

Annual Governance Report

Brighton & Hove City Council

Audit 2009/10

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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Members of the Audit Committee

2009/10 Annual Governance Report

I am pleased to present the final version of my report on the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Chief Executive and Director of Finance and Resources on 6 September 2010 and updated it as issues have been resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements 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);
- approve the letter of representation for the Council before I issue my opinion and conclusion (Appendix 5); and
- agree your response to the proposed action plan (Appendix 7).

Yours faithfully

Helen Thompson
District Auditor

28 September 2010

Key messages

This report summarises the findings from the 2009/10 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 your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	4
Financial statements free from material error	Yes	4
Adequate internal control environment	Yes	4 and 10
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	17

Audit opinion

- 1 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.

Financial statements

- 2 The financial statements presented for audit were of a good standard and my audit work has detected only a small number of errors and uncertainties. Working papers to support the financial statements were also good. The draft financial statements were available over a week before the Council's internal deadline for approval of the accounts. This allowed for proper officer and member review of the statements before approval and submission for audit. Queries arising during the audit were addressed comprehensively and promptly by officers.
- 3 The Council's internal financial control environment is adequate, but improvements are required to the control environment within the payroll system, which produces a large part of the Council's total expenditure.

Value for money

- 4 The Council has adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. I will therefore issue an unqualified value for money conclusion.

Key messages

Audit fees

- 5 I will deliver the audit within the fee of £367,895 presented to you in my 2009/10 fee letter and detailed audit opinion plan.
-

Independence

- 6 I can confirm the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, 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.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- 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 that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation for the Council before I issue my opinion and conclusion (Appendix 5); and
- agree your response to the proposed action plan (Appendix 7).

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.

Opinion on the financial statements

- 8** 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.
-

Errors in the financial statements

- 9** I plan and undertake my audit work to give reasonable assurance that the financial statements are free from material misstatement. For the 2009/10 financial statements all audit errors and uncertainties over £9.2 million are defined as material. However, auditing standards require me to report to you all non-trivial errors and uncertainties that I detect as part of my work. For 2009/10, all errors and uncertainties of over £92,000 are defined as non-trivial and are set out over paragraphs 10 to 19.

Adjusted errors

- 10** Total recognised gains and losses disclosed in the Statement of Total Recognised Gains and Losses (STRGL) did not agree to the movement in net worth between the 2007/08 and restated 2008/09 balance sheets. The difference of £415,000 related to an error in the disclosure of the prior period adjustment for the surplus on revaluation of Private Finance Initiative (PFI) fixed assets. Officers have amended the STRGL and Note 2 of the financial statements.
- 11** During the period the Council correctly reversed a prior year impairment of council dwelling values in the balance sheet to reflect increases in property prices during 2009/10. There were misclassifications in the disclosure of this impairment reversal at Note 15 to the financial statements which shows in year movements in the Council's operational assets. Officers have adjusted Note 15 to correct the misclassification of the impairment reversal.
- 12** As part of my work I challenged the Council's approach to identifying trade debtors and creditors that should be classified as financial assets and liabilities in the disclosure of financial instruments at Note 42 of the financial statements. As a result, the Council identified trade debtors classified as financial assets were understated by around £14.2 million, and trade creditors classified as financial liabilities were understated by around £5.7 million. Officers have amended Note 42 of the financial statements to correct this.
- 13** Appendix 2 sets out the adjustments made to the financial statements.

Unadjusted errors

- 14** None of the partners in the pooled budgets in which the Council takes part account for the pooled budgets as joint arrangements that are not entities (JANEs). This does not comply with Financial Reporting Standard (FRS) 9, and will not comply with International Accounting Standard 31 from 2010/11. For the children and young people's trust pool, which the Council hosts, the Council's balance sheet includes a net creditor and cash balance. The Council should only hold 91.2 per cent of gross debtor, creditor and cash balances on its own balance sheet under the terms of the pool agreement. For the main adult and older people pool, hosted by Brighton & Hove Primary Care Trust, none of the year-end pool debtors, creditors or cash are included on the Council's balance sheet. I consider weaknesses in accounting and governance arrangements for pooled budgets more fully at paragraphs 26 and 27 and raise a recommendation for improvement.
- 15** The Council holds around £179 million of investment properties which it classifies as non-operational assets on its balance sheet. Income and expenditure related to those investment properties is currently accounted for within the Council's net cost of services disclosed in the Income and Expenditure Account. This is not correct as the assets are non-operational and therefore do not contribute to service delivery. Income and expenditure should properly be classified as relating to a trading operation and disclosed as part of the Council's net operating expenditure. The net value of this misclassification in the Income and Expenditure Account is £2.4 million. I am therefore satisfied that this has no material impact on the financial statements. As part of its work to prepare for the introduction of IFRS, the Council should continue to review its investment property portfolio to decide whether all assets are non-operational, or whether some of those assets support the service or wider strategic objectives of the Council. **See recommendation 1.**
- 16** Appendix 3 sets out the unadjusted misstatements in the accounts. You need to consider whether you agree these should not be adjusted. If you decide not to amend the financial statements you should agree the reasons for not adjusting set out in the letter of representation at Appendix 5.

Uncertainties

- 17** As part of my work on the Council's fixed assets I found that around £9 million (gross book value) of fixed assets are fully depreciated but still in use. These assets have a useful life on the Council's asset register of five years, but remain in use after eight years. I have estimated the possible impact of this on the financial statements. From this, I have concluded that depreciation charged on these assets was:
- overstated by a maximum of £675,000 a year in years one to five of the assets' lives; and
 - understated by a maximum of £1.125 million a year in years six to eight of the assets' lives.

I am therefore satisfied that this has no material impact on the financial statements, but it is not possible to make an accurate adjustment. Appendix 4 sets out uncertainties in the accounts. **See recommendation 2.**

Financial statements

- 18** I noted weaknesses in the Council's cut-off arrangements to ensure that income and expenditure is included in the correct financial year. Although 52 weeks of council dwelling rental income has been accounted for, the value disclosed in the 2009/10 financial statements includes two days from the end of the 2008/09 financial year, and excludes three days from the start of the 2009/10 financial year. The Council takes this approach so that income is matched to rent weeks, which may straddle the start and end of the financial year. Although this approach produces a reasonable accounting estimate I have needed to calculate the maximum error in the financial statements based on the information available. I estimate this to be around £806,000. I am therefore satisfied that this has no material impact on the financial statements and no adjustments have been made.
- 19** The estimated fair value of pension contributions made by the Council for unfunded benefits, which were considered by the pension fund actuary in its valuation of pension fund assets and liabilities, was understated by around £1.15 million. The Council passed an accurate estimate to East Sussex County Council, as the administering authority for the pension fund, but the actuary did not consider this. This has partly contributed to a difference arising between the value of the net pension liability and reserve shown in the Council's closing balance sheet and the valuation of the net pension liability and reserve shown in the actuary's report. The difference between the net pension fund liability and reserve in the Council's balance sheet and actuary's report is £3.3 million, and therefore is not material. I am also satisfied the actuary's valuation of the net liability will not have been materially affected by the understatement of the estimate of pension contributions made by the Council for unfunded benefits. The Council needs, however, to improve its arrangements in this area. Specifically the Council should:
- Ensure that an accurate estimate of contributions for unfunded benefits is provided to the actuary. This will need to be done in consultation with East Sussex County Council as the administering authority for the pension fund.
 - Undertake reasonableness checks on the valuation of the net pension liability received from the actuary before processing entries in the financial statements.

See recommendations 3 and 4.

Recommendation

R1 Continue to review the investment property portfolio to decide whether all assets are non-operational, or whether some of those assets support the service or wider strategic objectives of the Council.

R2 Review the accuracy of asset lives on the fixed asset register to ensure they reflect the true useful life of all fixed assets.

R3 Ensure that an accurate estimate of contributions for unfunded benefits is provided to the actuary. This will need to be done in consultation with East Sussex County Council as the administering authority for the pension fund.

R4 Undertake reasonableness checks on the valuation of the net pension liability received from the actuary before entries are processed in the financial statements. If estimated contributions differ from the year-end actual, consider the difference, and any impact on the actuarial valuation of the pension liability, before it is disclosed in the financial statements.

Important weaknesses in internal control

- 20** I have concluded the Council's internal financial control environment is satisfactory overall. However, my work on the Council's significant financial systems identified some areas of weaknesses in the design or operation of controls. The reliable operation of effective controls in all significant financial systems provides assurance to management and members, and allows me to complete my work more efficiently.
- 21** Table 1 sets out details of internal control weaknesses, the risks they create and recommendations for improvement. A number of the control weaknesses identified are in the Council's payroll system, which produces a large part of the Council's total expenditure. The Council is implementing a new payroll system which will run for part of the 2010/11 financial year. It is important that control weaknesses in the current system, which both Internal Audit and I have identified in recent years, are fully addressed in the new payroll system. As I have not been able to rely on the operation of controls to gain assurance my team has needed to undertake a relatively large amount of substantive testing in this area to allow me to give my audit opinion. This substantive work highlighted some variation in the level of understanding of pay budgets by budget holders, which further undermines the overall internal control environment in this area.

Table 1 Control weaknesses in larger financial systems

System	Control	Control weakness and risk
Payroll	The forms used to tell payroll of new joiners, leavers and changes in circumstances are properly authorised.	My team found that only 33 out of 60 transactions tested were properly approved. This creates a risk that transactions may be processed wrongly or salaries paid wrongly. See recommendation 5.
Payroll	Review and clear the payroll 'unactioned changes report' before running the payroll.	The payroll department does not keep any evidence to prove this check is systematically undertaken. This creates a risk that changes to the payroll processed

Financial statements

System	Control	Control weakness and risk
		<p>incorrectly are not detected and corrected.</p> <p>See recommendation 6.</p>
Payroll	Check and authorise changes in payroll system parameters.	<p>There was no evidence that changes in the system parameters, such as tax rates, were subject to checking and authorisation by a senior manager. This creates a risk that system parameters may be incorrectly set.</p> <p>See recommendation 7.</p>
National non-domestic rates	Changes to discounts and exemptions are subject to a check by team leaders to ensure they have been correctly processed.	<p>The Council should undertake a check of 10 per cent of the changes processed. No checks had been made from July 2009 to November 2009. This creates a risk that errors could go undetected.</p> <p>See recommendation 8.</p>
General ledger	<p>Journals on the general ledger are supported by narrative.</p> <p>Documentation is filed on a share drive and a file path is provided with links to the journal reference. Journals are properly authorised before processing.</p>	<p>Manual journal entries between directorates are not subject to formal check and authorisation. This creates a risk that errors could go undetected.</p> <p>See recommendation 9.</p>
Carefirst	The process for accepting new service providers requires authorisation from the contracts manager.	<p>In 2 out of 20 cases tested the request form was not properly authorised. This creates a risk that payments could be made to suppliers who do not meet the Council's criteria.</p> <p>See recommendation 10.</p>
Schools	A monthly reconciliation of all income and expenditure takes place for each school	<p>There is evidence of the reconciliation taking place where the school sends a monthly return. However, this is not compulsory and there is no central check.</p>

System	Control	Control weakness and risk
	between the school's monthly return and general ledger.	This creates a risk that any differences in income and expenditure records may not be detected. See recommendation 11.
Accounts receivable	Invoices are not produced directly by the debtors' team. They are separately produced from the system by the Financial Information Services team at Hove Town Hall.	There is no evidence of checking of invoices produced and delivered to the debtors' team. There is therefore a risk that invoices produced are not complete. See recommendation 12.

Recommendation
R5 Ensure that all documentation supporting changes in the payroll database is properly completed, authorised and filed.
R6 Keep evidence that the payroll 'unactioned changes report' is reviewed and cleared for each payroll run.
R7 Ensure that an appropriate senior manager checks and authorises any changes to payroll system parameters.
R8 Undertake accuracy checks for National Non-Domestic Rates rate relief adjustments, systematically and regularly throughout the year. Evidence of checking should be kept.
R9 Ensure that manual journals are formally checked and approved.
R10 All new providers on the Carefirst systems should be supported by correctly approved documentation.
R11 Require all schools to send a monthly financial return. This will allow the Council to undertake and evidence a monthly reconciliation of income and expenditure between the school monthly return and the general ledger.
R12 Introduce a check of monthly invoices produced from the accounts payable system by the Financial Information Services team to ensure they are complete.

Letter of representation

22 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 5 contains the draft letter of representation.

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 detailed work. I reported these to you at the June meeting of the Audit Committee as part of my 2009/10 Audit Opinion Plan.

Table 2 Key areas of judgement and audit risk

Issue or risk 1:

International Financial Reporting Standards (IFRS) will apply to local government financial statements from the 2010/11 financial year.

However, the requirements of International Financial Reporting Interpretations Committee (IFRIC) note 12, service concession arrangements, will apply from 2009/10. The Council will therefore need to identify and account correctly for service concession arrangements in its 2009/10 financial statements. This has a particular impact on the Council's libraries, schools and waste management PFI schemes, but not just these areas.

Finding:

The Council has followed a reasonable and clearly defined process to identify any service concession arrangements under IFRIC12 outside its PFI schemes. It has conducted an exercise to identify and review its major contracts with private sector entities to identify potential service concession arrangements. This highlighted a contractual arrangement with Shoreham Airport, which has the potential to fall within the scope of IFRIC12. Having considered the available evidence I am satisfied with the Council's conclusion that this contractual arrangement did not form a service concession arrangement under IFRIC12. It is therefore appropriate that any assets connected to the contractual arrangement are not accounted for on the Council's balance sheet. The Council also considered whether voluntary-aided schools fall within the scope of IFRIC12. I consider this issue more fully at paragraph 30.

The Council has also determined that its libraries, schools and waste management PFI schemes all fall within the scope of IFRIC12 and has therefore accounted for assets under these contracts on its balance sheet. This is consistent with my understanding of those contractual arrangements.

My work in this area has highlighted some minor disclosure errors made in the financial statements because of the early implementation of IFRIC12. Waste management facilities at Hollingdean, Maresfield and Whitesmith are now correctly accounted for on the Council's balance sheet. These assets were, however, omitted from Note 19 showing the Council's fixed asset holdings. Officers have amended the disclosure at

Note 19 of the financial statements for this finding.

Under IFRIC 12 Maresfield and Whitesmith waste management PFI assets are accounted for on the Council's balance sheet. During 2009/10 the Council spent around £6.6 million on the Maresfield and Whitesmith facilities. This was correctly treated and disclosed as capital in the primary statements and supporting notes. However, this has been excluded from the analysis of expenditure in the explanatory foreword as this did not form part of the Council's programmed capital spend for the period.

Although capital expenditure for the year can be reconciled between the explanatory foreword and primary statements and supporting notes, it is not disclosed consistently. Officers have adjusted the financial statements for these issues.

Issue or risk 2:

The Council's joint waste management PFI with East Sussex County Council is a complicated contractual arrangement that has changed significantly since it began. The accounting treatment adopted for this in the Council 2009/10 financial statements will need to comply with the requirements of IFRIC 12, and should be consistent with that adopted by East Sussex County Council. Transactions to account for the waste PFI will impact across the income and expenditure account, balance sheet and some of the notes to the financial statements. Interpretation of the accounting rules is a subjective exercise.

I have identified the accounting treatment adopted for the waste management PFI as a significant risk to my 2009/10 opinion on the financial statements. Auditing standards require me to undertake some extra work and testing on significant risks before I am able to give my opinion on the financial statements.

Technical specialists from our central technical services directorate have attended meetings with relevant officers from both Brighton & Hove City and East Sussex County Council throughout the year. Those specialists will undertake a review of the accounting treatment adopted in the financial statements.

I am also aware there is a complaint from a local elector at East Sussex County Council about changes to the waste management contract. I am talking to the auditor responsible and I will consider whether there is any need for extra disclosure within the financial statements for Brighton & Hove City Council in respect of this complaint.

Finding:

The Council has assessed the waste management PFI and concluded that it falls within the scope of IFRIC12. It has therefore accounted for its share of waste management assets under the contract on its balance sheet. This is consistent with my understanding of the contract. The accounting model for the waste management PFI is based on reasonable assumptions and agrees to the evidence currently available. The modelling is also consistent with underlying guidance. I am satisfied there is no evidence to suggest the accounting entries produced through the financial modelling are materially inaccurate. I am also satisfied the accounting entries produced through the financial modelling have been correctly reflected in the financial statements.

I have liaised with the auditor of East Sussex County Council on the complaint received

from the local elector. I am satisfied that no further disclosure is required in the Council's financial statements on this issue.

As part of my work in this area I have also reviewed the accounting treatment for the Council's schools and libraries PFI schemes. As part of this I noted the Council has capitalised life cycle costs for schools PFIs to the value of £706,000 at the end of 2009/10. In doing this, the Council should satisfy itself that processes are set up to review works funded from life cycle costs to determine that it is correct to capitalise the expenditure in line with existing financial reporting requirements. I also note the Council intends to capitalise around £64 million life cycle costs on the waste management PFI in 2020. It is therefore important from a financial planning perspective that it assures itself that it is correct to capitalise these costs.

See recommendation 13.

Issue or Risk 3:

The Council introduced a new fixed asset register, Asset 4000, during the 2008/09 financial year. As part of my 2008/09 post-statement audit work I noted that officers were unable to provide reports from Asset 4000 to support balances and disclosures appearing in the financial statements. I raised a recommendation to address this issue in my 2008/09 annual governance report.

My team held meetings with finance officers during the year to track progress on this issue. My team has specified the working papers it will need from Asset 4000 as part of my 2009/10 working paper requirements. I will review the adequacy of reports from Asset 4000 as part of my post-statement work in this area.

Finding:

Significant improvements were made to working papers supporting fixed asset balances and disclosures in the financial statements, including reports from the Asset 4000 system. My work identified one minor error on fixed assets which is considered at paragraph 15.

Issue or risk 4:

The Council settled a significant part of its total equal pay liability during the 2008/09 financial year. At the end of 2008/09 there remained around £14 million in the equal pay reserve. The 2009/10 financial statements should account for further settlement of the total liability.

Finding:

Only minor further settlements have been made during 2009/10, but the Council kept a single status liability provision of around £1.25 million and single status reserve of around £13.3 million at the balance sheet date. Notes 29 and 30 of the financial statements describe the provision and reserve.

I am satisfied the provision and reserve are fairly stated and the distinction between

them is correct and accords with the requirements of FRS 12 - provisions and contingencies.

Recommendation

R13 Establish processes to review works funded from PFI life cycle costs to decide whether it is correct to capitalise the expenditure in line with existing financial reporting requirements.

Accounting practice and financial reporting

- 24** I consider the non-numeric content of your financial reporting.
- 25** As part of my work I undertake an overall review of the financial statements. This is an efficient way of assessing whether the financial statements are internally consistent, meet disclosure requirements and are consistent with my expectation based on my knowledge of the audit. I use this review to plan and inform my detailed testing of the financial statements. The greater the disclosure in the financial statements the more assurance I can take from my overall review. This year I fed back to the Council the overall review could be improved by full disclosure of movements on the capital adjustment account and revaluation reserve. The Council has, in response to this, included full disclosure of movements on these reserves as part of an updated Note 30 to the financial statements. The disclosure included by the Council goes beyond minimum requirements.
- 26** Under Section 75 of the National Health Service Act 2006, National Health Service (NHS) bodies and local authorities can form partnership arrangements for lead commissioning, integrated provision of services and pooled budgets. The Council is involved in a number of these joint arrangements with local NHS bodies. Note 7 to the financial statements sets out details of these. The accounting entries for the pooled budgets are complex and partly reliant on information prepared and provided by NHS partners. The pooled budgets should be accounted for as JANEs under the requirements of FRS 9. This requires each of the pool partners to account in its financial statements for its own share of pool income, expenditure, assets, liabilities and cash flows.
- 27** My work in this area has identified some weaknesses in governance and accounting arrangements for pooled budgets.
- The pooled budget agreements for some of the adult and social care pooled budgets, and the children and young people's trust pooled budget, are unsigned, do not relate to the period of account and refer to Section 31 of the NHS Act 1999 rather than Section 75 of the NHS Act 2006. The Council's own annual governance statement recognises this.

Financial statements

- None of the partners in the pooled budgets in which the Council participates are accounting for the pooled budgets as JANEs. This does not comply with FRS 9, and will not comply with International Accounting Standard 31 from 2010/11. This has resulted in non-trivial errors in the Council's balance sheet - see paragraph 14 and unadjusted misstatements at Appendix 3. Each partner is simply accounting for its own contribution to the pooled budget which potentially undermines any intended risk sharing arrangements as part of the pools.
- Accounting timetables are not aligned across the partners. Health partners are required to produce financial statements to an earlier timetable than in local government.

See recommendation 14.

- 28** The Chancellor of the Exchequer announced in his emergency budget on 22 June 2010 the consumer prices index rather than the retail prices index is the basis for estimating future public sector pension increases. Under FRS 21 - events after the balance sheet date - the financial impact of this change should be disclosed as a non-adjusting post balance sheet event. The Council, in consultation with the actuary, has disclosed the estimated fall of 19 per cent or £64.85 million in its net pension liability because of this change at note 33 to the financial statements.
- 29** As part of my work I noted that one of the Council's valuers undertaking fixed asset valuations was not a qualified member of the Royal Institute of Chartered Surveyors (RICS). Although the work of this valuer was subject to proper supervision and review, both the Council and the Local Government Statement of Recommended Practice (LGSORP) require a RICS qualified professional to undertake all fixed asset valuations. **See recommendation 15.**
- 30** In previous years the Council accounted for voluntary-aided schools on its balance sheet based on a consideration of the risks and rewards of ownership under FRS 5 - reporting the substance of transactions. The Council has reviewed whether this approach remains correct judged against IFRIC 12, which applies to the 2009/10 financial statements. The Council's conclusion is that voluntary-aided schools fall outside the scope of IFRIC 12. The Council has therefore continued to account for voluntary-aided schools based on its assessment under FRS 5. I am satisfied with this approach. The Council will, however, need to reconsider whether this approach remains appropriate when IFRS apply in full from 2010/11. **See recommendation 16.**
- 31** There were a small number of minor disclosure errors in the financial statements presented for audit. Table 3 sets these out in more detail.

Table 3 Disclosure errors in the financial statements

Item of account	Description of error and value	Amendment made
Cash Flow Statement (CFS).	'National Non-Domestic Rates (NNDR) payments to the national pool' and 'NNDR receipts' were disclosed as separate lines within the revenue activities section of the	Yes

Item of account	Description of error and value	Amendment made
	CFS. These values should have been netted-off and disclosed as 'other liquid resources' within the management of liquid resources section of the CFS. Only the NNDR cost of collection allowance should remain in the revenue activities section.	
Housing Revenue Account (HRA) Note 1 - Housing Stock.	The Council disclosed the vacant possession value of its HRA dwellings as required by the LGSORP. The date of the valuation was disclosed as at 31 March 2010 rather than the actual date of valuation of 1 April 2009.	Yes
Core financial statements Note 9 - Members' Allowances.	There was a minor difference of around £6,600 between members' allowances disclosed as paid in the financial statements and the amount disclosed as paid on the Council's website. The figure disclosed in the financial statements has been amended so it includes members' allowances scheme allowances only, and now agrees to the website disclosure.	Yes
Explanatory foreword.	The explanatory foreword disclosed that savings of over £12 million had been delivered in 2009/10. The actual savings delivered was around £10 million.	Yes

Recommendation

R14 Improve accounting and governance arrangements for pooled budgets. Specifically:

- ensure that pooled budget agreements are up to date, refer to the correct enabling legislation and are signed by all partners to the agreement;
- from 2010/11 account for pooled budgets under the requirements of IAS 31; and
- align accounting timetables so IAS 31 requirements can be complied with by pool partners across health and local government.

R15 Ensure that all Council valuers certifying fixed asset valuations are qualified member of the Royal Institute of Chartered Surveyors.

Financial statements

R16 Continue to consider whether it remains correct for voluntary-aided schools to be accounted for on the Council's balance sheet in the 2010/11 financial statements when International Financial Reporting Standards apply in full.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the use of resources judgement.

Value for money conclusion

- 32** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5. I have summarised my key findings and conclusions for the criteria in paragraphs 34 to 44 below.
- 33** I intend to issue an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Managing Finance

- 34** The Council continues to plan its finances effectively. Its financial plans are informed by good stakeholder consultation which it uses to agree spending priorities and shape financial plans. The Council links its annual budget to detailed directorate service plans and medium term plans include realistic and prudent forecasts of future income and expenditure. Expected cuts in public sector funding are included in medium term spending plans which set challenging but manageable limits for individual directorate spending. These include savings of £12.3 million in the 2010/11 budget. During 2009/10 the Council reviewed its treasury management strategy and has repaid £30 million of medium and long-term debt to secure annual savings of £1.2 million. It has also reviewed those organisations to which it is prepared to lend money in the current economic climate. These measures contribute to the Council's current sound financial standing and its ability to manage spending within available resources.
- 35** The Council is responding well to the need to secure financial savings but more needs to be done in this area. It has a good track record of improving efficiency. Since 2007/08 it has completed value for money reviews in all key services which have delivered significant savings without having a damaging effect on service performance. Senior managers regularly review relative costs against performance and take action to address high spending services. Budget reporting is clear, timely and focused on risk areas and, where overspending is forecast, remedial action is prompt and effective. However, considerable challenges remain. Overall costs exceed the national average and budget shortfalls are forecast in both 2011/12 and 2012/13. In response to this, the Council is reviewing its approach to service delivery and intends to introduce more strategic commissioning of services.

Value for money

36 Financial reporting arrangements are good. The Council prepared its 2009/10 financial statements in line with statutory requirements and to a good standard. They were also supported by good working papers. The Council has a clear plan for implementation of International Financial Reporting Standards (IFRS) as the basis of preparation for its 2010/11 financial statements. Members also understand the impact of IFRS implementation. There has, however, been some slippage against the Council's project plan in this area and successful implementation remains a key challenge for Finance. Financial information such as the audited accounts, annual report and annual audit letter is available to the public on the Council's website. Internal financial monitoring and reporting information is of a good standard overall. Members receive regular budget monitoring reports which summarise current expenditure as well as estimating the position at the end of the financial year. Officers provide detailed explanations of variations which are clear and easy to understand. Where necessary, senior managers take prompt and effective action to tackle potential overspends.

Governing the Business

37 The Council has a clear vision for the future of the city. This vision provides good direction about how the Council will work in the future and describes the Council's aim to develop a strategic commissioning role in partnership with other service providers. Currently, however, this joint strategic approach to commissioning is at an early stage. There are some examples of successful joint projects, such as delivering services for the supporting people initiative and pooled budget arrangements in social care, but overall there is not yet a consistent and systematic approach across all areas.

38 Procurement practices are satisfactory. Procedures to secure compliance with European Union procurement directives, contract standing orders, financial regulations and codes of conduct are routinely followed and all capital expenditure proposals must be supported by a comprehensive business case. The Council keeps a contract register to manage existing contracts but does not use this to identify opportunities to negotiate council-wide contracts for similar services or joint procurement with partners. Officers responsible for buying goods and services have a good understanding of the local market. Contracts include provisions to promote community well-being and sustainability, although the Council has yet to support the voluntary sector actively to create social enterprise initiatives agenda.

39 The Council produces high quality performance reports covering all key services. Data quality spot checks have confirmed that performance indicators are based on good quality data which is processed accurately. Specifically our testing has shown improvement in the quality of data on performance against the decent homes standard (DHS), which was the key area of weakness in my 2008/09 assessment. An important aspect of the improvement has been in the way the Council oversees performance of its housing repairs and maintenance contractor. As a result the Council can accurately gauge progress towards its target of securing compliance with the DHS by the end of 2013.

40 Performance monitoring is good. Cabinet considers performance reports each quarter. These reports are very comprehensive and include all relevant background information, performance and financial information, as well as outlining legal, equality, sustainability and city-wide implications. The reports also refer to partner organisations

where relevant and carry good quality narrative describing benchmarking and baseline evaluations. Information is well presented, easily understood and uses a traffic light system to show direction of travel for each indicator. This enables Cabinet to take better informed decisions and to support measures being taken to improve performance for those services that are not achieving targets.

- 41** Governance arrangements at the Council are sound. Following a review of governance arrangements in 2008/09, the Council has implemented improvements. The Chief Executive has developed positive relationships with all members and provides clarity about the respective roles and responsibilities of officers and members. The Council is working hard to make scrutiny more effective. It has introduced tripartite meetings between scrutiny chairs, cabinet members and directors. This has resulted in more policy development items being brought to scrutiny. In addition individual training for members and targeted training for some chairs and deputies is being provided. There is good induction and training programme for members and protocols for dealing with issues of ethical standards and conduct are generally effective. There are positive working relationships between the Council and its partners.
- 42** The Council has continued to strengthen its risk management arrangements. The corporate risk register is regularly reviewed and detailed response plans are in place for individual risks. There are good arrangements to identify fraud and errors highlighted from National Fraud Initiative data and other counter fraud and corruption arrangements are in place. No significant instances of fraud have been identified during the year. The Council has an effective Internal Audit function. The Audit Committee oversees the implementation of measures to tackle shortcomings and provides positive challenge. The overall financial control environment is sound with no significant internal control issues.

Managing Resources

- 43** Asset management arrangements for Council assets other than housing are good. The Council has a well-established database of information that summarises the condition, energy use, maintenance requirements and revenue costs of each of its properties. It uses this information to secure good value for money from these properties and is addressing outstanding maintenance. In contrast only 60 per cent of council dwellings met the Decent Homes Standard at the end of 2009/10. The Council is tackling this and aims to achieve full compliance by the end of 2013.
- 44** 2009/10 is the first year that workforce planning has been assessed at unitary authorities, and the Council is performing adequately. It has a good track record of developing staff and recruiting and retaining good people. However, despite achieving Investors in People accreditation, there are no effective council wide procedures in some important activities. Examples include workforce planning, where workforce plans are being developed as part of the service planning process - absence management, where sickness levels remain high and personal performance management where not all staff benefit from formal appraisals.

Glossary

Annual governance statement

45 A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

46 A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

47 On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.
-

Qualified

48 The auditor has some reservations or concerns.

Unqualified

49 The auditor does not have any reservations.

Value for money conclusion

50 The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Brighton & Hove City Council, for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and 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. These accounting statements have 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance & Resources and auditor

The Director of Finance & Resources’ responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements 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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

I review whether the 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 accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks

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

and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. 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 accounting statements. My responsibilities do not extend to any other information.

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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’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 accounting statements 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 accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Authority’s Responsibilities

The Authority 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.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 October 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 ended 31 March 2010.

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, Bicentennial House, Southern House, Chichester, West Sussex PO19
8EZ

29 September 2010

Appendix 2 – Amendments to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 4 Amendments to the draft accounts

Item of account	Description of error
<p>Statement of Total Recognised Gains and Losses (STRGL).</p> <p>Note 2 to the Core Financial Statements - Prior Period and Exceptional/Extraordinary items.</p>	<p>Total recognised gains and losses disclosed in the STRGL did not agree to the movement in net worth between the 2007/08 and 2008/09 balance sheets. The difference related to an error in the disclosure of the prior period adjustment for the surplus on revaluation of PFI fixed assets.</p> <p>Impact on the STRGL: The 2008/09 comparative disclosure of the total recognised loss for the year was understated by £415,000. The 2008/09 comparative disclosure of the surplus arising on the revaluation of fixed assets was overstated by £415,000.</p> <p>Impact on Note 2: The 2008/09 comparative disclosure of the total recognised loss for the year was understated by £415,000. The 2008/09 comparative disclosure of the surplus arising on the revaluation of fixed assets was overstated by £415,000.</p>
<p>Note 15 to the Core Financial Statements - Summary of Capital Expenditure and Fixed Asset Disposals.</p>	<p>During the period the Council correctly reversed a prior year impairment of council dwelling values in the balance sheet to reflect increases in property prices during 2009/10. There were mis-classifications in the disclosure of this impairment reversal at Note 15 to the financial statements which shows in year movements in the Council's operational assets.</p> <p>Impact on Note 15: Impairments of the book value of council dwellings were overstated by approximately £12.5 million. Reversal of past impairments of the book value of council dwellings was overstated by approximately £12.5 million. The reversal of accumulated depreciation brought forward of approximately £12.5 million was originally mis-classified.</p>

Appendix 2 – Amendments to the draft accounts

Item of account	Description of error
Note 42 to the Core Financial Statements - Financial Assets and Liabilities - Financial Instruments	<p>As part of my work I challenged the Council's approach to identifying trade debtors and creditors that should be classified as financial assets and liabilities in the disclosure of financial instruments at Note 42 of the financial statements.</p> <p>Impact on Note 42:</p> <p>Trade debtors classified as financial assets were understated by approximately £14.2 million. Trade creditors classified as financial liabilities were understated by approximately £5.7 million.</p>

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5 Unadjusted misstatements in the accounts

Item of Account	Description of error
Children and Young People's Trust (CYPT) Pooled Budget.	<p>The CYPT pooled budget is not being accounted for in the financial statements as a joint arrangement that is not an entity as is required by FRS 9. The Council's share of pooled budget debtors, creditors and imputed cash are therefore not completely disclosed in the Balance Sheet.</p> <p>Impact on the Balance Sheet: Creditors are understated by £1,467,000 Debtors are understated by £960,000 Imputed cash is understated by £507,000.</p>
Adults and Older People Pooled Budget.	<p>The Adults and Older People pooled budget, which is hosted by Brighton & Hove Primary Care Trust, is not being accounted for in the financial statements as a joint arrangement that is not an entity as is required by FRS 9. The Council's share of pooled budget debtors, creditors and imputed cash have been omitted from its Balance Sheet</p> <p>Impact on Balance Sheet: Creditors are understated by £197,000 Debtors are understated by £61,000 Imputed cash is understated by £136,000.</p>

Appendix 3 – Unadjusted misstatements in the accounts

Item of Account	Description of error
<p>Income and Expenditure Account - net cost of services / net operating expenditure.</p>	<p>The Council holds approximately £179 million of investment properties which it classifies as non-operational assets on its balance sheet. Income and expenditure related to those investment properties is currently accounted for within the Council's net cost of services disclosed in the Income and Expenditure Account. This is not correct as the assets are non-operational and therefore do not contribute to service delivery. Income and expenditure should properly be classified as relating to a trading operation and disclosed as part of the Council's net operating expenditure. The net value of this misclassification in the Income and Expenditure Account is £2.4 million.</p> <p>Impact on Income and Expenditure Account: Net cost of services is understated by £2.4 million.</p>

Appendix 4 – Uncertainties in the accounts

Table 6 Uncertainties in the financial statements

Item of account	Description of uncertainty
Fixed Assets - Balance Sheet value and depreciation charge to the Income and Expenditure Account.	Approximately £9 million (gross book value) of fixed assets are fully depreciated but still in use. These assets have a useful life on the Council's asset register of five years, but remain in use after eight years. I have undertaken work to estimate the possible impact of this finding on the financial statements. From this I have concluded that depreciation charged on these assets was over-stated by a maximum of £675,000 a year in years one to five of the assets' lives, and was under-stated by a maximum of £1.125 million a year in years six to eight of the assets' lives. I am therefore satisfied that this has no material impact on the financial statements.
Housing Revenue Account and Income and Expenditure Account - council dwelling rental income.	I noted weaknesses in the Council's cut off arrangements to ensure that income and expenditure is accounted for in the correct financial year. Although 52 weeks of council dwelling rental income has been accounted for the value disclosed in the 2009/10 financial statements includes two days from the end of the 2008/09 financial year, and excludes three days from the start of the 2009/10 financial year. I have calculated the maximum possible error in the financial statements based on the information available. I estimate this to be approximately £806,000. I am therefore satisfied that this has no material impact on the financial statements.
Balance Sheet - net pensions liability and reserve.	The estimated fair value of pension contributions made by the Council in respect of unfunded benefits, which were considered by the pension fund actuary in its valuation of pension fund assets and liabilities, was understated by approximately £1.15 million. An accurate estimate was passed by the Council to East Sussex County Council, as the administering authority for the pension fund, but this was not considered by the actuary. This has partly contributed to a difference arising between the value of the net pension liability and reserve shown in the

Appendix 4 – Uncertainties in the accounts

Item of account	Description of uncertainty
	<p>Council's closing balance sheet and the valuation of the net pension liability and reserve shown in the actuary's report. The difference between the net pension fund liability and reserve in the Council's balance sheet and actuaries report is £3.3 million, and therefore is not material. I am also satisfied that the actuary's valuation of the net liability will not have been materially affected by the understatement of the estimate of pension contributions made by the Council in respect of unfunded benefits.</p>

Appendix 5 – Draft 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 be undertaken of all properties in preparation for the implementation of the new IFRS accounting standards for the 2010/11 accounts.

Supporting records

51 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.

Appendix 5 – Draft letter of representation

Fair Values

52 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.

Appendix 6 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	N/A
Strategic asset management	Yes
Workforce	Yes

Appendix 7 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2009/10 - Recommendations					
9	R1 Continue to review the investment property portfolio to decide whether all assets are non-operational, or whether some of those assets support the service or wider strategic objectives of the Council.	3	Head of Central Financial Services/Principal Accountant – Central Accounting	Yes	A review is underway as part of the IFRS implementation for the restatement of the 2009/10 accounts.	December 2010
9	R2 Review the accuracy of asset lives on the fixed asset register to ensure they reflect the true useful life of all fixed assets.	2	Head of Central Financial Services/Principal Accountant – Central Accounting	Yes	A process of reviewing asset lives will be discussed, agreed and implemented with relevant officers. It should be noted that because of the size of the council's asset base a rolling programme approach is likely to be	December 2010

Appendix 7 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R3 Ensure that an accurate estimate of contributions for unfunded benefits is provided to the actuary. This will need to be done in consultation with East Sussex County Council as the administering authority for the pension fund.	3	Head of Central Financial Services/Principal Accountant – Central Accounting	Yes	adopted. Discussions are underway between the council and ESCC as the administering authority to ascertain the information produced and supplied to the actuary.	October 2010
10	R4 Undertake reasonableness checks on the valuation of the net pension liability received from the actuary before entries are processed in the financial statements. If estimated contributions differ from the year-end actual consider the reason for the difference, and any impact on the actuarial valuation of the pension liability, before it is disclosed in the financial statements.	3	Head of Central Financial Services/Principal Accountant – Central Accounting	Yes	Additional procedural guidance will be drawn up following discussion with ESCC as the administering authority for the pension fund. A more comprehensive review of the pension costs will be carried out as part of the 2010/11 timetable.	October 2010
12	R5 Ensure that all documentation supporting changes in the payroll database is	1	Head of People Central, Human Resources	Yes	We accept that this has been an ongoing problem that has made it difficult for audit assurance to be given	March 2011 (or earlier if additional resource is

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	properly completed, authorised and filed.				on the end to end process of paying staff. All procedures are being reviewed as part of the implementation of the new HR/Payroll system and improved controls will be implemented as part of this process.	identified)
12	R6 Keep evidence that the payroll 'unactioned changes report' is reviewed and cleared for each payroll run.	3	Head of People Central, Human Resources	Yes	This control measure will no longer be required when the new iTrent system is fully operational for payroll in November as the audit functionality with the software will track users initiating and authorising changes to the system. A final check of the old TeamSpirit system will be completed before the end of the financial year to ensure that every change on the system has been	November 2010

Appendix 7 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R7 Ensure that an appropriate senior manager checks and authorises any changes to payroll system parameters.	1	Head of People Central, Human Resources	Yes	actioned and evidenced. This is a standard procedure that happens every year but could not be evidenced at the time of audit. However in subsequent discussions with the Audit Commission we confirmed that the new system was run in parallel for a period of time and that for each payroll run a selection of manual gross to net calculations are performed and evidenced to aid payroll accuracy. We were advised that these could constitute appropriate controls.	Immediately
12	R8 Undertake accuracy checks for National Non-Domestic Rates rate relief adjustments, systematically and regularly throughout the year. Evidence	3	Revenues & Benefits Manager	Yes	The audit checks were re-established after the audit visit. There is now a stock of completed checks and they are undertaken	Implemented

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	of checking should be kept.				regularly.	
12	R9 Ensure that manual journals are formally checked and approved.	2	Acting Assistant Director Financial Services & Financial Services Management Team	Yes	There are other safeguarding control measures; however, a review of current procedures will be taken.	December 2010
12	R10 All new providers on the Carefirst systems should be supported by correctly approved documentation.	1	Ambrose Page, Contracts Manager	Yes	This will continue to be standard practice. A concern arose due to a performance issue regarding a particular staff member, who is no longer undertaking the same duties.	Implemented
12	R11 Require all schools to send a monthly financial return. This will allow the Council to undertake and evidence a monthly reconciliation of income and expenditure between the school monthly return and the general ledger.	3	Head of Business Engagement 2 – CYPT & Environment	Partial	Following discussions with Internal Audit, we have put in place a system of quarterly reconciliation whereby all schools are requested to provide the schools finance team with a full Authority Financials to	Implemented

Appendix 7 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					FMS (i.e. the schools system) every quarter. It is considered that a quarterly reconciliation to be a satisfactory control measure.	
12	R12 Introduce a check of monthly invoices produced from the accounts receivable system by the Financial Information Services team to ensure they are complete.	1	Head of Central Financial Services/Principal Accountant – Income & VAT	No	The FIS team who produce the invoices are now located and sited together with the Central Collection team. Reasonableness checks are undertaken in terms of the number of invoices expected.	n/a
16	R13 Establish processes to review works funded from PFI lifecycle costs to decide whether it is appropriate to capitalise the expenditure in line with existing financial reporting requirements.	3	Acting Assistant Director Financial Services in liaison with Heads of Financial Services and Strategic Finance	Yes	A review of the accounting treatment will take place.	October 2010
18	R14 Improve accounting and governance	2	Acting Assistant Director Financial	Yes	A full review of the accounting and governance	December 2010

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<p>arrangements in respect of pooled budgets. Specifically:</p> <ul style="list-style-type: none"> ensure that pooled budget agreements are up to date, refer to the correct enabling legislation and are signed by all partners to the agreement; from 2010/11 account for pooled budgets in accordance with the requirements of IAS 31; and align accounting timetables so that IAS 31 requirements can be complied with by pool partners across health and local government. 		Services		arrangements will be carried out by the Acting Assistant Director of Financial Services and relevant Heads of Financial Services in discussion with other relevant council officers and health partners, in preparation for the 2010/11 accounts production.	
18	R15 Ensure that all Council valuers certifying fixed asset valuations are qualified member of the Royal Institute of Chartered Surveyors.	3	Assistant Director Property Services	Yes	Relevant officers will be reminded of the requirement	September 2010
19	R16 Continue to consider whether it remains appropriate for voluntary aided schools	2	Head of Central Financial Services/Principal	Yes	This will be considered as part of the IFRS implementation for the	December 2010

Appendix 7 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	to be accounted for on the Council's balance sheet in the 2010/11 financial statements when International Financial Reporting Standards apply in full.		Accountant – Central Accounting		restatement of the 2009/10 accounts.	

The Audit Commission

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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