

AUDIT COMMITTEE

Agenda Item No 28
Brighton & Hove City Council

Subject:	Audit of Accounts Year ended 31 March 2008 – Letter of Representation		
Date of Meeting:	30 September 2008		
Report of:	Director of Finance & Resources		
Contact Officer:	Name:	Jane Strudwick	Tel: 29-1255
	E-mail:	jane.strudwick@brighton-hove.gov.uk	
Wards Affected:	All		

FOR GENERAL RELEASE

1 SUMMARY AND POLICY CONTEXT

- 1.1 This committee approved the unaudited Statement of Accounts in accordance with the Audit Commission Act 1998 and both the Accounts and Audit Regulations 2003 and the Accounts and Audit (Amendment) Regulations 2006 at the meeting on 26 June 2008.
- 1.2 Since that date the Audit Commission has conducted its audit of the Statement of Accounts and have recommended a small number of amendments prior to issuing their opinion and the publication of the accounts.
- 1.3 This report details those amendments, provides information regarding the Annual Report and Summary of Accounts and informs this committee on the process for the 2007/08 Public Inspection of the Accounts.
- 1.4 This report also includes a draft of the Letter of Representation for the council's Section 151 Officer and the Chair of the Audit Committee to sign. This is included as an appendix to the report (Appendix to follow)

2 RECOMMENDATIONS:

The Committee is asked to:

- (1) Note the amendments to the 2007/08 Statement of Accounts.
- (2) Note the position statement regarding the Annual Report and Summary of Accounts.
- (3) Note the results of the Public Inspection of the Accounts.

3 RELEVANT BACKGROUND INFORMATION

- 3.1 Amendments to the 2007/08 Statement of accounts

3.1.1 The following amendments were discussed and agreed with the council's Chief Finance Officer.

3.1.2 Statement of Accounting Policies Note 17 Significant Estimations

The unaudited Statement of Accounts included a paragraph detailing that there are no significant estimations used within the Statement of Accounts. This refers to methods of estimating year-end income or expenditure where the actual level will not be known until the deadline for posting to the year of account has passed. In these cases the methods of estimation are agreed in advance with the Audit Commission.

The council was advised during the course of the audit that this note should comply with International Standard of Auditing (ISA) 540 and should include calculations such as the provision for bad debts and depreciation as significant estimates, therefore this note has been amended to read as follows:

“Estimation techniques have been used in accordance with FRS 18 Accounting Policies. The significant estimates included within this Statement of Accounts relate to depreciation of fixed assets and the provision for bad debts.

The provision for bad debts is a calculation based on the likelihood of a debt being recovered and is usually based on an analysis of the age of the outstanding debt.

Details of the calculation of depreciation can be found in the Statement of Accounting Policies Note 2.”

The change to Note 17 ensures compliance with ISA 540 and there are no other implications arising from this change.

3.1.3 Statement of Total Recognised Gains and Losses (STRGL)

The adoption of Financial Reporting Standards (FRS) 25, 26 and 29 have led to changes in the disclosure, measurement and presentation of financial instruments. These changes require an adjustment to be included in this statement relating to the transitional arrangements. In accordance with the regulations this adjustment must be described as an “Exceptional Loss resulting from the transitional arrangements for financial instruments”. The new note is as follows;

“The council suffered an exceptional loss resulting from the transitional arrangements for financial instruments following the introduction of FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Measurement and FRS 29 Financial Instruments: Disclosure. The accounting treatment for this is to adjust the opening General Fund balance. The statement above contains an amendment of £2.054m to offset this adjustment.”

An additional explanatory note has been included at the foot of the statement to provide readers of the accounts with more information..

3.1.4 Balance Sheet

The new accounting requirements for 2007/08 have introduced two new accounts, the Revaluation Reserve and the Capital Adjustment Account. Two adjustments were required between these accounts, one relating to the accumulated depreciation of £14.3m for the Council Dwellings and one for the

accumulated and in year depreciation of £9.8m for General Fund assets that were upwardly revalued during 2007/08. The depreciation had been accounted for within the Capital Adjustment Account and should have been accounted for within the Revaluation Reserve. This required a technical adjustment.

These adjustments are of a technical accounting nature, resulting in a movement between two accounting reserves, and therefore had no impact on the Total Net Worth of the Council. The amounts included in Note 37 to the core financial statements, 'Movements in Reserves', were subsequently amended as a result of this adjustment. There are no other implications arising from this change.

3.1.5 Cash Flow Statement

The 'Grants for Benefits' figure, part of the Revenue Activities section of the cash flow statement was amended because the incorrect figure had been used originally, this caused a subsequent amendment to Note 52 to the core financial statements, the analysis of Government Grants.

This change had no impact on the Cash Flow statement, resulting in a movement between lines under 'Cash Inflows'. There are no other implications.

3.1.6 Note 24 to the Core Financial Statements, Tangible Fixed Assets

A new paragraph has been added to the foot of this list of assets held by the council relating to Museum Objects in order to comply with the Statement of Recommended Practice:

"The museums and art galleries of Brighton & Hove City Council hold a number of rare exhibits. The insurance value of these objects is not reflected in the council's balance sheet as they are classified as Community Assets. This means that the council intends to hold them in perpetuity or that there are restrictions on their disposal."

The change to this note provides additional information for readers of the accounts. There are no other implications arising from this change.

3.1.7 Note 38 to the Core Financial Statements, Contingent Liabilities

This note has been amended to reflect the current position on the Joint Waste PFI contract. There are no other implications arising from this change.

3.1.8 Annual Governance Report

The Audit Commission's Annual Governance Report in relation to the 2007/08 Statement of Accounts is found elsewhere on this agenda. This report sets out the external auditor's key findings in relation to the audit of the financial statements and also comments on the effectiveness of the council's internal controls and governance. An opinion on arrangements to secure the effective use of resources will be given in the final version of this report.

3.2 Annual Report and Summary of Accounts

3.2.1 The council produces an Annual Report together with a Summary of the Accounts. These documents aim to provide summarised information about the council's performance and financial standing in a clearer and easier to

understand format than the prescribed layout of the main Statement of Accounts.

3.2.2 The Annual Report has been presented to the cross-party Budget Review Group for cross-party views on its format and content and is posted to the council's website. The Summary of Accounts, which is incorporated within the Annual Report, was published in the September edition of the council's newspaper, City News, and will be available from the public libraries.

3.2.3 This year, some improvements have been made to the Annual Report. The Annual Report is more comprehensive, includes a section on environmental footprint and also includes a feedback form for members of the public to tell us what they think of the publication and how they feel it could be improved.

3.3 Public Inspection of the Accounts

3.3.1 Members of the public, in accordance with the Audit Commission Act 1998, are granted access for a four week period to the council's unaudited Statement of Accounts and are invited to enquire on any aspect of these Accounts. If the member of the public is not satisfied with the response received, the next step would be to lodge a formal objection to the Accounts with the Audit Commission.

3.3.2 This year the council received an enquiry from one member of the public. This enquiry encompassed many areas of the Accounts. Responses to the queries have been compiled and sent and have not resulted in any objection to the Accounts.

4 EVALUATION OF ALTERNATIVE OPTIONS

4.1 The report is for noting only.

5 REASONS FOR REPORT RECOMMENDATIONS

5.1 To ensure that the Audit Committee, which is the committee charged with governance, are fully aware of changes to the accounts.

6 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

6.1 Included in the body of the report.

Legal Implications:

6.2 The legislative framework for this report consists of the Audit Commission Act 1998 and the Accounts and Audit Regulations (2003) (as amended); the relevant legislative provisions are referred to in the body of the report.

There are no specific human rights implications to which Members' attention need be drawn

Lawyer consulted: Oliver Dixon

Date: 10 September 2008

Equalities Implications:

6.3 There are no equalities implications arising directly from this report.

Sustainability Implications:

- 6.4 There are no direct environmental implications arising from this report.

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

- 6.6 There has been no direct risk assessment for this report.

Corporate / Citywide Implications:

- 6.7 Any material changes resulting from the conclusion of the Audit will be reported to the Audit Committee. The quality and accuracy of the Statement of Accounts may impact on the council's score for financial reporting within the use of resources assessment under the Comprehensive Performance Assessment framework. The council is currently at level 2 (out of 4) for this element of the use of resources assessment.

