

Annual governance report

Brighton & Hove City Council

2010/11



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■ Red ◆ Amber ● Green

Key messages

This report summarises the findings from the 2010/11 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.

	Traffic light
Unqualified audit opinion	●
Adequate arrangements to secure value for money	●

Audit opinion and financial statements

My audit of the financial statements is currently ongoing. As at 15 September 2011 the following areas of work are outstanding:

- final evidence for 1 item out of a sample of 42 payroll items tested has not yet been received; and
- work on your whole of government accounts return has not yet been fully completed.

I plan to issue an unqualified opinion on the financial statements.

The financial statements you submitted for audit were of a good standard and were supported by good quality working papers. In 2010/11 local government financial statements were required to be produced under International Financial Reporting Standards (IFRS) for the first time. Re-stating the accounts to comply with the requirements of IFRS is a complex task, which has caused significant difficulties for a number of local government bodies. My review has shown that your work to produce IFRS compliant financial statements was comprehensive, well planned and well supported. This meant that you were able to prepare good quality financial statements that met the requirements of IFRS with little slippage against your planned timetable.

Your internal financial control arrangements are sound except for the control environment within the two payroll systems operated in the year. I have raised recommendations for improvement where I have identified areas where weaknesses in the design or operation of controls exist.

Value for money

My detailed work to inform my value for money conclusion is now complete. I intend to issue an unqualified conclusion stating you have proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

You responded well to the need to make cuts to both current and future year budgets without any significant short term impact on planned services or your high level priorities. However, you face significant challenges if you are to successfully deliver your medium term budget strategy. You plan to call on reserves to cover the transitional costs of changing the way you operate and managing the short-term impact this change has on services. I am satisfied that the planned use of reserves is prudent, but it is essential that your plans are successfully delivered if you are to achieve your balanced budgets and maintain sound financial standing. Your move to an intelligent commissioning operating model provides a mechanism through which further improvements in value for money can potentially be secured, particularly through better needs assessment and joining up service delivery across traditional boundaries. Where there is already an established commissioner / provider split you have been able to show that financial and performance management arrangements are operating effectively. There is, however, a continued need to further develop financial and performance modelling and forecasting to inform commissioning decisions.

You can demonstrate that your value for money programme is delivering improvement, and the programme has prompted service managers to challenge traditional ways of working to improve value for money. However, your overall costs remain relatively high. Given that, and the significant financial challenges you face over the medium term, it is essential that the implementation of the planned programme of value for money improvements is accelerated.

Before I complete my audit

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified one threat to independence. The spouse of one of my team working on the audit of the financial statements is an employee of the Council working in the highways department. I took steps to ensure that the member of my team did no work directly relating to the highways department or payroll to reduce this threat to an acceptably low level.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Council for a fee of £4,000. We reviewed the relative impact of public sector cuts on employment in Brighton & Hove and the potential affects on the Council's economic development plans.

I ask you to confirm to me

I ask the audit committee to:

- 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, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion (Appendix 6); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

Opinion

I plan to issue an unqualified opinion on the financial statements. The draft financial statements submitted for audit were of a good quality and were supported by good quality working papers. Your arrangements to produce IFRS compliant statements were sound and only a relatively small number of errors were detected as part of my work.

Opinion on the financial statements

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

I detected a relatively small number of errors during the course of the audit that I am required to draw to your attention. Full details of the errors that have been corrected during the course of the audit are set out in Appendix 2. Full details of errors that management has declined to correct are set out in Appendix 3.



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.

In planning my audit I identified significant and specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Significant risk

1. Implementation of IFRS

Local government financial statements must fully comply with IFRS in 2010/11 for the first time. The implementation involves fundamental changes and there are several specific areas where misinterpretation of the standards could result in material misstatement.

Due to the complexity of the changes involved I consider this to be a significant risk area. I have therefore tested whether your financial statements comply in all material respects with the requirements of IFRS.

Finding:

Your work to produce IFRS compliant financial statements was comprehensive, well planned and well supported by good quality working papers. This allowed my team to undertake a large proportion of the audit of the IFRS restatement exercise in advance of the fully restated accounts being produced. It also allowed you to prepare good quality financial statements that met the requirements of IFRS with little slippage against the planned timetable. Re-stating the accounts to comply with the requirements of IFRS is a complex task, which has caused significant difficulties for many local government bodies. Both the level of disclosure and size of financial statements have increased significantly because of the introduction of IFRS. For example, your accounts have increased by approximately 50 per cent in length compared to the previous period. You have therefore performed well in producing good quality financial statements which comply with the requirements of IFRS in accordance with your planned timetable. Central Finance officers worked well with my team and were responsive to queries raised throughout the year, and I am grateful for their help.

Financial statements

Key audit risks and our findings *continued*

Specific risks

Finding:

2. Voluntary aided schools

You have needed to review the accounting treatment adopted for voluntary aided and voluntary controlled schools following the introduction of IFRS.

I have reviewed the accounting treatment adopted in the financial statements for voluntary aided and voluntary controlled schools to ensure it meets the requirements of accounting standards.

You have removed all voluntary aided schools, apart from some school playing fields, from the balance sheet in 2010/11. I am satisfied this is the correct accounting treatment.

As part of the Building Schools for the Future programme you have constructed new premises at Falmer High School. The Falmer Academy premises opened in September 2010 and include a combination of existing buildings as well as new build accommodation. Since September 2010 the existing school has been leased to Brighton Aldridge Community Academy. Works required to complete the new academy will continue on to February 2012. I have reviewed the judgements you have made and proposed accounting treatment you have adopted in respect of this matter. I am satisfied that it is correctly accounted for in your financial statements.

3. Private Finance Initiative Assets

Your joint waste management scheme with East Sussex County Council is a complicated contractual arrangement. The accounting treatment is also complex and transactions have an impact on the comprehensive income and expenditure account and balance sheet.

You dealt well with the detailed changes to accounting requirements affecting 2009/10. I have engaged a technical specialist to attend

I am satisfied that you have accounted for your joint waste management scheme with East Sussex County Council correctly in the financial statements.

In my 2009/10 AGR I reported that I was aware of a complaint to the European Commission from a local elector at East Sussex County Council about changes to the waste management contract. I liaised with the auditor of East Sussex County Council on the matter and was satisfied that no

meetings with officers from both councils during 2010/11 and have ensured that accounting entries in the 2010/11 financial statements are in line with my expectations and with relevant accounting standards.

further disclosure was required in the Council's 2009/10 financial statements on this issue.

I have continued to liaise on this matter with the auditor of East Sussex County Council during 2010/11. I am now satisfied that the European Commission has decided to close the case against all parties and that this is properly disclosed at note 27 to the financial statements on contingent liabilities and contingent assets.

4. Restructuring

You have started significant restructuring to move to an intelligent commissioning operating model to commission services based on need. This has included a realignment of portfolios and directorate structures.

I am satisfied that the cost and other financial impacts of restructuring are correctly reflected in the financial statements.

I have considered whether the financial statements correctly reflect the financial impacts of the restructuring.

5. Pensions Fund

As part of the audit of the 2009/10 financial statements I identified a cumulative difference of £3.3 million between the net pension liability and reserve reported in your balance sheet and the balance shown in the actuary's report. This occurred because of a difference between the contributions for unfunded benefits you paid and the figure used in the actuarial report.

You received further information on this issue from the East Sussex Pension Fund very close to your deadline for production and approval of the draft financial statements. You disclosed a non-adjusting post-balance sheet event at note 6 to the accounts based on the information received. This disclosure confirmed that there were historic errors in the split of responsibility for contributions for unfunded benefits between the Council and East Sussex County Council. These errors had resulted in differences between the actuary's initial assessment of the pension liability and associated entries which had been accounted for in the financial statements, and the amounts that should be accounted for based on the correct split of responsibilities for contributions for unfunded benefits.

I wrote to the auditor of the East Sussex County Council Pension Fund asking for specific work to be undertaken to examine the reason for the difference.

Further consideration of this issue by your officers and my team revealed that the historic errors in the split of employer contributions between the

Council and East Sussex County Council extended to both unfunded and funded benefits. An updated assessment of the Council's pension liability and associated entries in the financial statements was therefore requested from the actuary.

As the conditions giving rise to this issue existed at the balance sheet date it should be accounted for as an adjusting, rather than non-adjusting, event under IAS 10. The actuary's revised assessment of the pension liability and associated entries in the financial statements has therefore now been fully reflected in the audited financial statements and general ledger, both for the year of account and previous year. See amendments to the draft financial statements set out at appendix 2.

6. Payroll

My work to document and walkthrough your new Midland iTrent payroll system showed that design of the control environment had improved compared to the outgoing system. I therefore planned to test and rely on controls in the new payroll system to gain assurance in relation to expenditure generated by the system. I relied on Internal Audit testing of controls in the new payroll system. The work has shown that I am not yet able to rely on the operation of controls in the new payroll system. This is because not all controls are operated consistently and insufficient evidence is retained for some controls to show the control has been operated. This issue is considered in more detail in the section of my report below dealing with significant weaknesses in internal control.

I have therefore needed to gain assurance in this area through a substantive approach.

I have substantively tested payroll expenditure and am satisfied that it is correctly reflected in the financial statements. However, you had significant difficulties in locating records to support the expenditure tested, which caused delays in finalising the audit. This difficulty in locating supporting records was caused by:

- a backlog in scanning payroll records and other supporting documentation into your Idox electronic document management system; and
- operational pressures within your People Centre caused by the implementation of the Midland iTrent payroll system and the relatively high level of complexity of your payroll.

This difficulty in locating supporting records is consistent with my findings when I have substantively tested payroll expenditure in previous periods and highlights the weaker control environment in payroll compared to your other main financial systems. Given the high level of expenditure generated by the payroll system this needs to be addressed. I have raised a recommendation to improve the control environment in payroll in the section of my report where I consider significant weaknesses in internal control.

Financial statements

Significant weaknesses in internal control

Your internal financial control environment is adequate overall. However, my work on your major financial systems identified a relatively small number of areas of weaknesses in the design or operation of controls. In particular, further work is required to ensure the effective operation of controls in your new payroll system.

I have sought to co-ordinate my work to test financial controls with that of Internal Audit to maximise efficiency and minimise any duplication of effort. Where I sought to rely on the work of Internal Audit that work was delivered on time and to an acceptable standard.

The reliable operation of controls in all larger financial systems provides assurance to management and members, and also allows me to complete my audit more efficiently. Where weaknesses in internal control have been identified I was not able to rely on the operation of controls to gain assurance for my audit opinion. I therefore needed to take a more time consuming substantive approach. This was particularly true for the work I undertook to gain assurance on expenditure generated by the two payroll systems which you operated during the year.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness

Payroll

You implemented a new Midland iTrent payroll system during the year. My work to document and walkthrough the system showed that controls had been established in the system that were capable of preventing and detecting material misstatement. However, when tested it

Potential effect:

The control weaknesses identified create a risk that:

- Expenditure generated by the payroll system is not correctly classified on the

Management action:

Management action needs to continue to be taken to improve the internal control environment within the Midland iTrent payroll system.

See recommendation 1

became clear that not all controls are operated consistently and insufficient evidence is retained for some controls to show the control has been operated. Specifically:

- The payroll section undertook sample checking of the input of starters, leavers and changes to details on the new system. Although evidence was retained for the check of starters and leavers, no evidence was retained for the checking of changes.
- The payroll section undertook a sample check of temporary changes on the new system. The desired level of checking was not achieved and sufficient evidence was not always retained to demonstrate that the checks were actually undertaken.
- The old and new payroll systems were run in parallel for a proportion of the year as a check on the accuracy of new system outputs. Where discrepancies were noted it was not clear that corrections were checked to ensure that errors were not repeated

general ledger.

- Expenditure generated by the payroll system is not accurately recorded on the general ledger.
- The payroll system transactions recorded on the system have not actually occurred or do not relate to the Council.

Journals processed on the general ledger

Manual adjustment journals processed on the general ledger are not always subject to formal checking and authorisation. Staff are able to both raise and authorise journals processed on the general ledger.

I raised similar weaknesses in journal controls as part of my 2009/10 annual governance report.

Weaknesses in the internal control environment for journals create a risk that income and expenditure is misclassified on the general ledger.

Ensure that manual adjustment journals are formally checked and approved by an appropriate officer separate to the raiser of the journal.

See recommendation 2

Treasury management

Investment and loan details on the general ledger are being reconciled to third party data on a regular basis. However, due to staff shortages, reconciliations were not being authorised by an officer separate to the preparer.

The introduction of proper separation of duties to ensure that the reconciliation is authorised by an officer separate to the preparer would strengthen the control.

Ensure that treasury management reconciliations are authorised by an appropriate officer separate to the reconciliation preparer.

See recommendation 3

Accounts payable

Although I have material assurance from the operation of controls within accounts payable, you are not effectively using the commitment accounting element of the system. This repeats a finding of Internal

The failure to use the commitment accounting element of the accounts payable system makes financial forecasting, and

Make full use of the commitment accounting element of the accounts payable system.

Audit from its review of the accounts payable system.

processes to accrue income and expenditure, more difficult and time consuming.

See recommendation 4

Accounts receivable

The operation of two controls relating to periodic income in the accounts receivable system cannot be evidenced. This is because the controls are performed on-screen and no record is retained of the check undertaken. Specifically:

- Invoice generation control reports are not always authorised to evidence they have been checked.
- Evidence was not always retained to demonstrate that exception reports had been reviewed and cleared.

Although there is evidence that these controls have operated effectively during the period I have not been able to rely on them as evidence is not always retained to support their operation.

Ensure that evidence is retained to support the operation of all controls within the accounts receivable system.

See recommendation 5

IT control environment

As part of my work on the financial statements I undertake a risk assessment of your IT control environment. In doing this I have identified a small number of weaknesses. Although I am satisfied they are not capable of leading to material misstatement of the accounts I wish to bring them to your attention:

- No documented business continuity

There are the following potential effects of the specific weaknesses in the IT control environment:

- Delays in undertaking business continuity and disaster recovery testing of

Address the weaknesses identified in the IT control environment. Specifically:

- Undertake planned business continuity and disaster recovery testing in a timely manner.

or disaster recovery procedure was seen and evidenced as part of my work. No record is available that operating system software and key application systems have been fully restored from backup media in the year.

- Windows AD password policy should be further strengthened by increasing the minimum password length and reducing the number of incorrect attempts possible.

your network reduce the level of assurance that your network could be recovered in the event of a disaster.

- Inadequate access controls to the network creates data security and associated reputational risks.

- Ensure that access controls to your network are adequate.

See recommendation 6

Financial statements

Quality of your financial statements

The Council's financial statements were of a good quality and were supported by good quality working papers. In particular, you have coped well with the requirement to produce statements that comply with IFRS for the first time. I have identified a relatively small number of qualitative aspects of your financial reporting that I wish to draw to your attention.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue

There were a relatively small number of rounding, internal consistency, casting and disclosure errors in the draft financial statements.

I am satisfied that these errors were made in the process of producing the financial statements and are not caused by underlying accounting errors.

Findings and recommendations:

- There was a minor rounding error in the narrative on capital expenditure in the explanatory foreword.
- There were minor rounding errors on the face of the cash flow statement.
- There were some minor errors in a table disclosed as part of note 2 to the financial statements showing the effect of the transition to IFRS on the comprehensive income and expenditure statement as at 31 March 2010. There were some other errors in the numeric disclosures within the narrative section of note 2.
- Note 4, which sets out the critical judgements and assumptions made in preparing the statement of accounts, did not originally include any disclosure of your assumptions underpinning the financial models for your private finance initiative schemes.
- There were some errors in the disclosure of capital grants and contributions applied for 2009/10 and 2010/11 in note 10 showing adjustments between accounting basis and funding basis under regulations within the movement in reserves statement.
- There were rounding and casting errors in the table at note 17

showing 2010/11 movements in property, plant and equipment. There were rounding errors in the table at note 17 showing 2009/10 movements in property, plant and equipment.

- Note 20 on intangible assets did not cast.
- There were minor errors in note 22 on leases and lease type arrangements which affected 2010/11 and 2009/10 disclosures. The errors were caused by a transposition mistake and affected disclosure in the note only. Correct amounts were processed on the general ledger and accounted for in the comprehensive income and expenditure statement.
- There were minor rounding, casting and text disclosure errors in note 23 on private finance initiative and similar contracts.
- There was a minor error in the disclosure of the adjustment made for the difference between fair value depreciation and historical cost depreciation in the revaluation reserve disclosure at note 26.
- Additional narrative was added to the related parties disclosure at note 28 to make clear that the Council provided chief financial officer and other financial services to South Downs National Park Authority (SDNPA) during 2010/11. I note that the Council did not actually make any payments to SDNPA during the year.
- There were errors in the table at note 36 showing the reconciliation of departmental income and expenditure for the deficit on the provision of services disclosed in the comprehensive income and expenditure statement. These errors meant that the table at note 36 did not fully agree to the disclosure on the face of the income and expenditure statement itself. The errors were misclassifications between income and expenditure and had no overall impact on the integrity of the reconciliation as a whole.

The financial statements have been amended in respect of these findings.

There was also misclassification of internal recharges relating to financing and investment income and expenditure in the

comprehensive income and expenditure statement. The financial statements have not been amended in respect of this finding which I consider further in Appendix 3.

Pooled budgets

Under Section 75 of the National Health Service (NHS) Act 2006, NHS bodies and local authorities can form partnership arrangements for lead commissioning, integrated provision of services and pooled budgets. You are involved in a number of these joint arrangements with local NHS bodies. The accounting entries for pooled budgets are complex and partly reliant on information provided by NHS partners. The pooled budgets should be accounted for as joint ventures under International Accounting Standard (IAS) 31. This requires each of the pool partners to account for its own share of pool income, expenditure, assets and liabilities. As part of my work in this area I noted the following issues:

- None of the partners to the children and young people's trust pooled budget, which you host, account for it as a joint venture under IAS 31. You prepare a closing balance sheet for the children and young people's trust pool but a conscious decision is taken by the partners to the pool not to make adjustments to balance sheet entries in each body's statement of accounts. This has resulted in non-trivial errors in your balance sheet – see unadjusted misstatements set out at appendix 3.

The financial statements have not been amended in respect of this finding.

- None of the partners to adult social care pooled budgets, some of which you host, account for them as a joint venture under IAS 31. Closing balance sheets are prepared by you and Brighton & Hove Primary Care Trust but a conscious decision is taken by the partners to the pool not to make adjustments to

balance sheet entries in each body's statement of accounts. This has resulted in non-trivial errors in your balance sheet – see unadjusted misstatements set out at appendix 3.

The financial statements have not been amended in respect of this finding.

- You intend to work with your partners to draft new agreements for the children and young people's trust and adult social care pools which allow for ongoing revision to how financial risks are shared. It is intended that the agreements will also consider the planned abolition of primary care trusts after 2012/13, and the likely future commissioning arrangements in the NHS.

See recommendation 7

There were some minor disclosure errors in the reporting of pooled budget and partnership arrangements at Note 9 to the financial statements.

Disclosure in the financial statements has been amended in respect of this finding.

Statement of accounting policies

Minor changes were made to the statement of accounting policies in the following areas to ensure that the stated policy fully disclosed the actual policy you applied:

- The de minimis level for recognition of land and building assets.
- Disclosure of your bank overdraft.



Housing benefit grant income

Text in the statement of accounting policies was also amended so that it referred to the Accounts and Audit Regulations 2011 rather than 2003.

As part of my work to review revenue grant income I considered the year end reconciliation of housing benefit grant income to the general ledger. I also reviewed adjustments made to the general ledger following the reconciliation. I found that adjustments made overstated income and expenditure in the other housing services line in the comprehensive income and expenditure statement.

The process for the year end reconciliation of housing benefit grant income to the general ledger and making related adjustments could be simplified and should be reviewed to ensure that it does not result in the overstatement of other housing services income and expenditure in the financial statements.

Officers are reviewing the current year end reconciliation process so that this issue is addressed. A decision has been undertaken to not make adjustments to the general ledger or statement of accounts until this exercise has been completed.

See recommendation 8

Financial statements



Letter of representation

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 6 contains the draft letter of representation.

Value for money

Value for money conclusion

I have concluded that you had proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I therefore intend to issue an unqualified value for money conclusion.

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating you had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion

1. Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Findings:

To assess your arrangements to secure financial resilience I specifically considered:

- the changes you made to your 2010/11 budget as a result of in-year funding reductions;
- the changes made to the 2011/12 budget to accommodate continued reductions in funding following the comprehensive spending review (CSR). In particular I considered the realism and achievability of those changes; and
- the impact of funding reductions on your priorities.

I have also considered your intention to move to an intelligent commissioning operating model as part of my work in this area. To do this I reviewed financial governance arrangements in adult social care,



where there is an established commissioner / provider split.

In my work to consider changes to budgets I found that:

- You planned well for in-year cuts in funding, including undertaking scenario planning prior to CSR. Despite reductions in funding exceeding expectations you were able to respond quickly to make the necessary in-year cuts and revise the 2011/12 budget. The achievement of the 2011/12 budget will, in part, be dependant on the achievement of significant savings. Schemes are in place to secure these savings, although detailed plans did not always yet exist at the time of my review.
- You plan to call on earmarked reserves to cover the transitional costs of changing the way you operate and managing the short-term impact this change has on services. I am satisfied that you have undertaken work to satisfy yourself that plans to release some previously earmarked funds are prudent. However to deliver your financial strategy in the medium term and maintain sound financial standing you will need to secure reductions in spending through value for money improvements.
- Funding reductions have been accommodated in budgets without any significant planned short term changes in your high level priorities. This includes your work to ensure that council dwellings meet the requirements of the decent homes standard by the end of 2013.

In my work to consider financial governance arrangements in adult social care, where there is an established commissioner / provider split, I found that:

- Both the commissioner and provider believe that better value

service outcomes can be achieved from the intelligent commissioning model. In particular there is confidence that the model is providing a service that is better aligned to the needs of the individual.

- Financial and performance management arrangements are operating effectively. There is, however, a need to further develop financial and performance modelling and forecasting to better inform commissioning decisions. This is a complex and difficult task. In particular, data to inform the modelling comes from a range of different sources and can therefore be difficult to access and verify.
- The detailed agreement between the commissioner and provider, the compact, provides an explicit link to your overarching priorities and clear accountability for delivery. The control that this provides needs to be balanced against the need to secure improved outcomes and not creating constraints as to how this might be achieved.

Value for money

Value for money conclusion

Value for money criteria and our findings *continued*

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Findings:

To assess your arrangements to challenge how you secure economy, efficiency and effectiveness I:

- audited in detail the savings you reported as achieved from the ongoing value for money programme in adult social care and the children and young people's trust; and
- reviewed your costs using the Audit Commission's value for money profiles, both globally and specifically for the two service areas reviewed in detail.

I found that:

- The reported value for money programme savings in adult social care and the children and young people's trust are supported by evidence. Processes to monitor the achievement of value for money improvements are sound and the actual level of savings achieved exceeded targets for the year in both service areas reviewed in detail. However, further work is needed to completely identify and fully understand how changes made as part of the value for money programme have resulted in cost savings. It is recognised that further improvements in the use of financial and performance data are



essential to gain a better understanding of which initiatives have worked well, and which have worked less well.

- The use of external consultants to inform the value for money programme has been useful in identifying the potential for value for money improvements and suggesting possible changes to commissioning arrangements to achieve this. Although service managers have not always understood at a detailed level how value for money programme targets have been set, external challenge of your traditional approach to budget setting and ways of working has helped to prompt changes. The changes in the service areas considered have focused on better needs assessment, re-ablement and joining up service delivery across traditional boundaries. The introduction of the personalisation initiative in adult social care is a good example of more targeted needs assessment. Systematically linking social work with community services for children provides a good example of better integrated working across departments.
- Overall, your service costs remain relatively high. Although costs are falling, the planned spending per person in both the children and young people's trust and adult social care remain higher than your statistical nearest neighbours. There is, however, evidence for the services considered in detail that areas of higher comparative spending do match your priorities. Given the relatively high level of comparative costs, and the significant financial challenges you face over the medium term, it is essential that the implementation of the planned programme of value for money improvements is accelerated.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. There are no such significant matters.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIGHTON & HOVE CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Brighton & Hove City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement, 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Brighton & Hove City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on the Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Brighton & Hove City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Brighton & Hove City Council 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 Building
Southern Gate
Chichester, West Sussex PO19 8EZ

28 September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Item of Account	Description of error
Primary financial statements and supporting notes.	<p>There were a relatively small number of rounding, internal consistency, casting and disclosure errors in the draft financial statements that have now been corrected. These are explained more fully in the section of my report where I consider the quality of your financial statements.</p> <p>I am satisfied that these errors were made in the process of producing the financial statements and are not caused by underlying accounting errors.</p>
Comprehensive income and expenditure statement.	<p>In 2010/11 approximately £9.5 million of income from capital grants financing revenue expenditure financed from capital under statute (REFCUS) was disclosed in the taxation and non-specific grant income line of the comprehensive income and expenditure statement rather than as part of the cost of services. Capital grant income financing REFCUS of £10.2 million was misclassified in the same way in the 2009/10 comparatives.</p>
Balance sheet	<p>There were historic errors in the split of employer contributions between the Council and East Sussex County Council that were provided to the actuary and used to assess your pension liability. An updated assessment of your pension liability and associated entries in the financial statements has been obtained from the actuary and accounted for in your audited accounts.</p> <p>This resulted in an increase in the pension liability for 2010/11 of £11,008,000 and an increase in the pension liability for 2009/10 of £12,363,000.</p>

Balance sheet.

Comprehensive income and expenditure statement.

Note 17 – Property, plant and equipment.

Note 18 – Investment property.

£351,000 of 2010/11 capital expenditure was accounted for and disclosed as relating to investment properties. This capital expenditure actually related to property, plant and equipment assets. The closing value of investment properties disclosed at note 18 and on the face of the balance sheet is therefore overstated by £351,000 and the closing value of property, plant and equipment assets at note 17 and on the face of the balance sheet is understated by £351,000.

As part of your work to remove assets from your balance sheet where assets are subject to finance leases and you are the lessor you incorrectly impaired one investment property that should not have been written out of your balance sheet. You have made correcting entries in the financial statements and accounting records based on my finding. The impact of the corrections is to reduce expenditure charged to the comprehensive income and expenditure statement by £101,000 and increase the value of investment property assets on the face of the balance sheet and note 18 by £101,000.

A council property with a 2010/11 closing value of £255,000 was re-classified in error during the year from investment properties to property, plant and equipment. The closing value of investment properties disclosed at note 18 and on the face of the balance sheet was therefore understated by £255,000 and the closing value of property, plant and equipment assets at note 17 and on the face of the balance sheet was overstated by £255,000. As the property was re-classified as property, plant and equipment in error it was not revalued. It should have been revalued as an investment property. I have undertaken sufficient work to satisfy myself that this failure to revalue has a trivial impact on the financial statements.

Balance sheet.

Comprehensive income and expenditure statement

Note 17 – Property, plant and equipment.

As part of your 2010/11 fixed asset revaluation programme you correctly reclassified land at the Dome complex and Hove Museum as a community asset. In doing this you also impaired the carrying value of this land to zero. As community assets the value of the land should be accounted for at historic cost.

You have made correcting entries in the financial statements and accounting records based on my findings. The impact of the corrections is to reduce expenditure charged to the comprehensive income and expenditure statement by £3,315,000, increase the value of property, plant and equipment assets on the face of the balance sheet by £3,315,000 and increase the value of community

assets disclosed at note 17 by £3,315,000.

Balance sheet.

Note 17 – Property, plant and equipment.

Note 19 – Assets held for sale.

During 2009/10 you reclassified land in Edward Street as a non-current asset held for sale. During 2010/11 you impaired this land. Although you do intend to sell the land the sale is not expected to be completed until 2015. I disagreed with the categorisation of this land as a non-current asset held for sale based on my consideration of the accounting and disclosure requirements set out in IFRS 5. You have amended the financial statements and accounting records to disclose the land as operational land and buildings within property, plant and equipment in note 17 and on the face of the balance sheet, and to show the impairment as relating to operational land and buildings rather than non-current assets held for sale. The net value of these reclassifications was £7.9 million.

Balance sheet.

Comprehensive income and expenditure statement.

Note 17 – property, plant and equipment.

As part of your work to remove assets from your balance sheet where assets are subject to finance leases and you are the lessor you incorrectly impaired six property plant and equipment assets that should not have been written out of your balance sheet.

You have made correcting entries in the financial statements and accounting records based on my findings. The impact of the corrections is to reduce expenditure charged to the comprehensive income and expenditure statement by £791,000 and increase the value of property, plant and equipment assets on the face of the balance sheet and note 17 by £791,000.

As part of my audit work on property, plant and equipment I found that an asset valuation for part of your land and building assets at Stanmer had been applied in error to the whole of the site. This resulted in an understatement of revaluation gains on buildings and an overstatement of the impairment of land.

You have made correcting entries in the financial statements and accounting records based on my findings. The impact of the corrections is to reduce expenditure charged to the comprehensive income and expenditure statement by £1.8 million and increase the value of property, plant and equipment assets on the face of the balance sheet and note 17 by £1.8 million.

Comprehensive income and expenditure statement.

Note 5 – Material items of income and expense.

A significant impairment of approximately £222 million arose from the change in valuation basis for council dwellings. A significant credit of £82.4 million arose from the decrease in the past service cost in respect of defined benefit pension schemes which is due to this cost now being based on the consumer prices index rather than the retail prices index. The impact of these material items of income and expense were disclosed at note 5 to the financial statements.

International Accounting Standard 1 requires material exceptional items such as this to also be disclosed on the face of the comprehensive income and expenditure statement. You did not initially make this disclosure.

Appendix 3 – Unadjusted misstatements in the financial statements

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 and ask you to correct these misstatements. If you decide not to amend, please tell me why in the representation letter. If you believe the effect 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.

Item of Account	Description of error
Children and young people's trust pooled budget.	<p>The children and young people's trust pooled budget is not being accounted for as a joint venture under IAS 31. The Council's correct share of pooled budget debtors, creditors and imputed cash are therefore not disclosed on the balance sheet.</p> <p>The impact on the balance sheet is as follows:</p> <ul style="list-style-type: none">• creditors are overstated by £340,000;• debtors are overstated by £51,000; and• cash (imputed) is understated by £1,870,000.
Adult and social care trust pooled budgets.	<p>The adult and social care trust pooled budget is not being accounted for as a joint venture under IAS 31. The Council's correct share of pooled budget debtors, creditors and imputed cash are therefore not disclosed on the balance sheet.</p> <p>The impact on the balance sheet is as follows:</p> <ul style="list-style-type: none">• creditors are overstated by £249,000;• debtors are overstated by £1,716,000; and• cash (imputed) is understated by £1,465,000.

Comprehensive income and expenditure statement.

Year end adjustments made to the general ledger to account for housing benefit grant income overstated other housing services gross income and expenditure disclosed in the comprehensive income and expenditure statement by approximately £3 million. This finding had no impact on the net expenditure disclosed or overall financial performance reported.

Officers are reviewing the current year end reconciliation process for housing benefit grant income so that this issue is addressed. A decision has been undertaken to not make adjustments to the general ledger or statement of accounts until this exercise has been completed.

Comprehensive income and expenditure statement

In 2010/11 misclassification of internal recharges resulted in a £3 million overstatement of financing and investment income and expenditure in the comprehensive income and expenditure and an understatement of net cost of services by the same amount. The same misclassification, also with a value of £3 million, has been made in the 2009/10 comparatives.

This finding has no impact on your overall financial performance reported in the comprehensive income and expenditure statement.

Note 17 – Property, plant and equipment.

As part of my work in this area I noted differences in the 2009/10 disclosures of revaluation, impairment and depreciation compared to other disclosures in the financial statements. These differences were caused by inherent errors brought forward from the 2009/10 financial statements.

The gross value of errors relating to revaluation is £323,000. The gross value of errors relating to depreciation and impairment is £259,000. The net impact on the financial statements is £64,000.

Appendix 4 – Glossary



Annual governance statement

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

Audit closure certificate

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Appendix 4 – Glossary



Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Appendix 4 – Glossary



Value for money conclusion

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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. **These** comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 – Action plan

Page no.	Recommendation	Priority	Responsibility	Agreed	Comments	Date
	<p>Recommendation 1</p> <p>Continue to improve the internal control environment within the Midland iTrent payroll system. In particular ensure that all controls are operated consistently and evidence is retained to show that controls have been operated.</p>	3	Head of People Centre	Agreed	The Head of People Centre agrees to the recommendation subject to available resource and the health and wellbeing of the staff undertaking this work	Ongoing
	<p>Recommendation 2</p> <p>Check and authorise manual adjustment journals on the general ledger prior to processing. Ensure there is proper separation of duties in the operation of this control so that staff cannot raise and authorise the same journal.</p> <p>I raised a similar recommendation on journal controls as part of my 2009/10 Annual Governance Report.</p>	2	Head of Financial Services	Partially agreed	Following the 2009/10 accounts closure and the same recommendation in the 2009/10 AGR, journal control and authorisation was discussed by senior officers within financial services; it was agreed that no further controls were necessary and therefore the journal process would remain unchanged. It was agreed that if particular issues came to light then it would be reconsidered for either individual officers or across the board.	March 2012

Development work has taken place to test the journal authorisation facility within the Council's financial system and it can be implemented immediately if required. These decisions have been reviewed and the Council will now introduce an authorisation process for journals which are considered to be high risk or more complex.

Recommendation 3

2

Loans and Technical Manager

Agreed

TBA

Ensure that all treasury management reconciliations are authorised by an appropriate officer separate to the reconciliation preparer.

Recommendation 4

2

Head of Central Financial Services

Agreed

TBA dependent on other developments required across the authority and the level of resources available

Make full use of the commitment accounting element of the accounts payable system.

Commitment accounting is derived from the purchasing system and not the accounts payable system. The council does have commitment accounting in place but this is dependent directly on how officers across the council are using the purchasing system. As a council, we do agree that we need to improve the use of the purchasing system to improve compliance which will lead directly to improvements in

commitment accounting; this is something that officers within financial services have recently been discussing in relation to streamlining the closedown support and implementing intelligent scanning within the accounts payable function. The council is already undertaking work on improving training and guidance documentation in relation to the purchasing system and designing training courses to support this.

Recommendation 5

2

Principal Accountant
(Central Financial
Services – Income,
Banking & VAT)

Agreed

We will start to print and sign the control reports that are automatically emailed with immediate effect.

Immediate

Ensure that evidence is retained to support the operation of all controls within the accounts receivable system, including controls relating to periodic income.

Recommendation 6

2

Head of ICT

Agreed

There is an ICT Business Continuity Plan published on our Sharepoint site and a hard copy is kept by the Service Desk Manager. This needs to be reviewed on a regular basis. It covers the ICT Service Desk which is the central point for managing all ICT incidents.

Some disaster recovery testing does take place. However, there is minimal documentation and no

TBA

Address the weaknesses identified IT control environment. Specifically:

- Undertake planned business continuity and disaster recovery testing in a timely manner.
- Ensure that access controls to the Council’s network are

adequate.

specific plan for all systems. All major ICT systems should be subject to a timetable for annual DR testing and be fully documented.

Agreed

The minimum password length is currently set to 8 alpha numeric, upper and lower case sensitive characters. All user passwords are automatically prompted to be changed after a 90 day period.

TBA

We will investigate the option to reduce the number of attempts to login and the potential impact this may have on both the ICT Service Desk and the business.

Recommendation 7

2

Head of Financial Services

Agreed

Risk provision for 2011/12 has already been agreed across partnerships. Discussions about risk sharing provisions for 2012/13 will be incorporated into the annual budget setting process and timetable.

Sept 2011

You should continue to work with your partners to draft new agreements for the children and young people's trust and adult social care pooled budgets which:

- allow for ongoing revisions to how financial risks are shared between parties to the pools; and
- consider the likely future commissioning arrangements in the NHS following the planned abolition of primary care trusts.

Discussions about partnership arrangements are already ongoing between partners and potential changes to partnership agreements will be finalised when revised arrangements and timescales become clearer.

Ongoing

Recommendation 8

2

The process for the year end reconciliation of housing benefit grant income to the general ledger and making related adjustments should be simplified and reviewed to ensure that it does not result in the overstatement of other housing services income and expenditure in the financial statements.

Principal Accountant
(Integrated Financial
Management and
Planning)

Agreed

A process review of the year end reconciliation of housing benefit grant income will be undertaken.

March 2012

Appendix 6 – Draft letter of management representation

To:

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

Brighton and Hove City Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors 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 31 March 2011.

Compliance with the statutory authorities

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule 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;

Pooled budgets

- The accounting treatment adopted is consistent with that adopted in previous years;
- It matched the practice followed by our partners in the pooled budget arrangement and therefore provides a consistent approach;

Housing benefit grant claim income

- Due to the previous post holder leaving the authority, resources would need to be diverted to complete the housing benefit grant accounting, any changes would not have a material affect on the accounts or impact or impact on the net deficit in the comprehensive income and expenditure statement;
- A full review of the current year end reconciliation process will be undertaken for the 2011/12 accounts.

Property, plant and equipment

- These errors were brought forward from the disclosure note to the 2009/10 financial statements;
- The impact to the 2010/11 statements is not material.

Financing and investment income and expenditure

- This adjustment has no impact on the overall financial performance reported in the comprehensive income and expenditure statement;
- The impact to the 2010/11 statements is not material.

Supporting records

All relevant information and access to persons within the entity has 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 financial statements.

Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Brighton & Hove City Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Brighton & Hove City Council

I confirm that the this letter has been discussed and agreed by the Council on 27 September 2011

Signed

Name: Catherine Vaughan

Position: Director of Finance

Date: 27 September 2011

