

# Annual Governance Report

Brighton & Hove City Council

Audit 2008/09

Date

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

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Unqualified audit opinion	Yes	18
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Use of resources judgements	Yes	14
Arrangements to secure value for money	Yes	15

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## Audit opinion

- 1 I propose to issue an unqualified audit opinion on the Council's financial statements.

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## Financial statements

- 2 The financial statements presented for audit were complete. They were of a good standard and were supported by good quality working papers in the main. However, improvements are required in accounting for fixed assets. The Council introduced a new fixed asset accounting system to address concerns raised from previous audit recommendations.

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## Use of resources

- 3 I have assessed how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people. My assessment considers how well the Council performs across three areas:
  - managing finances;
  - governing the business; and
  - managing resources.

- 4 In managing finances and resources, the Council is performing well, consistently above minimum requirements and in governing the business the foundations are now laid for much improved performance in the future. The 2008/09 managing resources assessment was based on the way in which the Council uses natural resources and manages its assets.

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### Audit Fees

- 5 I reported my best estimate of the fee for completing the opinion audit, £187,925, to the Audit Committee on 30<sup>th</sup> June 2009. Having now substantially completed the audit, I propose to charge additional fees of £4,100 in respect of the audit work we have performed on fixed assets. Following the implementation of a new fixed asset register system by the Council, we encountered numerous errors in the accounting treatment and disclosure of fixed assets which took up more of our resources than we had anticipated.

# Next steps

**This report identifies the key messages that you should consider before I issue my opinion on the financial statements, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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### 6 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements or authorising the Director of Finance & Resources as section 151 officer to approve the statements on the Committee's behalf (pages 7 to 11);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified which management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- take note of the VFM Conclusion and Use of Resources findings;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 6).

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# Financial statements

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 7 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report. The outstanding matters are:
- we have recently been supplied with a commentary on how the Council has valued its property fixed assets in the light of a falling market and we need to complete our review of this; and
  - assurances relating to subsequent events, compliance with laws and regulations and incidences of fraud since the financial statements were produced are being sought from the Council's Monitoring Officer. This is a standard arrangement that is undertaken as close as possible to the signing of the audit opinion.
- 8 We will provide a verbal update to the Audit Committee.

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## Errors in the financial statements

- 9 We have identified a number of errors and uncertainties in our audit work and we set out below the more significant items. Amendments that have been made to the financial statements as a result of our audit work are set out in Appendix 2. Misstatements in the accounts that management have declined to adjust are detailed in paragraphs 9 and 11 and are summarised in Appendix 3. Non-trivial uncertainties in the financial statements are set out in Appendix 4. We are satisfied that unadjusted errors identified are not material individually or in aggregate.

## Prior period adjustments

- 10 We noted that a significant number of comparative figures had been amended in both the main statements and the supporting notes. These related to :
- in 2008/09 a new fixed asset accounting system, Asset 4000, was implemented which required a change in accounting policy for depreciation. The net effect of this change on the Council's net worth was £1.99 million. We noted that the accounts included a helpful description of the adjustment related to depreciation.
  - in 2008/09 changes were made to the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (LG SORP), which governs the production of the Council's financial statements, as a

## Financial statements

result of an updated Pensions SORP to reflect the requirements of Financial Reporting Standard 25 Financial Instruments: disclosure and presentation (FRS25) and Financial Reporting Standard 26 Financial Instruments: recognition and measurement (FRS26). The entries made in the Council's statements to reflect this change in accounting policy from valuation at mid-market price to fair value of the Council's share of East Sussex Pension Fund investments total £1.2 million.

- other adjustments to comparatives were insignificant amounts and were not related to changes in policy or the correction of fundamental errors.
- 11** None of these adjustments is sufficiently large to fundamentally affect the view of a user of the statements and the Council has stated that in its opinion the disclosure will assist the reader of the accounts and they have stated that they do not intend to amend the accounts. However, we are required to inform you that the inclusion of the prior period adjustments do not meet the requirements of Financial Reporting Standard 3 'Reporting financial performance' (FRS3). The draft letter of representation at Appendix 4 includes a request for the Audit Committee to consider the officers' position on this matter and, if it agrees that no adjustments will be made, to set out the reasons for this. If no adjustment is made it will not affect the opinion that I propose to give as set out at Appendix 1.

## PFI Residual Values

- 12** We noted that the residual values of the library and school PFI projects were incorrectly valued at zero. Officers have not amended the accounts as the error was highlighted towards the end of the audit and the resulting misstatements are not material. In 2009/10 the accounting treatment of PFI projects will be changed and officers have confirmed that the error will be amended then.

### Recommendation

- R1** The Audit Committee should consider whether to request officers to adjust the main financial statements and the supporting notes to comply with FRS3.
- R2** Adjustments should not be made to comparative figures in the financial statements unless they meet the criteria set out in FRS3. Reference should be made to the requirements of extant financial reporting standards when determining the treatment of items in the financial statements.
- R3** In the treatment of PFI projects in 2009-10, officers should ensure that appropriate residual values are used.

## Financial Instruments

- 13** Note 47 to the financial statements setting out the Council's financial assets and liabilities is in accordance with guidance contained within the LG SORP with the exception that the bank overdraft of £6.58 million, subsequently amended to £3.78 million, as shown on the balance sheet had been excluded from the total of financial liabilities. Officers agreed to amend the note.

## Cash and bank balances

- 14** An adjusting year end entry in respect of transfers relating to New Deal for Communities funding had not been made which left both the bank overdraft and debtors overstated by £2 million. A further error was identified in respect of funding due to be repaid to the Department for Communities and Local Government for which no creditor had been provided which meant that the bank overdraft was overstated and creditors understated by £0.79 million.
- 15** In aggregate the bank overdraft originally shown in the balance sheet as £6.58 million was overstated by £2.8 million. This has been corrected by officers and the bank overdraft is now shown as £3.78 million. We acknowledge that the error is contained within net current assets and there is no impact on the reported net worth of the Council.

### Recommendation

- R4** More care should be taken to ensure that all year end entries in respect of bank accounts are completed so that cash and bank balances, creditors and debtors are fairly stated in the financial statements.

## Capital accounting

- 16** We noted a number of errors in accounting for fixed assets and we have set out the more significant issues below:
- historical cost depreciation adjustments are required in respect of assets that have been revalued upwards in previous years but were not reflected in the financial statements presented for audit. The error amounted to £0.84 million and has no impact on net worth of the Council because the correction was made between the revaluation reserve and the capital adjustment account. We acknowledge that officers had also identified this matter independently and have since made the necessary adjustment to the statements.
  - Portslade Town Hall was transferred into general fund assets from the Housing Revenue Account (HRA) assets in 2008/09. The accounting entries relating to this transfer were incorrect and resulted in the asset being included twice within the balance sheet and the revaluation reserve being overstated by £0.83 million. Officers are experiencing difficulty in making certain types of adjustment within the new asset system and particularly in respect of transactions between general fund assets and the HRA whose assets are not held on the Asset 4000 system currently. This error impacts upon the net worth of the Council and officers have agreed to amend the accounts.
  - Portslade Community College consisted of three separate entries in the fixed asset register and it was subsequently found that the sports hall land which was the subject of one entry was already included in one of the other entries. To correct this, officers impaired the sports hall land value to nil and revalued the asset as a whole whereas the value attributed to the sports hall land should have been transferred to the main asset prior to applying the revaluation. This resulted in an



overstatement of both the impairment charged to revenue and the gain on revaluation by £2.4 million. Officers have amended the accounts for this error.

- officers had correctly impaired the Preston Barracks asset to acknowledge that much of the development expenditure had not enhanced the value of the asset. However, the impairment was incorrectly calculated resulting in an understatement of the impairment charged to revenue of £0.2 million. Officers have amended the accounts for this error.
- a number of different and significant errors were identified in accounting for car parks. At the start of 2008/09 five car parks valued as a group at £6.2 million were recorded in the fixed asset register. Following their return to the Council's control when the lease to NCP was terminated, the car parks were separated by means of impairing them to nil value and then valuing them individually giving a total of £11.7 million. One was then classified as an HRA fixed asset. These actions gave rise to a number of issues:
  - we did not agree that termination of the contract with NCP constituted an impairment event as there was unlikely to be any impact on the recoverable amount of the assets. The result of this is that a £6.2 million impairment was incorrectly charged as expenditure to the Income & Expenditure Account;
  - the subsequent revaluation from nil to £11.7 million resulted in revaluation gains being overstated by £6.2 million;
  - the £1.2 million termination payment to NCP was capitalised incorrectly as it does not have any impact on the value of the car parks. Instead it should have been charged directly to revenue and the effect of this error was that the Income & Expenditure Account deficit was understated by £1.2 million;
  - the Council's accounting policy is to value the car parks on the basis of their revenue generation but the valuation certificates were incorrectly calculated giving rise to an understatement of the total value of the car parks of £0.55 million. The Council's estates team subsequently reviewed their valuations of the car parks and issued a revised valuation certificate for each car park in accordance with the provisions of both the Royal Institute of Chartered Surveyors RICS Red Book and the Local Government SORP. The revised valuations are based on a detailed review of relevant income and expenditure and have resulted in a reduction of the aggregate value of the car parks of £0.9 million. Additionally the expected life of the car parks has been amended from 50 years to less than 20 years. It is also of note that the use of incorrect valuations and estimated useful lives of the car parks impacts on the depreciation charge within the Council's financial statements and although trivial in any one year can be more significant when considered over the whole life of the car parks; and
  - the accounting entries made for the transfer of one of the car parks to the HRA were incorrect and resulted in the asset being removed twice from the asset register and an impairment charge of £1.2 million being incorrectly made to the Income & Expenditure account. The fixed asset system, Asset 4000, does not interface directly with the general ledger so an entry made in Asset 4000 has to be done separately in the ledger. In this case the entries were inadvertently

made twice. This is exacerbated for transfers to the HRA which is not included in Asset 4000.

- 17** None of the errors in capital accounting mentioned above are material individually or cumulatively. In aggregate the errors affecting the revaluation reserve amounted to £11.2 million and the impairments incorrectly charged to the Income & Expenditure Account amounted to £8.4 million. The Income & Expenditure Account deficit was overstated by £7.0 million. Officers have agreed to make all the necessary amendments to the accounts.
- 18** I comment on the qualitative aspects of the capital accounting at paragraph 25 below.

**Recommendation**

- R5** Officers need to ensure that the entries they make at the year end in respect of impairments, valuations, depreciation and capital expenditure are complete, accurately calculated and in compliance with guidance contained in the LG SORP.

**Government grants deferred**

- 19** Our review of government grants deferred identified an error in respect of 2007/08 grants brought forward which had not been written down in the year as required by the LG SORP. Officers agreed the amount of error as £0.32 million. The impact is that government grants deferred and the Income & Expenditure Account deficit are overstated by this amount. An amendment has been made to the accounts in respect of this error.

**Impairment of operational assets**

- 20** Operational and non-operational assets are valued over a five year cycle by the in-house valuation team. We noted that an impairment review had concluded that impairments at the year-end were likely to be matched by revaluation gains earlier in the revaluation cycle. We have queried this in the context of acceptance of a 20% impairment across the board for the HRA which was indicated by Council’s external valuers Wilks, Head & Eve. We also note that reference to indices suggests that property values had fallen in real terms by 31<sup>st</sup> March 2009. This represents a potentially material uncertainty in the valuation of fixed assets as disclosed in the balance sheet. We have recently received further comments from the Council and we are considering these. We will update the Audit Committee at its meeting on 29 September 2009.

**Material weaknesses in internal control**

- 21** We have not identified any material weaknesses in internal control that should be brought to your attention.

### Letter of representation

- 22 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation I seek to obtain from you.

### Key areas of judgement and audit risk

- 23 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1**      **Key areas of judgement and audit risk**

Issue or risk	Finding
<p>The Council's liability for equal/back pay is substantial and the Statement of Recommended Practice sets out the disclosure requirements within the accounts and the accounting treatment is potentially complex. There is a risk of incorrect disclosure which could lead to a material misstatement.</p> <p>The Council has obtained a substantial capitalisation directive, but will support the cost by the use of reserves earmarked for other purposes and there could be an impact on the Council's financial health.</p>	<p>Our audit work confirmed that the Council had met all the disclosure requirements in respect of the equal pay settlement and had accounted for the transactions related to it in accordance with guidance. The Council was able to provide us with evidence for its treatment of the tax and national insurance contributions and the non-pensionable status of the payment. It had also dealt correctly with those recipients who were also Housing/Council Tax Benefit claimants.</p> <p>The Council provided us with a paper setting out its justification for using a large part of the Waste Private Finance Initiative reserve to fund this settlement which has been made without significantly impacting its general financial health.</p>
<p>The valuation of the Council's land and buildings is likely to have been adversely affected by the economic downturn. In these circumstances it will be necessary to consider the impact on the Council's accounts and the accounting treatment adopted.</p>	<p>We are reviewing the Council's approach to the valuation of its property assets and will update the Audit Committee at its meeting on 29 September 2009.</p>

## Accounting practice and financial reporting

- 24 I am required to consider the qualitative aspects of your financial reporting and I need to highlight two matters relating to the technical knowledge and skills for fixed asset accounting and to the payroll system. These are set out in Table 2 below.

**Table 2 Accounting practice and financial reporting**

Issue or risk	Finding
<p>In the 2007/08 Annual Governance Report it was stated that the fixed asset register should be updated during 2008/09 for the errors identified in our audit work in 2007/08.</p> <p>At this audit Asset 4000 has led to accounting errors.</p> <p>The HRA's fixed assets are not held on Asset 4000 as yet but there are plans to do so.</p> <p>Additionally, the International Financial Reporting Standards (IFRS) will impact on the Council in 2010 and one of the most significant changes relates to fixed assets. Detailed and accurate information will be needed to ensure compliance.</p>	<p>Many of the capital accounting issues in 2008/09 arose from difficulties that officers had encountered in making adjustments to Asset 4000. Officers have been unable to transfer assets in the register between line entries without undertaking impairment and revaluation accounting entries which in most cases create errors in the general ledger which in turn lead to errors in the financial statements. Officers must ensure that they can make the full range of required entries in the system with confidence.</p> <p>The transfer of HRA assets cannot be commented on in detail at this time but there are a large number of assets held and there needs to be careful control of the process to avoid difficulties in future including compliance with IFRS requirements.</p>
<p>Controls within the payroll system are not operated consistently and are therefore unreliable.</p>	<p>We noted in our pre-statements work on the payroll system that some controls upon which we would normally seek to place reliance were not operating consistently throughout the year. Specifically these related to the ability of payroll officers to make changes to the payroll system – adding new starters, deleting leavers and making amendments such as overtime, hours, salary and post alterations - without having first acquired the necessary authorisations from departmental managers.</p> <p>This matter had been raised by us at the 2007/08 audit and it was disappointing that action had not been taken to correct this</p>

## Financial statements

Issue or risk	Finding
	<p>weakness in internal control.</p> <p>We considered this to be a specific risk to our audit opinion and addressed it by an extensive substantive test of starters, leavers and changes during the opinion audit visit.</p> <p>We were able to base our testing on work that had been carried out by Internal Audit and with the help of officers were able to acquire sufficient audit evidence to conclude that the inconsistency of operation of the controls had not led to incorrect entries in the payroll system.</p> <p>We have discussed with officers the importance of ensuring that the operation of controls is properly evidenced throughout the year and they have indicated that the necessary arrangements will be put in place during the acquisition and implementation of the new Human Resources system which is currently taking place. We also note that Internal Audit is involved in this process.</p>

Recommendation
<p><b>R6</b> Effective controls over the ability of payroll officers to make changes to the payroll system should be introduced.</p>
<p><b>R7</b> Improved understanding of the Asset 4000 system is needed to ensure that the Council accounts for its fixed assets correctly and is well placed to meet the requirements of the International Financial Reporting Standards (IFRS) in 2010. The transfer of HRA fixed assets should be managed effectively.</p>

# Use of resources

I am required to consider how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and give a scored use of resources judgement.

I am also required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## Use of resources judgements

- 25** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 26** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 27** The Council's use of resources theme scores are shown in Table 3 below and are the final scores following completion of the national quality assurance process. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 5.

**Table 3** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	3

- 28** The Council demonstrates forward looking arrangements to manage its finances which comply with professional best practice and statutory requirements. The Council plans finances effectively to deliver strategic priorities and secure sound financial health. There is a good understanding of costs and performance and how to achieve efficiencies in its activities. Financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people.
- 29** The arrangements for commissioning and procuring services are developing well and becoming embedded across the Council. The internal control framework and risk management arrangements continue to become embedded in the operations of the

## Use of resources

Council as are its arrangements for securing the quality of data used for management decision making. There are still some core aspects of governance that need to be improved such as scrutiny.

- 30** The Council has had a sustainability strategy in place for some years and has a good track record of managing its use of natural resources. It also has a detailed knowledge of its asset base and demonstrates innovative approaches to its optimisation. However, nearly half of its housing stock still fails to meet the decent homes standard but we acknowledge that the foundations for improving this have now been put in place.

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## Value for money conclusion

- 31** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 5.
- 32** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.



# Independence

- 33** The Code of Audit Practice and the Audit Practices Board's (APB) Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 34** We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 35** We communicate to you:
- any relationships between us and the Authority, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Authority

- 36** We have not identified any relationship that might affect objectivity and independence.

## Our arrangements to ensure independence and objectivity

- 37** We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

**Table 4 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>• do not hold a financial interest in any of our audit clients;</li> <li>• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li> <li>• may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can</p>



## Independence

Area	Arrangements
	<p>be provided to you on request:</p> <ul style="list-style-type: none"><li>• the general requirement to carry out work independently and objectively;</li><li>• safeguarding against potential conflicts of interest;</li><li>• acceptance of additional (non-audit) work;</li><li>• rotation of key staff;</li><li>• other links with audited bodies;</li><li>• secondments;</li><li>• membership of audited bodies;</li><li>• employment by audited bodies;</li><li>• political activity; and</li><li>• gifts and hospitality.</li></ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

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# Appendix 1 – Independent auditor’s report to members of Brighton & Hove City Council

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## Opinion on the statement of accounts

I have audited the statement of accounts and related notes of Brighton & Hove City Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The statement of accounts comprise the Income & Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the Collection Fund and the related notes. The statement of accounts has been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Brighton & Hove City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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## *Respective responsibilities of the Director of Finance & Resources and auditor*

The Director of Finance & Resources responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the statement of accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the statement of accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 the financial position of the Authority and its income and expenditure for the year.

I review whether the annual governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the statement of accounts. I am not required to consider, nor have I considered, whether the annual governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures

## Appendix 1 – Independent auditor’s report to members of Brighton & Hove City Council

I read other information published with the statement of accounts, and consider whether it is consistent with the audited statement of accounts. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

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### *Basis of audit opinion*

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the statement of accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the statement of accounts and related notes, and of whether the accounting policies are appropriate to the Council’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the statement of accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the statement of accounts and related notes.

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### *Opinion*

In my opinion the Council’s statement of accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.

## Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

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### *Council’s responsibilities*

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

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### *Auditor’s responsibilities*

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for

principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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**Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Brighton & Hove City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

**Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Helen Thompson  
District Auditor  
Audit Commission  
Ground Floor  
Bicentennial Building  
Southern Gate  
Chichester  
West Sussex PO19 8EZ

Date

# Appendix 2 – Adjusted misstatements in the accounts

A number of misstatements were identified during the course of my audit as set out in paragraphs 8 to 19 and the financial statements have been adjusted by management. I bring these adjustments to your attention to assist you in fulfilling your governance responsibilities.

**Table 5 Adjusted amendments to the accounts**

		Income & Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Cash and bank balances	<p>Correction of errors arising from year end adjustments that were not done.</p> <p>This adjustment has no impact on net worth.</p>			2,795	2,795
Historical cost depreciation adjustment	<p>Inclusion of the historical cost depreciation adjustment that was not done during the closedown process.</p> <p>This adjustment has no impact on net worth.</p>			835	835

## Appendix 2 – Adjusted misstatements in the accounts

		Income & Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Portslade Town Hall	Correction of error arising from duplication of asset on the balance sheet.  This adjustment reduces the Council's net worth.			829	829
Portslade Community College	Correction of error arising from incorrect impairment.  This adjustment has no impact on the Council's net worth.		2,397	2,397	
Preston barracks	Correction of under-impairment of asset.  This adjustment reduces the Council's net worth.	195			195
Car parks	Correction of the various errors identified in the accounting treatment of car parks.  These adjustments increase the council's net worth by £2,316k	1,176 188	6,212	7,164	952 1,176 188
Government grants deferred	Inclusion of write down of deferred grants that had previously been excluded		322	322	

# Appendix 3 – Unadjusted misstatements in the accounts

The following misstatements were identified during the course of my audit and the financial statements have not been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities. If you decide not to do so, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter.

**Table 6 Unadjusted misstatements in the accounts**

Description of error	Accounts effected	Value of error £ million
Changes made to comparatives that do not constitute a prior period adjustment as regards FRS3.	Income & Expenditure Account, Balance sheet, notes to the accounts.	Various
Residual values of schools and library PFI's incorrectly assigned as zero.	Income & Expenditure Account, Balance sheet, notes to the accounts.	£1.7m

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# Appendix 4 – Draft letter of representation

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To: Helen Thompson  
District Auditor  
Audit Commission  
Ground Floor  
Bicentennial Building  
Southern Gate  
Chichester  
West Sussex PO19 8EZ

Dear

***Brighton & Hove City Council - Audit for the year ended 31<sup>st</sup> March 2009***

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other *[insert relevant details e.g.; directors, officers, officials]* of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31<sup>st</sup> March 2009. All representations cover the Council's accounts included within the financial statements.

***Compliance with the statutory authorities***

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

***Uncorrected misstatements***

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed below, either individually or in aggregate. These misstatements have been discussed with the Audit Committee as those charged with governance within the Council and the reasons for not correcting these items are as follows;



## Appendix 4 – Draft letter of representation

- *Unadjusted misstatement to be listed and reasons for not adjusting [see Appendix 3 for details of items noted at the audit];*

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Law, regulations, contractual arrangements and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

In all material respects, the expenditure and income recognised in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### ***Fair Values***

I confirm the reasonableness of the significant assumptions within the financial statements. For assumptions relating to the residual values of PFI assets when they are returned to the Council at the end of the PFI contract periods, I confirm:

- the appropriateness of the measurement method, except for the assumption of a nil residual value for the schools and library PFI;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to the fair value measurement.

### ***Assets***

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### ***Compensating arrangements***

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts. Except as disclosed in Note X to the financial statements we have no other lines of credit arrangements. [Delete if not applicable]

### ***Contingent liabilities***

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### ***Related party transactions***

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

## Appendix 4 – Draft letter of representation

### ***Post balance sheet events***

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### ***Specific representations:***

[example] There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

### **Signed on behalf of Brighton & Hove City Council**

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Director of Finance & Resources

Date

Signed

Name

Chairman of Audit Committee

Date

**PLEASE DO NOT DATE UNTIL AGREED WITH AUDIT COMMISSION**

# Appendix 5 – Use of resources key findings and conclusions

The following tables summarise the key finding and conclusions for each of the three use of resources themes.

**Table 7** Managing finances

<p><b>Theme score - three</b></p>
<p>Key findings and conclusions</p>
<p>The Council achieves its medium-term financial plans through its effective targeted budget management process. Its financial health remains sound at 31 March 2009 despite settling a substantial equal pay claim, which has been met mainly from internal resources.</p> <p>The Council's Medium Term Financial Strategy is now firmly based on directorate service plans and linked to the overall financial strategy where risks, opportunities and pressures are considered in detail. There is a strong and well documented consultation process with residents and engagement with members to ensure the Council's priorities are matched to those of residents where possible.</p> <p>There is a good understanding of the needs and drivers of costs locally. Although overall, costs in the Council are higher than the national average, taking account of contextual issues, costs are in line with other comparable councils. A root and branch review of all costs was undertaken in 2007/08 which is driving the VFM Improvement Programme and corporate critical budget review processes. There is a systematic approach to managing, monitoring and addressing higher spending services. A culture of comparative assessment is embedded within the Council's services; senior managers regularly review relative costs against performance and it can be demonstrated that there is a clear understanding of the Council's local context.</p> <p>The Council's performance reporting is sophisticated and clear with out turns published for all of its Local Area Agreement targets on a quarterly basis. A traffic light system is used to indicate performance that is deviating from target and specific actions are identified to improve performance in those areas. Some key areas for improvement such as teenage pregnancy have not addressed despite the Council's efforts although it is making progress towards the achievement of</p>

## Appendix 5 – Use of resources key findings and conclusions

decent homes standard for all its dwellings. The Council's financial performance reporting has improved significantly with detailed budget monitoring on a monthly basis and the annual financial statements for 2008/09 contained no material errors and were supported by good quality working papers in the main.	
<b>KLOE 1.1 (financial planning)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>KLOE 1.2 (understanding costs and achieving efficiencies)</b>	
<b>Score</b>	<b>3</b>
<b>VFM criterion met</b>	<b>Yes</b>
<b>KLOE 1.3 (financial reporting)</b>	
<b>Score</b>	<b>2</b>
<b>VFM criterion met</b>	<b>Yes</b>

**Table 8** Governing the business

<p><b>Theme score two</b></p>	
<p>Key findings and conclusions</p> <p>The Council has a clear understanding of the needs of its communities and where the greatest inequalities lie. A Joint Strategic Needs Assessment has been completed and the Community Strategy identifies how the Council aims to tackle these issues. There is a procurement strategy in place that is relevant to commissioning activity. However, it is less clear how the Council can provide itself with assurance that the strategy has delivered its aspirations.</p> <p>Procurement officers and contract managers have a good understanding of the market locally and the network of the suppliers. Work is also underway to better support the voluntary sector undertaking activity through social enterprise arrangements. The Council has weaker overall control of contracts and 'off contract' spend. It is undertaking a substantial piece of work to ensure it knows all the contracts it has entered into, and the main areas of spend, such that it can realise opportunities for amalgamation and synergy of contracts in the future.</p> <p>There is a clear programme of reviews that is identifying service improvements. Emerging outcomes from these processes are starting to identify and support innovative ways to deliver services.</p> <p>The data quality (DQ) arrangements are in development. Departmental management teams consider DQ regularly and aim to improve consistency and approach. Information for decision making has been developed to meet Council needs and detailed reports have good levels of analytical data that informs options appraisals. The Council also manages data security effectively to ensure controlled access. Members receive quarterly performance updates which are based upon delivery outcomes, progress against corporate priorities, the health of the organisation and use of resources. The Management Team have monthly performance focus sessions to provide additional performance challenge.</p> <p>Our review of DQ arrangements was supplemented by spot checks of three national Indicators; vulnerable people achieving independent living where we found that the DQ was sound, young people not in education, employment or training (NEETs) where we concluded that the arrangements in place to secure DQ were strong, and the decent homes standard where there was still some improvements needed to confirm the accuracy of the out turn at 31<sup>st</sup> March 2009. However, we noted that arrangements in place do seek to improve the quality of data relating to the standard through significantly increased surveys of HRA properties and improved reporting of works completed on the housing stock. We concluded that arrangements are now in place to deliver significant and sustainable improvements in out turn.</p>	

## Appendix 5 – Use of resources key findings and conclusions

<p>The Council's governance arrangements are sound in the main with some opportunities for further enhancement. The Council publishes officers' and members' roles and responsibilities within its Constitution and has formalised arrangements for officers and members to perform their respective roles. There are decision making structures in place and scheme of delegation. The approach for dealing with legislative issues and to ensure legal advice is sought where relevant is appropriate.</p> <p>The approach to councillors' development is effective. Portfolio holders have annual reviews, new councillors have an induction programme and the Council's democratic services provide support to members to identify training opportunities. However, some do not engage effectively with this programme.</p> <p>There are good formal governance arrangements in place that set out codes of conduct for officers and members and a robust standards procedure.</p> <p>The scrutiny process lacks rigour and does not effectively challenge the Executive and subsequently full Council meetings can become the 'stage' for inappropriate challenge to the Executive.</p> <p>During 2008/09 the Council has sought to mitigate two of its most significant corporate risks – long term financing of educational premises which is the subject to a bid for support through the Building Schools for the Future programme and negotiating and settling a substantial equal pay claim without any long term impact to its financial health. Both these outcomes have been achieved through detailed consultation with members regarding their priorities, a holistic review of reserve funds and collective responsibility for the management of budgets in-year.</p> <p>The internal control environment is sound and our triennial review of the Internal Audit function concluded that it meets all aspects of the CIPFA Code.</p>	
<p><b>KLOE 2.1 (commissioning and procurement)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>
<p><b>KLOE 2.2 (data quality and use of information)</b></p> <p><b>Score</b></p> <p><b>VFM criterion met</b></p>	<p><b>2</b></p> <p><b>Yes</b></p>



**Appendix 5 – Use of resources key findings and conclusions**

<p><b>KLOE 2.3 (good governance)</b>  <b>Score</b>  <b>VFM criterion met</b></p>	<p><b>2</b>  <b>Yes</b></p>
<p><b>KLOE 2.4 (risk management and internal control)</b>  <b>Score</b>  <b>VFM criterion met</b></p>	<p><b>3</b>  <b>Yes</b></p>



## Appendix 5 – Use of resources key findings and conclusions

**Table 9** Managing resources

<p><b>Theme score three</b></p>	
<p>Key findings and conclusions</p>	
<p>The Council has had a sustainability strategy in place since 2001 and has a good track record of delivering reductions in the use of its natural resources and has achieved associated cost efficiencies. It has a clear understanding of its own carbon emissions, use of water and other materials, the quality of air and the maintenance of habitats. There are clear links from the strategy into the wider delivery of services and to the procurement strategy.</p> <p>The Council has an asset management plan which has strong links with its strategic priorities and the accommodation strategy, and it recognises the importance of proper maintenance of its assets and justifying its continued ownership.</p> <p>The Council is aware that under-utilised and/or inefficient assets can be a financial drain and has invested in new software to improve the effectiveness of asset management across the Council. Data is now held on condition, suitability and resource usage. The Council's constraint, however, is its limited resources to invest in improving these properties, the most notable issue being its HRA stock where about 48% is below the decent homes standard although there has been a marked improvement in the number of properties achieving the standard in 2008/09.</p>	
<p><b>KLOE 3.1 (use of natural resources)</b></p>	
<p><b>Score</b></p>	<p><b>3</b></p>
<p><b>VFM criterion met</b></p>	<p><b>Yes</b></p>
<p><b>KLOE 3.2 (strategic asset management)</b></p>	
<p><b>Score</b></p>	<p><b>2</b></p>
<p><b>VFM criterion met</b></p>	<p><b>Yes</b></p>

# Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<b>Annual Governance Report 2008/09 - Recommendations</b>					
8	R1 The Audit Committee should consider whether to request officers to adjust the statements main financial statements and the supporting notes to comply with FRS3	3				
8	R2 Adjustments should not be made to comparative figures in the financial statements unless they meet the criteria set out in FRS3. Reference should be made to the requirements of extant financial reporting standards when determining the treatment of items in the financial statements.	3				
8	R3 More care should be taken to ensure that all year end entries in respect of bank accounts are completed so that cash and bank balances, creditors and debtors are fairly stated in the financial statements.	3				

## Appendix 6 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R4 Officers need to ensure that the entries they make at the year end in respect of impairments, valuations, depreciation and capital expenditure are complete, accurately calculated and in compliance with guidance contained in the LG SORP.	3				
14	R5 Effective controls over the ability of payroll officers to make changes to the payroll system should be introduced.	3				
14	R6 Improved understanding of the Asset 4000 system is needed to ensure that the Council accounts for its fixed assets correctly and is can meet the requirements of the International Financial Reporting Standards (IFRS) in 2010. The transfer of HRA fixed assets should be managed effectively.	3				

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# The Audit Commission

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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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