-term financial strategy, capital programme and a range of delivery plans. Councillors have a good understanding of the local context and the needs of local communities and are well-supported by information based on sound research. Priorities cascade through a series of improvement plans, one for the Council corporately and one for each directorate. These plans provide a clear framework against which the Council can focus its resources.
- 11 The Council has improved 74 per cent of the core service Best Value Performance Indicators (BVPIs) between 2002/03 and 2004/05. However, in comparison with other councils, 45 per cent of its BVPIs are above average with 54 per cent below average. Education indicators particularly pupil attainment (although below the average) are improving. A number of social care indicators are also improving, particularly the number of vulnerable adults helped to live independently at home. Transport BVPIs show strong performance with the improvement in satisfaction with public transport being in the top 25 per cent of all similar councils. Areas where the Council is in the worst 25 per cent nationally are achievement in meeting the decent home standard and public satisfaction with recycling and street cleanliness although officers have stated that the public are now more satisfied since the time of the last survey in 2003/04.

- 12 The Council has performed well in its four priority areas. In the area of seeking to improve social well-being and caring for vulnerable people, it has undertaken a major review of special education needs (SEN) provision, improved inclusion services for pupils in mainstream schools and the education of looked after children. It has also made improvements to services for vulnerable families in the deprived areas of the city through promoting improved life skills, health, qualifications and routes to employment. The re-engineering of the homelessness service has reduced unit costs, increased the number of homeless people housed and improved the quality of the housing for this vulnerable group of people. Officers have also commented that the trend in planning performance is one of significant improvement although this has not been shown in the latest BVPIs.
- 13 In terms of developing a prosperous and sustainable economy and improving the quality of life, the Council with its partners is working to rebuild, diversify and upgrade the city's economy to create new jobs, attract new skills and ensure that people have the right skills and qualifications to meet the local needs. Progress is demonstrated in part by a fall, since 2001/02, in the percentage of the working population with no formal qualifications and the strong partnership arrangements for post-16 education.
- 14 The Council is ambitious for the people who live and work in Brighton and Hove and there is good evidence from our work that this is shared by councillors of all political groups, senior officers and partners. Some initiatives underway are innovative and are making a difference to local people including the EB4u scheme centred on the improvement of community facilities and life chances for those living in parts of East Brighton, the direct management of a hospital ward to reduce delayed discharges, and its arrangements for responding to homophobic incidents.
- 15 The Council is working to increase its management capacity and is seeking to develop the skills of its staff through the development of workforce planning. (paras 23 and 24). It has addressed difficulties in the recruitment and retention of staff in key posts such as social workers (for children and adults) and teachers. Action continues to be taken to reduce staff sickness levels. Financial and budget management is effective and performance management systems and processes are becoming more embedded into day-to-day business. There is however variability between departments in their ability to ensure that the Council's key priorities are being met and to take corrective action when outcomes are not satisfactory. CSCI and Ofsted conclude that the Council is beginning to use better systems of data collection and note that the Council recognises the need to bring information together more systematically to inform performance management. Similarly, performance management within cultural services needs further development, for example in target setting and establishing quality standards.

- 16 The Council has a track record of working with partners although the framework for managing partnerships has not been implemented across them. The need to reconfigure the existing strategic partnerships has been acknowledged but real progress has yet to be made. The current review of the Community Strategy and the setting up of a Public Service Board should provide an opportunity to address many of these outstanding issues. Additionally a database of partnerships has yet to be prepared.
- 17 The mechanisms for the review and achievement of value for money in its services continue to be developed. These include strong linkages between service and financial planning; effective budget management for revenue and capital, reliable cost and performance information setting out trends over time, suitable arrangements for pursuing external funding, and investment in procurement and partnership working. The Council has reported in 2004/05 and plans to achieve in 2005/06 cashable efficiency gains in excess of 2.5 per cent.
- 18 There are examples of positive demonstration of value for money, for example, improvements to services as a result of investment decisions made, such as homelessness and bus services. Some relatively high cost areas have been subject to detailed evaluation of the costs and benefits of the service provision and some such as services for adults with learning disabilities are planned to be reviewed soon. But there are some key areas where value for money - that is the cost to performance ratio - can not yet be demonstrated. These include housing landlord services; waste (reducing costs from a high level but relatively low performance for recycling) and its cultural provision (no systematic review of the costs versus benefits).

Other performance work

- 19 During the year we reviewed two key areas linked to the Council's priorities, services for older people and workforce planning. The latter was noted as an area for development in the 2004 Annual Audit & Inspection Letter. The former was reviewed because within Brighton and Hove's geographical area, delayed transfers of care are above the national average. Delays are a symptom of system failure.

Whole systems review of services for older people

- 20 In recent years there has been a range of national initiatives aimed at promoting the independence of older people and preventing them from premature and/or inappropriate use of institutional care. One key aspect of this is the availability of intermediate care as a means of reducing hospital admissions and length of stays in high care level settings. Recently there has been increasing emphasis on building a whole systems response to developing the independence and well-being of older people. Our review considered the work of the health and social care economy in Brighton and Hove.

- 21 We found that a number of the arrangements in place between the Council and its health partners already provide a firm basis for the future development of services. There is a clear commitment to joint working, active involvement of the voluntary sector and good engagement with older people through the Older Persons Council and the Coalition for Older People within the city. Key improvement opportunities identified include:
- the need to prepare a vision, strategy and resource plan for older persons services and ensure learning from others is achieved consistently by partners;
 - providing strategic leadership that ensures that there is a clear focus on the long-term agenda and implementing structures covering all partners that support effective decision making;
 - strengthening systems to prevent avoidable admissions; working with residential and nursing home sector; case management of frequent attendees;
 - evaluating the current and future demands for intermediate care services capacity and continuing to develop services; and
 - establishing a joint performance framework to inform decision making.
- 22 An action plan has been prepared and it will be subject to ongoing review by the strategic health authority, Commission for Social Care Inspection and the Audit Commission.

Workforce planning

- 23 The White Paper 'Strong local leadership - quality public services' emphasises the need to develop and strengthen management capacity within local government. Local authorities were required to produce a workforce development plan before April 2005. We reviewed the Council's arrangements and concluded that:
- there has been significant progress in linking the pay and workforce strategy to the Council's overall vision and corporate objectives;
 - implementation of workforce planning has started at directorate level with individual assessments of service requirements for staff over an eighteen month period;
 - some significant skill gaps need to be addressed but the Council is attempting to address these by recruitment and retention initiatives such as apprenticeships and trainee programmes;
 - there has been no systematic survey of the skills of existing staff and the system for developing staff is not used consistently across the Council; and
 - succession planning arrangements have not been introduced across the Council.
- 24 We have made a number of recommendations and an action plan is being agreed with officers.

Best value performance plan and performance information

- 25 Our review of the Council's Best Value Performance Plan (BVPP) 2005/06 was undertaken. We are required to issue a statutory audit opinion and certificate on the BVPP under section 7 of the Local Government Act 1999 by 31 December 2005. Our opinion and certificate on the 2005 BVPP was given on 16 December 2005. There are no issues to report for members' attention.

Other Audit Commission inspections

Landlord services

- 26 The inspection found that the services provided were 'fair' and the prospects for improvement were 'promising'.
- 27 The Council's housing revenue account for 2004/05 shows that it spends almost £70 million and has income of over £40 million. Landlord services have a high profile given that the Council owns around 13,000 dwellings and is responsible for about 2,000 leasehold dwellings.
- 28 A number of positive aspects to the service were identified including:
- a good range of consultation and communication methods are available to tenants;
 - tenants participation is resourced well by the Council and is positively influencing the service;
 - complaints management is customer focussed;
 - anti-social behaviour is managed proactively; and
 - a high corporate priority is given to equalities and diversity which is having a positive influence on service delivery.
- 29 Key areas for improvement are:
- establishing comprehensive published service standards that have been agreed with tenants;
 - ensuring that its legal responsibilities for gas servicing are met;
 - regularly inspecting and maintaining play areas on estates;
 - better estate cleaning and grounds maintenance;
 - more effective debt management arrangements; and
 - modernising the procurement of services and monitoring the performance of partner advice agencies.

- 30 The inspection report noted that the Council had identified that it needed to invest about £120 million in its housing stock to meet the government set Decent Homes Standard by 2010. The Council acknowledges that it will not have sufficient funds to finance the improvements needed. It has considered a number of options and has concluded that a large scale voluntary transfer of its stock to an external provider is its best option. Tenants will be asked to vote on this in 2006.

Cultural services

- 31 Cultural services are important to the Council as a key contributor to the delivery of its local priorities. The recent inspection judged the Council's cultural services as 'good' with '*promising prospects for improvement*'. Due to the timing of this inspection, its score did not contribute to the Council's overall CPA rating for 2005.
- 32 Political and corporate leadership and support for cultural services are strong. Its challenging cultural ambitions are based on what is important locally and focus on improving the quality of life. Key strengths of the service include:
- providing a diverse and high quality cultural offer, which enjoys high local satisfaction and supports the economic vitality of the city;
 - Increasing access using new technologies and targeted programmes are successfully promoting diversity;
 - numerous learning opportunities through cultural activity are encouraging the personal development of local people;
 - a clear and long-term vision for the future and plans in place to tackle weaknesses in most areas;
 - a significant track record of achieving improved outcomes; and
 - high calibre staff, committed to seeking further improvement and strengthened capacity through allocating additional resources and enhancing skills.
- 33 Key areas to focus on include, improving:
- the access to cultural activity for those communities not participating;
 - the quality of the visitor experience for some of the cultural offering;
 - performance management including target setting and establishing quality standards to assist local people understand the level of cultural service they can expect;
 - workforce planning; and
 - the approach to using cost and quality information to achieve value for money.

Working with other inspectorates and regulators

- 34 An important aspect of the role of the Council's Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
- Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Department for Education and Skills (DfES);
 - Benefits Fraud Inspectorate; and
 - Government Office for the South East.
- 35 We share information and seek to provide joined up regulation to the Council. During the last year, the Council has received the following assessments from other inspectorates.

Children's services - Ofsted/CSCI

- 36 The annual performance assessment of the Council's services for children and young people in 2005 concluded that there was a consistent good level of service provided in terms of social care and education with promising prospects for the future improvement of services.
- 37 Ofsted/CSCI concluded that the Council has a number of strengths in its services. It has been successful in making sure that children and young people stay safe by means such as, effective child protection procedures and well managed fostering and adoption services. Its substance misuse service is seen as effective to those who use the service. Its special educational needs service is good; there is well supported and effective early years provision and effective reintegration into schools of pupils who had received alternative education to school attendance. The Council engages well with young people to develop services and its support for teenage mothers was praised. Effective partnerships with both statutory and voluntary sectors were noted.
- 38 The assessment identified some areas for improvement including:
- educational attainment generally and specifically of looked after children;
 - strategies to address the high proportion of births to looked after children;
 - the need to review the adequacy of provision of the child and adolescent mental health service; and
 - the workloads of staff in the Duty and Assessment Teams.

Adult Social Care - CSCI

- 39 CSCI reported that adult social care services have shown a gradual year on year improvement, making steady progress from a low starting baseline. This trajectory is expected to continue. Positive aspects include; well developed planning and delivery of services; effective commissioning that promotes independence, eg helping people with mental health problems live at home and a commitment to the protection of vulnerable people. The Council has maintained a shift from residential to community care.
- 40 Delayed transfers of care remained high early in 2005 but reduced by the year end. The number of people accessing intermediate care services is increasing and the timeliness of two and four-week assessments has improved significantly. Take up of substance misuse services was good and the merger of housing and adult social care into one directorate has improved collaborative working and the use of resources for adults receiving social care generally.
- 41 CSCI identified improvements to be made including:
- residential services for adults with a learning disability are high cost and a commissioning strategy is needed to address this;
 - the move from residential accommodation to community support requires the Council to build on the commissioning of services from the independent and voluntary sector, ensuring it is able to diversify and develop high support and culturally sensitive community services;
 - minimising the number of delayed transfers of care;
 - the performance of the integrated community equipment store needs further improvement; and
 - direct payments, although increasing, are still at a low level and increased take up across all service user groups is required.

Accounts and governance

An unqualified opinion was given on the 2004/05 accounts on 31 October 2005. Overall, the Council continues to perform well in producing and publishing its accounts in line with its plans and meeting the statutory deadline for publication. Financial standing is sound, although debt management could be improved. Appropriate arrangements to ensure the legality of transactions and to prevent and detect fraud are in place. Systems of internal control are adequate.

Audit of accounts 2004/05

- 42 The accounts were approved by the Policy and Resources Committee on 13 July 2005, before the statutory deadline of 31 July 2005. As a consequence of the audit, a number of amendments were made and the accounts were re-approved by the Committee on 19 October 2005. We issued an unqualified audit opinion on the accounts on 31 October 2005.
- 43 As in previous years the Council has continued with its positive and pro-active approach to the production and audit of the final accounts. Working papers were produced to a high standard in an electronic format, and received in a timely way. Overall, the quality of the accounts produced for audit was high. The Council is well placed to meet the earlier deadline of 30 September for the production of the 2005/06 financial statements. We are agreeing an action plan with officers where opportunities to improve the arrangements have been identified. Areas for improvement include:
- the need for enhanced review of the accounts before presentation for audit; and
 - further development of the good quality working papers that support the accounts.
- 44 It is not possible to certify the closure of the 2004/05 audit as an objection has been made by a local government elector in connection with leaseholder services provided by the Council. The nature of the objection did not stop the signing of the audit opinion on the accounts and is anticipated that this matter will be determined in early 2006.

Financial standing

The Council's overall financial position was sound at 31 March 2005. The Council continues to report a difficult financial future in the medium-term and has established a clear financial strategy that provides a framework to support the delivery of its priorities. Revenue budget projections show significant resource gaps which must be bridged by council tax increases and/or achievement of savings. A programme of efficiency gains is already in place and there is an annual requirement for each directorate to deliver 2.5 per cent savings based on its net budget annually.

Financial performance, balances and reserves 2004/05

- 45 Budget management is robust, it is predictive, links activity and cost indicators (although this could be made stronger) and action plans are produced to tackle areas of overspending. The Council originally planned to spend £273.8 million net in 2004/05 and ended up spending £273.5 million, £0.3 million less. There was a sizeable overspend of £1.3 million on children, families and schools but this was managed by action during the year to control the extent of the overspend and by compensating underspends in other directorates, mainly environment which reported net expenditure of £1.2 million below budget. There is no evidence that the underspend in environment affected the delivery of services in 2004/05, but as a principle, it is important that the Council continues to assess the impact on those services supporting overspending front line services.
- 46 The Council held General Fund working balances of £7.9 million as at 31 March 2005 (£7.7 million - 31 March 2004). This exceeds its minimum level of £6.5 million and continues the progress to its £9 million target. The Housing Revenue Account balance was £3.3 million at year end 2004/05 (£3.8 million for 2003/04) compared to the target of £2.8 million set by the financial strategy.
- 47 Earmarked reserves held at 31 March 2005 (excluding schools reserves of £4.6 million) totalled £32.8 million, compared with £24.2 million last year. Private Finance Initiative reserves for schools, waste and library schemes which seek to build up funds to cover the higher costs faced by the Council in the later years of the contracts account for the overall increase.
- 48 Use of resources on financial standing also considers how the Council manages income collection and debt control. Best practice recommends that councils set and monitor targets for debt recovery based on the age profile of debt and produce monitoring information that shows the effectiveness of recovery action and the cost of not recovering debt promptly. The Council cannot currently produce an aged debtor profile for its housing revenue account debtors or housing benefit overpayments and does not set targets for debt recovery. Debt management arrangements are an area for improvement.
- 49 Under the Government's new regime for the achievement of efficiency savings, the Council has reported savings in 2004/05 of £6.2 million of which £4.5 were cashable. These are part of a targeted programme of savings that the Council must make in future years which will.
- 50 The capital programme is well managed. Capital expenditure in 2004/05 totalled £51.9 million compared to the budget of £55.1 million. The difference of £3.2 million (5.8 per cent of the budget for the year) has been carried forward to support the capital investment programme agreed by members for 2005/06. Schools capital expenditure is outside of the Council's direct control and accounted for £1.4 million of the slippage leaving £1.8 million or 3.2 per cent within the Council's control. This level of slippage is below the Council's target of 5 per cent as set out in its financial strategy.

Budget and financial performance 2005/06

- 51 The Council approved the 2005/06 net revenue budget amounting to £289.5 million on 3 March 2005. The budget was prepared in the context of the Council's medium term financial strategy which expects the level of council tax increase to be minimised and for efficiency savings to be secured year-on-year. The 2005/06 budget resulted in a council tax increase of 4.8 per cent after taking account of predicted efficiency savings of £5.8 million, of which the cashable element was £2.9 million.
- 52 As at the end of October 2005, the Council is projecting a small net overspend of £0.6 million on General Fund activities, £0.1 million on the Housing Revenue Account and £0.3 million on the section 31 pooled budget. The Council has an established system to keep budgets under review generally and focuses attention on specific expenditure areas using the targeted budget management arrangement. The continued use of this system is essential to maintain control of the Council's finances.
- 53 The Council has reported that it expects to exceed its targeted efficiency savings by £2.5 million and the majority of these savings will be from cashable sources.
- 54 Capital monitoring as at October 2005 suggests that the outturn slippage will be £1.8 million (3.1 per cent) of planned expenditure of £55.5 million.
- 55 Looking ahead, the Council is considering the budget parameters for 2006/07 and recognises that budget setting will be extremely challenging. It has again identified the need for substantial savings and effective controls over spending pressures. Officers are currently preparing a range of options for members' consideration.

Systems of internal financial control

Internal Audit continues to provide a good level of service to the Council. The Statement on Internal Control (SIC) published by the Council within its statement of accounts highlighted no significant internal control issues. The Council has adequate arrangements in most areas for its systems of internal control but there are some opportunities to enhance them.

Internal Audit

- 56 Internal Audit continues to provide a good level of service to the Council and we have been able to rely on its work to support our audit of the 2004/05 accounts, performance indicators and grant claims. We have formalised our joint working arrangements for the future by agreeing a protocol that builds on the existing managed audit process.
- 57 The introduction of International Standards of Audit which apply to the external audit of councils' accounts for 2005/06 and beyond require more external audit work. We are seeking to minimise the impact of this, by liaising closely with Internal Audit to ensure that the overall audit resource gives maximum cost effective benefit to the Council.

Internal control environment

- 58** The Council has adequate arrangements in most areas but there are some opportunities to enhance them. Risk management processes are in place but member training should be expanded and the reporting of corporate risks to members should be enhanced. The Council has a process in place to review the SIC but best practice recommends that the sources of assurance used to produce the SIC should be more widely shared to enhance senior officers' and members' understanding of corporate governance. The Council does not operate with an audit committee. The Overview and Scrutiny Committee does take a partial lead on audit matters but its terms of reference does not include responsibility for internal control.
- 59** In December 2004 the Council's Monitoring Officer requested that the Audit Commission undertake a value for money and decision making audit of land raising operations at Shoreham Airport. At the date of producing this letter the Audit Report is not completed but we hope to provide the final report to the Council's Monitoring Officer by the end of January 2006.

Standards of financial conduct and the prevention and detection of fraud and corruption

The Council's arrangements to prevent and detect fraud and corruption are effective.

- 60** The Council's overall arrangements are operating effectively and the Head of Internal Audit acts as the lead officer. It has improved its arrangements by using trained Internal Audit staff to respond to potential frauds in a timely manner. It has also improved its use of data provided by the Audit Commission's National Fraud Initiative (NFI). One aspect that could be strengthened is ensuring that the whistleblowing policy is notified to Council's contractors.

Legality of financial transactions

The Council's arrangements for ensuring the legality of the transactions it enters into are working well.

- 61** The Council has effective arrangements to ensure it complies with laws and regulations when making decisions with a financial consequence.

Use of Resources judgement

- 62 The Use of Resources judgement is a new element of the CPA scorecard which will be made annually. It focuses on how the Council's financial management arrangements link to its strategic management. It specifically looks at how well financial management is integrated with strategic and corporate management, how it supports Council priorities and assists with the delivery of value for money.
- 63 Overall, we judged the Council to be performing adequately. Our assessment of the performance in each of the five areas reviewed is summarised at Table 4.

Table 2 Brighton & Hove City Council - Use of Resources

Overall we judged the Council to be performing adequately in its use of resources

Theme	Assessment
Financial reporting	3
Financial management	3
Financial standing	2
Internal control	2
Value for money	2
Overall	2

(Note: 1= lowest, 4= highest)

- 64 Our findings and conclusions to support our judgements have been discussed with officers and key areas for improvement have been highlighted in the preceding paragraphs of this letter.

Grant claims

- 65 In accordance with the Audit Commission's policy of strategic regulation, we have adopted a more risk-based approach to the certification of grant claims. We have sought Internal Audit's assistance on the audit of the most significant area of this work which is the housing benefit claim. Based on 2003/04 grant claims we reduced our audit fees on the 35 claims submitted to us by £64,000 (38 per cent) compared with 2002/03. We continue to seek to reduce audit fees by liaising with the Council to ensure that its arrangements for managing and assuring the quality of the grant claims and associated working papers are appropriate for audit.

Looking forward

Future audit and inspection work

- 66 We have an agreed plan for 2005/06 and our planned work, together with that of other inspectorates, is included on both the Audit Commission and Local Services Inspectorates Forum websites. We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We keep the plan under review and will discuss changes with the Council as necessary. We will also continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.
- 67 We will continue with this approach when planning our programme of work for 2006/07 but this will also be influenced by the Corporate Assessment that will be undertaken at the Council.

Revision to the Code of Audit Practice

- 68 The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 69 The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which has been agreed with the Council early in 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 70 This letter has been discussed and agreed with the Chief Executive and the Director of Finance and Property. The letter will be presented at the Policy and Resources Committee in January 2006.
- 71 The Council has taken a positive and constructive approach to our audit and inspection work and I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 72 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Darren Wells
District Auditor and Relationship Manager

26 January 2006

Appendix 1 – Background to this letter

The purpose of this letter

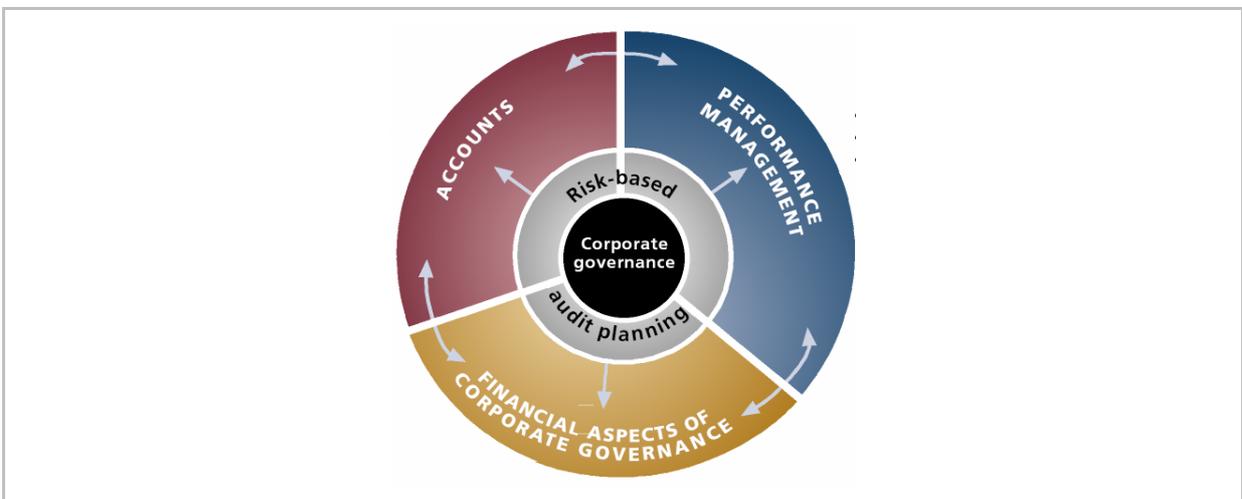
- 73 This is our Audit and Inspection Annual Letter for members, which incorporates the Annual Audit Letter for 2004/05, and is presented by the Council’s Relationship Manager and its District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 74 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 75 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 76 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 77 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 78 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

Figure 1 Code of Audit Practice

Code of Audit Practice responsibilities



79 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 3 Brighton & Hove City Council - reports issued

Report title	Reported to	Date issued
2005/06 Audit Plan	Policy & Resources Committee	May 2005
Interim Audit Report 2004/05	Director of Finance & Property	July 2005
Landlord Services Inspection	Director Of Housing & City Support	
Audit of Accounts 2004/05	Director of Finance & Property	December 2005
Whole Systems Review of Older People	Director Of Housing & City Support	December 2005
Workforce planning	Director of Human Resources	December 2005
Cultural Services Inspection		January 2006

Appendix 3 – Audit fee 2004/05

Table 4 Brighton & Hove City Council - Audit fee 2004/05

Fee area	Planned	Expected
Audit	£	£
Accounts	95,000	95,000
Financial aspects of corporate governance	50,000	50,000
Performance	20,000	20,000
Total Code of Audit Practice	165,000 ^(note 1)	165,000
Inspection		
Improvement	61,000	61,000
Assessment	62,000	62,000
Total Inspection	123,000	123,000
Total Audit and Inspection	288,000	288,000
Certification of Grant Claims (2)	103,000	103,000

(1) Additional fee will be raised in respect of the review of Shoreham Airport Land Raise and the potential objection by a local government elector.

(2) The grant claim audit continues until February 2006, the actual fee reported is our current estimate of the likely fee for the 2004/05 certification work. This is based on an expected 31 claims for 2004/05.

Inspection fee update

The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.