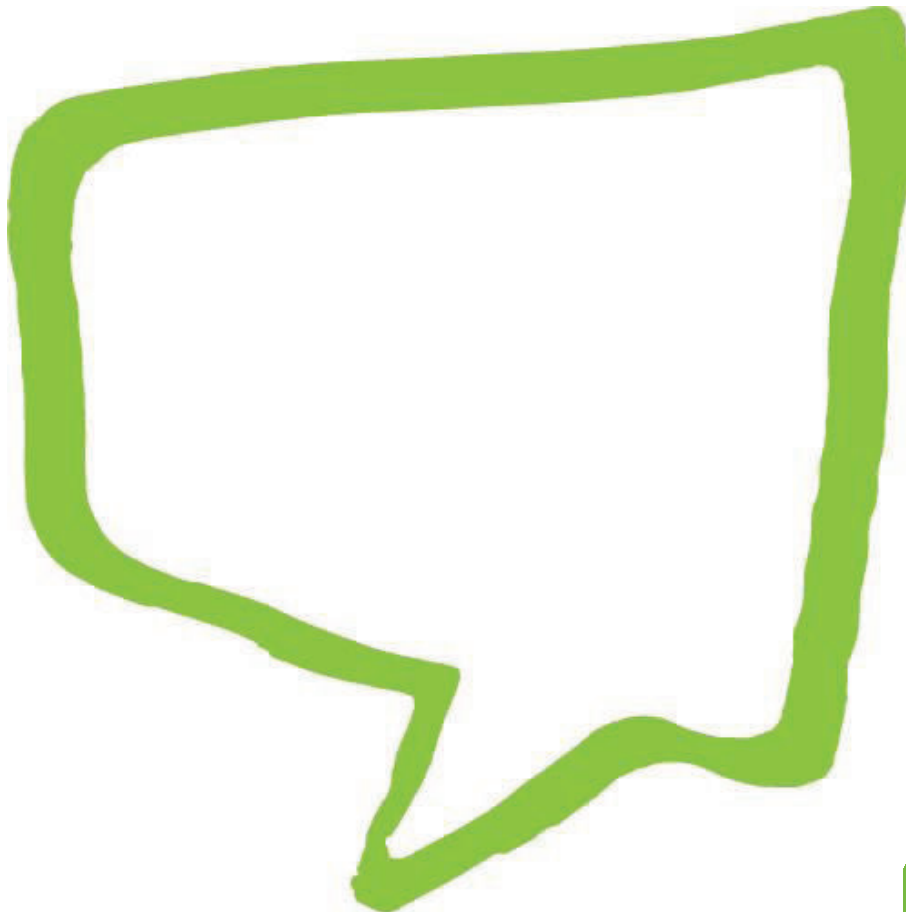

Assurances to support the financial statements 2008/09

Brighton & Hove City Council
May 2009



Summary report

Introduction

- 1 External auditors are required to conduct their audit under the framework of the International Standards on Auditing (ISA). In several instances these standards require auditors to seek information formally from officers, which is coordinated through the Director of Finance & Resources, and 'those charged with governance' which are members of the Council's Audit Committee.
- 2 ISA260 details those matters that require us to request formal responses from officers and the Committee. With reference to the Committee we are specifically interested its views on the nature, extent and likelihood of any significant internal and external operational, financial, compliance or other risks facing the Council which might have an impact on the financial statements.
- 3 Other ISAs provide further detail to auditors on these key areas for consideration:
 - ISA 240 (The auditor's responsibility to consider fraud in the audit of financial statements);
 - ISA 250 (Consideration of laws and regulations in an audit of financial statements); and
 - ISA 570 (Going concern).
- 4 The following sections set out a summary of these three ISAs and set out the matters that the Committee should consider formally before responding to us as your external auditors. Details of the information we are seeking from officers is also provided for your information. Following the Committee's consideration of the matters below, the Chair is requested to write to the District Auditor setting out the Committee's views.

Fraud

- 5 To support our opinion on the financial statements we are required to obtain information under ISA 240:

From the Audit Committee

- a description from the Committee of the way it exercises oversight of management's processes for identifying and responding to the risks of fraud, and how the internal control framework established by management has mitigate those risks; and
- whether the committee has any knowledge of any actual, suspected or alleged fraud affecting the Council.

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From officers

- an assessment of the risk that the financial statements may be materially misstated due to fraud;
- a description of management's processes for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified, or account balances, classes of transactions or disclosures in which a risk of fraud is likely to exist;
- officers' communication, if any, to the Committee regarding its processes for identifying and responding to the risk of fraud;
- officers' communication, if any, to employees regarding its views on business practices and ethical behaviour; and
- officers' knowledge of any actual, suspected or alleged fraud. Main conclusions

Laws and regulations

- 6 Under ISA 250 we are required to obtain an understanding of the legal and regulatory framework under which the Council operates:

From the Audit Committee

- an understanding of whether the Committee is on notice of any such possible instances of non compliance with laws or regulations.

From officers

- an understanding of the procedures followed by the Council to ensure compliance with laws and regulations.

Going concern

- 7 The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts. It is a key concept in the preparation of the financial statements and further information on the concern as this applies to the Council is shown at Appendix 1. Under ISA 570 we are required to obtain:

From the Committee

- 8 an explanation of the means by which the Committee satisfies itself that:
- the going concern basis should be used in preparing the financial statements; and
 - the financial statements contain such disclosures, if any, relating to going concern as are necessary for them to present fairly the financial position of the Council as its year end.

From officers

- an assessment of the Council's ability to continue as a going concern.

Conclusion of the audit of the financial statements

- 9 Before we issue our audit opinion on the Council's financial statements for 2008/09, which is expected in September 2009, we will request a letter of representation from the Council. This letter should be signed by the Chair of the Committee after it has been considered formally by the Committee and by the Director of Finance & Resources. As part of this process it is expected that members and officers will consider the responses given at the start of the audit and update them as required.

Appendix 1 - Accounting concept of going concern

Background

The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is, the basis on which those assets and liabilities are recorded and included in the accounts). The going concern assumption is a fundamental principle in the preparation of financial statements, under which an entity is ordinarily viewed as continuing in business for the foreseeable future. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium and long term liabilities would become short term liabilities.

Councils are required to prepare their accounts in accordance with the relevant accounting rules, which are set out in the Accounting Standards Board's Financial Reporting Standards (FRSs), as interpreted by the relevant statement of recommended practice for local authority accounting (the SORP). The requirement to prepare accounts on a going concern basis is set out in FRS18: Accounting Policies, paragraphs 21 and 23 of which state:

"An entity should prepare its financial statements on a going concern basis, unless:

(a) the entity is being liquidated or has ceased trading; or

(b) the directors have no realistic alternative but to liquidate the entity or to cease trading,

in which circumstances the entity may, if appropriate, prepare its financial statements on a basis other than that of a going concern."; and

"When preparing financial statements, members should assess whether there are significant doubts about an entity's ability to continue as a going concern."

How is this applicable to councils?

In preparing their accounts in accordance with the SORP, councils must consider whether the going concern assumption is appropriate. This is generally dealt with as the annual budget is approved (Section 25 statement).

The role of those charged with governance

When approving the accounts, those charged with governance will need to consider which of the following three basic scenarios is the most appropriate:

- the body is clearly a going concern and it is appropriate for the accounts to be prepared on the going concern basis;
- the body is a going concern but there are uncertainties regarding future issues which should be disclosed in the accounts to ensure the true and fair view; or
- the body is not a going concern and the accounts will need to be prepared on an appropriate alternative basis.

To enable those charged with governance to do this, management will need to report to them the process it has followed in forming a view on going concern and the assumptions on which that view is based. Those charged with governance should, where appropriate, challenge those assumptions, particularly where they are aware of any significant issues that do not appear to have been taken into account.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

