

Subject:	Audit of Accounts ended 31 March 2010: Letter of Representation and Statement of Accounts 2009/10 Update		
Date of Meeting:	28 September 2010		
Report of:	Director of Finance & Resources		
Contact Officer:	Name:	Patrick Rice	Tel: 29-1268
	E-mail:	patrick.rice@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 the Accounts and Audit Regulations 2003 at its meeting on 29 June 2010.
- 1.2 The Audit Commission are required to give assurance that the Statement of Accounts is free from material mis-statement and are required to report all errors and uncertainties over a non-trivial level. For 2009/10, the non trivial level was set at £0.092m.
- 1.3 The Audit Commission has conducted its audit of the Statement of Accounts and has recommended only a relatively small number of amendments prior to issuing their opinion and the publication of the accounts.
- 1.4 This report details those amendments, provides information regarding the Annual Report and Summary of Accounts and informs the committee of the outcome of the Public Inspection of the accounts.

2 RECOMMENDATIONS:

The Committee is recommended to:

- (1) Note the adjusted misstatements to the 2009/10 Statement of Accounts (paragraph 3.1).
- (2) Consider the advice in relation to unadjusted misstatements and agree that they should not be adjusted for (paragraphs 3.3 & 3.4).
- (3) Note the position statement regarding the Annual Report and Summary of Accounts (Section 5).
- (4) Note the results of the Public Inspection of the Accounts (Section 6).
- (5) Approve the letter of representation on behalf of the council (Appendix 1).

3 STATEMENT OF ACCOUNTS 2009/10

Adjustments Misstatements to the 2009/10 Statement of Accounts

- 3.1 The Annual Governance Report (AGR) prepared by the Audit Commission states that the draft financial statements were of a good standard and this has led to only having a relatively small number of changes being required to the revised accounts. Appendix 2 of the AGR sets out the changes that have been made.

Unadjusted Misstatements in the Accounts

- 3.2 There were two misstatements that were identified during the audit where the accounts have not been amended, details are provided below:

Pooled Budgets

- 3.3 In the Annual Governance Report, the auditor has highlighted that none of the partners in the pooled budgets in which the council participates are accounting for pooled budgets as joint arrangements that are not entities (JANEs) and have advised that this does not comply with the requirements of FRS 9, and will not comply with the requirements of International Accounting Standard 31 from 2010/11. The auditors recommend that the financial statements should be adjusted; however the committee are advised to reject this recommendation as the changes are not material to the accounts and the council's treatment of the arrangements, is consistent with previous years accounts and with the accounting treatment followed by our partners. The accounting treatment will be revised for 2010/11 to comply with the new accounting standards.

Investment Properties

- 3.4 The council holds investment properties as non-operational assets on its Balance Sheet and income and expenditure related to these investment properties is accounted for within the net cost of services in the Income & Expenditure Account. As non-operational assets do not contribute to service delivery, any relating income and expenditure should be classed as a trading operation and subsequently disclosed as part of the council's net operating expenditure within the Income & Expenditure Account. This has no material impact on the financial statements. It is not possible to make an accurate assessment of the level of income and expenditure involved without a great deal of officer time being spent and the council will be undertaking a full review of its investment properties and relating income and expenditure as part of the implementation of IFRS. For these reasons, an adjustment to the accounts is not recommended.

Uncertainties in the Accounts

- 3.4 The Audit Commission identified uncertainties relating to some figures with the accounts and these are listed in Appendix 4 of the AGR. None of the uncertainties are of a material nature or have impacted on the overall audit opinion.

Important Weakness in Internal Control

- 3.6 Compilation of the financial statements relies on data extracted from the financial systems operated by the council. It is therefore, important for the auditors to be satisfied that these systems have adequate controls in place so that assurance can be given on the integrity of the information held within them. The main control weaknesses identified by the auditors were within the Payroll System, this is a key system as it generates a large part of the council's expenditure. The auditors undertook additional substantive testing, which did not identify any cases of error or fraud.
- 3.7 The control weaknesses within the Payroll System have been identified as significant within the Annual Governance Statement approved by this Committee at its June meeting. Recommendations by the Audit Commission to improve the control environment are included in Appendix 7 of the AGR.
- 3.8 The council is currently implementing a new HR/Payroll System (I-Trent), this will include new procedures and control measures. However, the existing system (Teamspirit) is being phased out during this financial year and so some of the control issues will have continued into 2010/11.

4 PENSION COST QUERY FROM JUNE AUDIT COMMITTEE

- 4.1 At the Audit Committee meeting of 29 June 2010, a query was raised regarding the increase in the net pension liability (i.e. deficit) from £139m at 31 March 2009 to £34 m at 31 March 2010, an increase of £202m.
- 4.2 The net figures quoted above are the difference between the assets and liabilities of the fund. To help explain why such an increase in the net figure has occurred it is important to look separately at each of these elements as set out below:

	As at 31 Mar 2009	As at 31 Mar 2010	Change
	£M	£M	%
Assets	378	526	39%
Liabilities	(517)	(867)	68%
Net Deficit	(139)	(341)	145%

- 4.3 On the asset side, the council has seen its share of the assets held increase from £378m to £526m (around 39%). However the value placed on the liabilities has also increased from £518m to £869m (68%). This means that, on a FRS17 basis, the funding level (the ratio of assets held to liabilities attributable) of the council has dropped from 73% at 31 March 2009 to 60% at 31 March 2010. This is due to the positive impact of greater than expected returns on assets being outweighed by a greater increase in the liabilities. The two key reasons for the liabilities increasing so sharply are:
- A reduction in the real discount rate - LGPS benefits are linked to price inflation and salary inflation. Therefore, when assessing the effect of changes in financial assumptions on the FRS17 liabilities there is a need to compare the real discount rate (i.e. net of price inflation) from year to year. In most cases, the real discount rate has decreased significantly from 3.7% p.a. as at 31 March 2009 to 1.6% p.a. as at 31 March 2010. This is due to a fall in corporate bond yields over the year combined with an increase in the level of inflation expectations. All else being equal, a lower real discount rate leads to a higher value being placed on the

liabilities. The change in real discount rate between March 2009 and March 2010 has had a substantial negative impact on the FRS17 balance sheet; the pension's actuary has advised that the value of the liabilities has typically increased by around 40% to 45%.

- Longer life expectancy assumptions - All else being equal, improved life expectancy has an adverse effect on the funding position of pension schemes, as they face the prospect of having to pay retirement benefits to pensioners who are living longer into the future. In order to attempt to model this improved life expectancy, the pension actuary has strengthened the post retirement mortality assumptions for the FRS17 2010 exercise. These assumptions have led to higher life expectancies than adopted in previous years, adding around 1.5 years to life expectancy at age 65 compared to the assumption adopted for last year's FRS17 exercise. This change is consistent with the continuing trend of employers who report under FRS17 to make allowance for increasing life expectancy. This increase in future life expectancy has had an adverse effect on the FRS17 position as at 31 March 2010, the pension's actuary has advised that the value of the liabilities have increased typically by around 4% to 6%.

In relation to the council, the change in the real discount rate led to an increase in the liabilities of around 50% with the change to life expectancy assumptions leading to a further increase in the liabilities of around 6%. Other factors which have led to an increase in the liabilities, which were expected to occur at the start of the year, include the interest cost on the liabilities (around 7%) and the accrual of further benefits for employees over the year (around 4%). The combined effect of these factors adds up to the 68% mentioned above.

5 ANNUAL REPORT AND SUMMARY OF ACCOUNTS

- 5.1 Each year, the council produces an Annual Report which incorporates 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.
- 5.2 The Annual Report, incorporating the Summary of Accounts will be published on the council's website.
- 5.3 The aim is to continually improve the Annual Report and Summary Accounts to complement and/or reinforce other information provided by the council such as the Corporate Plan and Performance Reports taking on board feedback from members of the public.
- 5.4 At the time of producing this report, work was ongoing on the 2009/10 Annual Report and Summary Accounts, which is scheduled for publication at the end of October.

6 PUBLIC INSPECTION OF THE ACCOUNTS

- 6.1 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 a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the Accounts with the Audit Commission.

- 6.2 This year the council received an enquiry from two members of the public. These enquiries 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.

7 EVALUATION OF ALTERNATIVE OPTIONS

- 7.1 After the Accounts have been made available for public inspection, alterations may only be made with the consent of the auditor, i.e. in this case the District Auditor. The alterations in this case have received her consent.

8 REASONS FOR REPORT RECOMMENDATIONS

- 8.1 To ensure that the Audit Committee is fully aware of the changes to the Accounts agreed with the auditor in response to the findings and recommendations arising from the audit of the accounts.

9 FINANCIAL & OTHER IMPLICATIONS

Financial Implications

- 9.1 Included in the body of the report.

Finance Officer Consulted: Patrick Rice *Date: 14 September 2010*

Legal Implications:

- 9.2 Under the Accounts and Audit Regulations 2003, it is the responsibility of the Audit Committee to approve the council's statement of accounts (SoA). These Regulations also prohibit any alteration to the SoA without the consent of the auditor. Paragraph 7 above confirms that the required consent has been given, which makes it lawful for the Committee to note the amended 2009/10 SoA. Given the Audit Committee's role in respect of approving the SoA, it is entitled to reject a request by the Audit Commission to adjust a misstatement.

Lawyer consulted: Oliver Dixon *Date: 14 September 2010*

Equalities Implications:

- 9.3 There are no equalities implications arising directly from this report.

Sustainability Implications:

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

Crime & Disorder Implications:

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

Risk and Opportunity Management Implications:

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

Corporate / Citywide Implications:

- 9.7 The quality of a public authority's financial statements is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the statements present fairly the financial position of the authority. The quality and accuracy of the Statement of Accounts also impacts on the council's score under the Comprehensive Area Assessment framework.

SUPPORTING DOCUMENTATION

Appendices

Appendix 1: Letter of Representation

Documents in Members' Rooms

None

Background Documents

None

Letter of Representation

To:

Helen Thompson
District Auditor
Audit Commission
Bicentennial House
Southern Gate
Chichester
West Sussex
PO19 8EZ

Brighton & Hove City Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Brighton & Hove City Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

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 give a true and fair view of 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 in the attached schedule are not material to the financial statements, either individually or in aggregate. The reasons for not adjusting the accounts are:

Pooled Budgets

- The accounting treatment is consistent with that adopted in previous years;
- It matches the practice followed by our partners in the pooled budget arrangements and therefore provides a consistent approach;
- The accounting treatment will be reviewed for 2010/11 following the implementation of the new IFRS accounting standards.

Investment Properties

- Significant resources would be required to complete a full review of all investment properties, any changes required would not have a material affect on the accounts or impact on the net Surplus of the Income & Expenditure Account;
- A full review will all be undertaken of all properties in preparation for the implementation of the new IFRS accounting standards for the 2010/11 accounts.

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 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.

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 all significant assumptions, I confirm:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if 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. We have no lines of credit arrangements.

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; and
- 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.

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that 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.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 28 September 2010.

Signed:

Name: Catherine Vaughan

Position: Director of Finance and Resources

Date: 28 September 2010.

