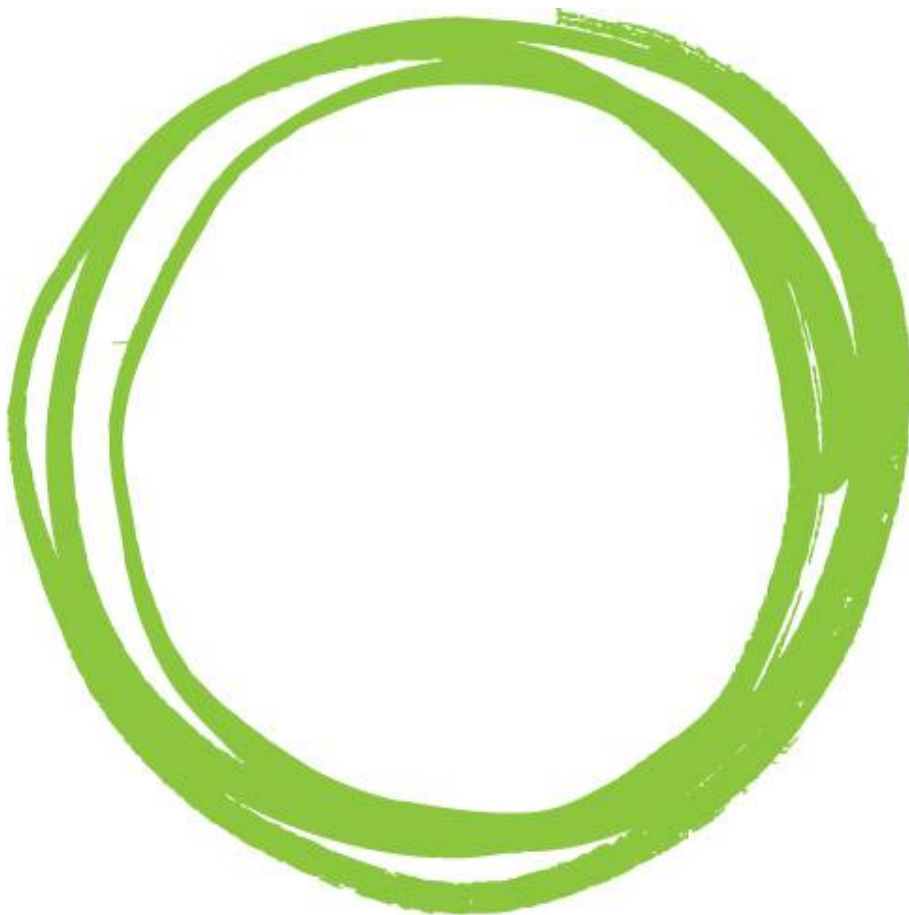


Annual Governance Report

Brighton and Hove City Council

Audit 2007/08

September 2008



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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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Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.
- 3 At this time some work needs to be finalised and we will update the Audit Committee verbally at their meeting on 30 September 2008. The main areas are:
 - we are awaiting information from the external auditors to the East Sussex Pension Fund on Financial Reporting Standard 17 which relates to some entries in the Council's accounts; and
 - our work on the conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial statements

- 4 We expect to issue an unqualified opinion on the financial statements.

Value for Money

- 5 We expect to issue an (to be advised) conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Next steps

- 6 We ask the Audit Committee to:
 - consider the matters raised in the report before approving the financial statements;
 - agree to adjust the financial statements as set out in our recommendations;
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
 - agree the proposed action plan.

Financial statements and Annual Governance Statement

- 7** The Council's financial statements and Annual Governance Statement (AGS) are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and AGS. It is therefore important that you consider our findings before you adopt the financial statements and the AGS.
- 8** In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 9** In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 10** In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1. This table includes the areas where there are risks of mis-statement specifically identified in the original and supplementary audit plans and arising from:
- the previous years audit,
 - key areas of judgement such as contingent liabilities,
 - changes to the Statement of Recommended Practice, and
 - control weaknesses identified in our work on material systems.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>The risk that the quality of the Council's financial statements and supporting statements would not meet our needs. Based on the previous set of financial statements produced for 2006/07, the quality of the statements and associated working papers was below the standard expected in some areas and officers recognised that improved arrangements were needed. This risk also applied to the Whole of Government Accounts (WGA) pack.</p>	<p>A significant improvement in the quality and completeness of the financial statements and associated working papers has been noted.</p>
<p>The risk that the Council may not fully comply with changes to the Statement of Recommended Practice (SoRP) for the 2007/08 accounts in relation to accounting for premia on debt restructuring. These changes give rise to some complex calculations of the value of loans and require judgement as to whether loans are replacements or new transactions.</p>	<p>We have been pleased to note that these complex issues have been dealt with well by the Council. We liaised with officers in advance of the accounts being prepared regarding the new requirements.</p>
<p>The risk that the Council may not fully comply with recommended accounting practice and guidance with respect to accounting for financial instruments. There is a new requirement under the 2007 SoRP for a detailed note to the accounts on financial instruments.</p>	<p>Our audit work has confirmed that the Council had prepared accounting entries and a note to the statements that are comprehensive and SoRP compliant. However a related entry to the Statement of Recognised Gains & Losses was technically incorrect and has been amended. Appendix 2 - Adjusted mis-statements records this.</p>

Issue or risk	Finding
<p>The risk that the Council may not fully comply with recommended accounting practice and guidance with respect to accounting for fixed assets. The SORP requires changes to fixed asset accounting with effect from 1 April 2007.</p> <p>The Fixed Asset Revaluation Account and Capital Financing Account have been replaced by the Revaluation Reserve and Capital Adjustment Account. This gives rise to risks in both accounting treatment and presentation.</p>	<p>The Council has dealt with the new requirements appropriately but there was a technical error amounting to £24,197k which has been amended. The error had no impact on the net worth of the Council and is described in Appendix two - Adjusted mis-statements.</p>
<p>The risk that fixed assets were not correctly included in the financial statements. Our work last year found that the fixed asset register was not reconciled to the property database system. This meant that the Council could not be certain that all of its land and buildings assets were correctly included within its financial statements.</p>	<p>Over the last two years, officers have undertaken a review of the property database against the fixed asset register which is now complete. However, whilst we have satisfied ourselves that the financial statements are materially correct, we have identified errors in the recording of fixed assets which impacts on the financial statements. See Appendix 2 - Adjusted mis-statements and Appendix 3 - Unadjusted mis-statements.</p>
<p>The risk that the disclosures relating to the dedicated schools grant are not fairly stated. The Dedicated Schools Grant note to the financial statements is complex.</p>	<p>Our review of the note and supporting working papers confirmed that it is SoRP compliant and fairly stated.</p>
<p>The risk that unauthorised starters and leavers, and payroll changes could be input to the payroll system.</p> <p>In prior years, we have relied on a control in the payroll system, whereby payroll officers have checked starters, leavers and changes to source documentation independently of the Human Resources officers initiating the documentation before making them live records on the system. Our work concluded that the controls operating needed enhancing.</p>	<p>We undertook extended substantive testing and concluded that the risk of a material mis-statement is acceptably low. However, this constitutes a serious weakness in internal control and the existence of a fraud risk. We have raised this as an internal control matter at paragraph 20 below.</p>

Financial statements and Annual Governance Statement

Issue or risk	Finding
<p>The risk that year end debtors and creditors figures reported in the financial statements did not agree with the Council's underlying records. The year-end debtors and creditors control accounts were not fully reconciled to the general ledger at the 2006/07 final accounts audit.</p>	<p>Our work this year concluded that the figures in the financial statements are materially correct and agree to underlying records. In conjunction with Internal Audit we confirmed that whilst there were still small differences on these reconciliations, they related mainly to the transfer of data to the new systems in 2006 and current transactions are being fully reconciled.</p>
<p>The risk that journals were raised inappropriately impacting on the accuracy and completeness of accounting information. At the 2006/07 final accounts audit we reported that some journals were processed without adequate narrative to explain the purpose of the journal entry.</p>	<p>Our audit work in 2006/07 identified that there was inconsistency across the Council in the authorisation, supporting documentation and narrative associated with journal entries. We undertook an additional substantive test of in-year journals to complement our testing of material year end journals and concluded that based on the sample tested the arrangements have improved.</p>
<p>The risk that the costs relating to the waste PFI may be incorrectly accounted for. An indemnity relating to building costs incurred by the waste PFI scheme contractor has been given as the planning permission for the energy from waste recovery facility in Newhaven has been subject to legal challenge. The accounting treatment of the indemnity needs to be finalised.</p>	<p>Having held several discussions with officers, we are satisfied with the proposed approach taken by officers. However, our final view cannot be given until we give our audit opinion as the situation could change in the interim. We will confirm our view to the Audit Committee at its meeting in September 2008.</p>
<p>The risk that the Council may inappropriately account for related party transactions. In 2006/07 not all of the required related party returns were obtained by the Council.</p>	<p>There has been a significant improvement in the timeliness of responses from both members and officers. We have also been provided with clear and comprehensive documentation of the process of identifying related party transactions from declared interests.</p>
<p>The Council may not fully comply with the requirement to publish an Annual Governance Statement. The Annual Governance Statement has broader coverage than the previous Statement on Internal Control.</p>	<p>The Council has responded well to the much broader requirements of the Annual Governance Statement although we asked the Council to make some minor amendments to the wording. The details are set out in Appendix 2 - Adjusted mis-statements - Table 5.</p>

Draft representation letter

- 11** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you have approved the financial statements;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
 - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 12** We have identified one matter on which we need a specific representation from you. The land on which the Brighton Centre is built was valued by an external valuer employed by the Council at £3.5 million. However the Council's valuer reviewed this and decided that the value was understated and should remain at its current book value of £10 million which is the amount included in the financial statements. We request that you review the reasons for the use of £10 million and inform us of your decision as to the value to be included in the statements and set out the reasons why within the Letter of Representation.
- 13** Appendix one contains the draft of the letter of representation we seek from you.

Recommendation

R1 Whilst we acknowledge the expertise of the in house valuation team we would suggest that they ensure that there is a fully documented audit trail for any similar situations where a consultants valuation is overruled in the future in order to mitigate any uncertainty that may arise.

Accounting policies and financial reporting

14 We considered the qualitative aspects of your financial reporting and have not identified any significant issues to raise with you.

Errors in the financial statements

15 We identified six errors in the financial statements (other than those of a trivial nature) and reported these to management on an ongoing basis. These are detailed in Appendix two. Management has agreed to adjust the financial statements for the errors identified except for the items shown at Appendix 3.

16 The unadjusted mis-statements detailed in Appendix three relate mainly to a group of fixed assets which had not been valued within the obligatory five year cycle and a small group of these properties were not included in the fixed asset register. We acknowledge the work that has been undertaken by the capital accounting and estates teams over the past year in reconciling the asset register and property database which enabled us to conclude that the fixed assets in the balance sheet, although understated by a significant amount, were not materially mis-stated.

17 Officers have indicated that they do not wish to amend the financial statements for these errors and a number of recommendations flow from our findings in this area of the audit.

Recommendations

R2 The Council must ensure that it values properties within the five year cycle required by the SoRP and that assets under construction are valued when they are completed and brought into use.

R3 The reconciliation between the fixed asset register and the property database should be regularly reviewed to ensure both remain up to date and in agreement.

R4 A formal system of information sharing should be introduced to ensure that the HRA asset register, the property database and the housing rent system (OHMS) are kept up to date in respect of properties sold demolished and introduced. Housing stock numbers are used in a range of areas including accounting, rent collection, maintenance programmes, performance indicators and the housing subsidy grant claim and it is crucial that each of these areas is using the latest information.

R5 The fixed asset register should be updated during 2008/09 for the errors identified in our audit work and valuations should be completed for those properties that have not been revalued within the five year cycle.

The audit report

18 We plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 4 contains a copy of our draft report.

Material weaknesses in internal control

19 We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.

20 We would bring to your attention, however, the following two internal control weaknesses.

- In prior years, we have relied on a control in the payroll system, whereby payroll officers have checked starters, leavers and changes to source documentation independently of the Human Resources officers who initiate them before making them live records on the system. Our work revealed that this control was no longer operating and Human Resources officers can create live records on the payroll system without any documentation, authorisation or independent check. To address this we undertook extended substantive testing and concluded that the risk of a material mis statement was acceptably low. However, the lack of an independent check of starters, leavers and changes constitutes a serious weakness in internal control and a fraud risk. We consulted with the Head of Internal Audit and can confirm that our findings in relation to the payroll system are consistent with those of Internal Audit.
- There is, for a number of material financial systems, an increasing reliance on budgetary control as a key internal control to address accuracy and classification of transactions. Whilst we recognise that this may be an efficient route for the Council, we could see no evidence of any testing having been undertaken to ensure that budgetary control is effective as a key control over error. Through other audit work we have been able to conclude that the risk of material error is acceptably low in respect of transactions arising through the material financial systems. However, in 2008/09 we would like the Council to provide evidence that budgetary control arrangements are operating as intended and do provide assurance over fraud and error.

21 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made.

Recommendations

R6 The controls in the payroll system should be strengthened by ensuring that there is a separation of duties to mitigate the risk of fraud and error.

R7 The Council should provide evidence in future years to confirm that the key controls in the budgetary control system are effective. This work should be undertaken after discussions with us as your external auditors to ensure that we can place reliance upon the work to be undertaken.

Financial statements and Annual Governance Statement

Other matters

22 There are no other matters that auditing standards require me to report to you.

Value for money

- 23** We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported by the Audit Commission.
- 24** We have assessed the arrangements of the Council as adequate (to be confirmed) in all 12 areas and we therefore propose to issue an (to be confirmed) conclusion.

Formal audit powers

25 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

26 We have not, and do not propose to exercise these powers.

Independence

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

Relationships with the Council

- 30** We have identified no relationships that might affect objectivity and independence.

Audit fees

- 31** We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports the outturn fee against that plan.

Table 2 Audit fees

	Plan 2007/08	Estimated 2007/08
Financial statements and Annual Governance Statement	£153,500	£153,500
Value for Money	£95,620	£95,620
Whole of Government Accounts	£3,100	£3,100
Data Quality	£18,250	£18,250
National Fraud Initiative	£1,050	£1,050
Total Audit Fees	£271,520	£271,520
Other work	£13,000	£13,000

Independence

- 32** The analysis above shows that we expect to contain our audit fee within the totals you have already agreed.
- 33** Under the Audit Commission's advice and assistance power, we undertook a review of Special Education Needs. The fee for this work is shown under other work in Table 2 above.

Our arrangements to ensure independence and objectivity

- 34** We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 3.

Table 3 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none">do not hold a financial interest in any of our audit clients;may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; andmay not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none">the general requirement to carry out work independently and objectively;safeguarding against potential conflicts of interest;acceptance of additional (non-audit) work;rotation of key staff;other links with audited bodies;secondments;membership of audited bodies;employment by audited bodies;political activity; andgifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Letter of representation

Helen Thompson
District Auditor
The Audit Commission
The Agora,
Ellen Street
Hove BN3 3LN

Brighton & Hove City Council - Audit for the year ended 31st March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other members and 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 31st March 2008.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the Appendix 3 - Table 6 to the Annual Governance Report 2007/08 are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows:

reason 1;
reason 2

I also confirm that the value of land on which the Brighton Centre stands is correctly recorded at £xxx in the financial statements. This has been done after considering both the initial valuation received by the Council and the advice of its own professionally qualified valuer. The reason for this is xxxx

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.

Appendix 1 – Letter of representation

Specific representations:

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 members meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided 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

Contingent liabilities

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

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

Law, regulations, contractual arrangements and codes of practice

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

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

The body 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.

Assets

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

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

Irregularities

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

Post balance sheet events

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

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete stock and no stock is stated at an amount in excess of net realisable value.

Appendix 1 – Letter of representation

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of Brighton & Hove City Council

Name

Section 151 officer

Date

Name

Chair of Audit Committee

Date

Appendix 2 – Adjusted misstatements

- 1 The misstatements in Table 4 were identified during the course of our audit of the financial statements and have been adjusted by management. These represent the more significant issues. We bring them to your attention to assist you in fulfilling your governance responsibilities. We have not reported items that are clearly trivial (ie less than £500k).
- 2 Table 5 sets out other significant matters raised with the Council relating to the statements which have been amended.
- 3 The Council has agreed to a number of other amendments to the statements to improve the disclosure of information to comply with SoRP. These issues are less significant and have not been reported in this report. Full details of all matters arising will be reported in our final accounts memorandum which we will issue by 31 October 2008.

Table 4 Adjusted misstatements

Issue	Value £000	Impact
The Revaluation Reserve was understated because depreciation had been transferred to the Capital Adjustment Account in error.	24,197	Although this is a material amount, neither the error nor its correction had any impact on the net worth of the Council.
In the cash flow statement there was a mis classification of grant expenditure. This error was identified by officers prior to the commencement of our audit.	532	The cash inflows and outflows totals in the cash flow statement were adjusted by this figure as well as note 53 detailing grant income. There was no impact on the Income & Expenditure account or the general fund balance.

Appendix 2 – Adjusted misstatements

Table 5 Other matters resulting in amendments to the financial statements

Issue	Value £000	Impact
The statement of accounting policies stated that no significant estimations had been used in preparing the accounts.	N/a	Both depreciation and the bad debt provision are material estimations and officers agreed to include a policy addressing these. This was a text only amendment that had no numerical impact on the accounts.
Our review of the Annual Governance Statement identified references to processes that were not in place in 2007/08 and to sources of evidence that were not readily available on the Council's website.	N/a	Officers agreed to make amendments to the Statement. This was a text only amendment that had no numerical impact on the accounts.
The Statement of Recognised Gains and Losses included an item amounting to £2,054k related to the transitional arrangements for the disclosure of financial instruments.	N/a	According to the SoRP, this amount should have been an adjustment to the opening general fund balance. This required an amendment to the description of this amount and a note at the foot of the Statement of Recognised Gains and Losses describing the cause of the adjustment. Again, this was a text only amendment and had no numerical impact on the statements.

Appendix 3 – Unadjusted misstatements

- 1 The misstatements in Table 6 were identified during the course of our audit of the financial statements and have not been adjusted by management. These represent the more significant issues. We bring them to your attention to assist you in fulfilling your governance responsibilities. We have not reported items that are clearly trivial (ie less than £500k).

Table 6 Unadjusted mis-statements

Issue	Value £000	Impact
<p>We identified a debit balance entitled 'Unidentified income suspense account' and noted that this had arisen from a journal entry that was made incorrectly. This was identified by the officer creating the journal on the following day but it could not be corrected as the closedown arrangements for 2007/08 had stopped any further transactions being processed to that year.</p>	968	<p>Year-end debtors and the bank overdraft were over-stated by this amount. Officers have advised that they do not intend to amend the 2007/08 financial statements for this item but an amendment has been made within the general ledger in 2008/09.</p>
<p>We identified in our work on fixed assets a number of properties that had not been revalued within the five yearly cycle required by the SoRP. Further investigation of these items revealed a range of different errors as follows.</p> <ul style="list-style-type: none"> Two properties that appeared not to have been revalued within five years but on further review it was found that they had been revalued in 2004. Three properties included in the Housing Revenue Account housing stock and in the general fixed asset register. 	<p>0</p> <p>174</p>	<p>Officers have advised that they do not intend to amend the financial statements in respect of these errors but that the fixed asset register will be amended during 2008/09.</p> <p>Fixed assets are overstated by this amount on the balance sheet because these properties are included twice.</p>

Appendix 3 – Undadjusted misstatements

Issue	Value £000	Impact
<ul style="list-style-type: none"> • Two properties that had been revalued within the five year cycle but the valuations had not been applied. • Four newly built or refurbished properties, mainly children's centres, which had not been revalued when completed and brought into use. • Ten properties that had not been valued within the five year cycle as required. 	<p>-1,421</p> <p>-707</p> <p>-662</p>	<p>Fixed assets are understated on the balance sheet by this amount.</p> <p>The in house team were able to provide valuations of these properties during the latter stages of our audit. The balance sheet is understated by these amounts.</p> <p>There is also an impact on depreciation arising from these valuation errors but we have evaluated it as trivial.</p>
<p>Further to the issue detailed above, there are a number of other properties where no valuation has been provided. These are divided into two main categories.</p> <ul style="list-style-type: none"> • 48 Seafront arches are not included in the fixed asset register and have no recent valuations. • 14 properties in Madeira Drive have not been valued within the five year cycle and the in-house team have been unable to provide valuations during the course of our audit. 	<p>-1,577 estimated</p> <p>-311 estimated</p>	<p>We have estimated the amount by which the balance sheet value of fixed assets might be understated by reference to the value of other Seafront arches that are included in the fixed asset register.</p> <p>We have estimated the amount by which the balance sheet value of these properties might have increased had they been revalued within the normal cycle by reference to similar properties that have been revalued.</p>

Appendix 3 – Undadjusted misstatements

Issue	Value £000	Impact
		<p>Both of these amounts are estimates of the possible understatement of fixed assets in the financial statements and aggregated with the other valuation errors above give a total of £4,504k. Whilst this is a significant amount, we are satisfied that the fixed asset balance is not materially misstated.</p>

Appendix 4 – Report of the auditor

Independent auditor's report to the Members of Brighton & Hove City Council

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Brighton & Hove City Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund¹ 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 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Director of Finance and Resources and auditor

The Director of Finance and Resources' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial 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 Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 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 financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks 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 Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword and the content of the Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority 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 Authority 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 Authority 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 Authority 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 Authority accounting statements and related notes.

Opinion

In my opinion:

The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 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 specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the 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 December 2006, I am satisfied/not satisfied (to be confirmed) that, in all significant respects, Brighton & Hove City Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 21 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

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
The Agora,
Ellen Street,
Hove,
BN3 3LN
[Date]

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, covering the £180 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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