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Dear Helen

Re: Understanding how the Audit & Standards Committee gains assurance from management

I refer to your request to formally update your understanding of the Council's management processes and arrangements, in accordance with the International Standards of Auditing. I have provided the following responses to your questions asked.

- 1. How does the Audit & Standards Committee, as 'those charged with governance' at the Council, exercise oversight of management's processes in relation to:**
 - 1.1 Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);**

The Audit & Standards Committee reviews and approves the Annual Internal Audit Strategy and Annual Audit Plan in either March or April of each year. This is based on an assessment of risks that includes the probability and likelihood of fraud and error. The Head of Audit & Business Risk provides regular progress reports to the Audit & Standards Committee at its meetings and will include any increased risk of fraud.

The Council's Strategic Risks and associated Management Action Plans are regularly reviewed by the Audit & Standards Committee and the Council's Risk Management Framework ensures that fraud risk would be escalated through to the Audit & Standards Committee if appropriate.

Meetings between the Chair and the Head of Audit & Business Risk also take place regularly either planned or ad hoc as necessary.

- 1.2 Identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist**

The Audit & Standards Committee reviews and approves the Internal Audit Strategy and Annual Plan, which includes the Counter Fraud Work Programme for the year. The Counter Fraud Work Programme is part of the Council's response to assessed fraud risk.

The Audit & Standards Committee receives regular updates on progress against the Counter Fraud Work Programme with any areas of suspected fraud identified, together with any necessary control measures to be implemented to mitigate the risk of further fraud. Updates are also provided on the implementation of the control improvements.

The Head of Audit & Business Risk informs the Audit & Standards Committee of emerging fraud risks, a recent example being housing tenancy.

1.3 Communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council's code of conduct)

The Council has a Code of Conduct for employees, a copy of which is on the Council's Intranet or a hard copy is made available if no access. It is reviewed and updated on a regular basis to ensure it continues to meet the requirements of the Council. An example of this is a comprehensive set of reports going to the next Audit & Standards Committee and Council on a range of issues around codes of conduct with guidance and protocols to guide employee and member behaviour.

Employees are made aware of the Code of Conduct as part of Induction Training. The Code of Conduct includes a number of modules, including Use of Your Position, Use of ICT Equipment and Political Neutrality. There is also regular training on governance and conduct along with fraud awareness.

1.4 Encouraging employees to report their concerns about fraud; and

The Council has a Whistblowing Policy which is available to all employees. This is promoted to staff as part of Induction and posters and the Council's Intranet has been used.

The Council also subscribe to Public Concern at Work who have provided a further oversight to the process and another channel for employees to raise concerns.

1.5 Communicating to you the processes for identifying and responding to fraud or error?

The Audit & Standards Committee approves the Internal Audit Strategy and Annual Audit Plan that includes an annual Counter Fraud Programme. This contains the processes for identifying and responding to fraud. The Audit & Standards Committee also reviews and recommends update to the Council's Counter Fraud Strategy.

2. How does the Audit & Standards Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

The Council's Counter Fraud arrangements are overseen by the Audit & Standards Committee. The annual Counter Fraud Programme is included in the Internal Audit Strategy and Annual Plan which is reviewed and approved by the Audit & Standards Committee each year. The Annual Plan is reviewed continuously throughout the year and the Audit & Standards Committee is informed and approves any significant changes due to for example escalating fraud risk or poor areas of internal control.

The Audit & Standards Committee receive an annual report and regular progress reports from the Head of Audit & Business Risk that reports significant breaches of internal control and fraud risks.

3. Is the Committee aware of any breaches of, or deficiencies in, internal control; and actual, suspected or alleged frauds during 2012/13?

The Audit & Standards Committee receives an annual report and regular progress reports from the Head of Audit & Business Risk which would include any significant breakdown of internal control and fraud of a material nature if this was to occur. Further details on identified losses and frauds risks can be obtained from the Head of Audit & Business Risk.

4. Is the Committee aware any organisational or management pressure to meet financial or operating targets?

The Audit & Standards Committee receive Council budget monitoring reports at each meeting. As with all councils there are challenging savings targets to reach due to the overall budget position however the committee is not of the view that this is resulting in inappropriate pressure on officers that could have an impact on the financial statements.

5. How does the Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2012/13?

The Audit & Standards Committee declares that it has no knowledge of and is not on notice of any non-compliance with laws and regulations that could impact on the 2012/13 financial statements.

The Audit & Standards Committee relies on a number of methods to gain assurance that all laws and regulations are complied with including:

- From regular contact and reports received from the Head of Audit & Business Risk, in particular his annual and periodic progress reports against the Internal Audit Plan;
- From reports received from the Council's External Auditor;
- There are arrangements in place for legal screening of all decisions coming before any Committee for a decision which is incorporated in the report writing protocol. Lawyers attend all decision-making meetings to advise on the law and procedure. The Audit Committee is aware of these arrangements; and
- Under the new arrangements, the remit of what was an Audit Committee has been expanded to include Standards it is now Audit & Standards Committee.). The Monitoring Officer prepares an annual report to the Audit & Standards Committee, which is also referred to Council for information. This covers an

overview of Compliance with the law, standards of conduct and an overall assessment regarding maladministration.

6. Is the Committee aware of any actual or potential litigation or claims that would affect the financial statements?

The Audit & Standards Committee are not aware of any actual or any actual or potential litigation claims that would affect the Council financial statements aware that officers consider actual or potential litigation or claims that would affect the financial statements. The committee is aware that particular consideration has been given over a number of years to the risks associated with equal pay legislation.

7. How does the Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

The Audit & Standards Committee have satisfied themselves in relation to the application of the going concern assumption. The Audit & Standards Committee receives the audited set accounts at its meeting in September of each year and a covering report from the Director of Finance which provided risks, accounting policies and concepts applicable to the applicable to the accounts. The Audit & Standards Committee approved the accounts, applicable accounting policies and disclosures taking into account the Council's financial standing, financial risks and advice from officers. The Audit & Standards Committee has also reviewed the various financial risks including the financial outlook and associated risk assessment of the Council's Medium Term Financial Strategy and considers that the Council has appropriate risk management plans and actions in place to ensure its medium term financial health.

The Audit & Standards Committee receives for information, regular budget monitoring reports (TBM) throughout the 2012/13 financial year on the financial position..

The Audit & Standards Committee have not identified any events which may cast significant doubt on the Council's ability to continue as a going concern.

The Audit & Standards Committee is aware that the Director of Finance is required to report on the adequacy of reserves as part of the budget setting process and that no significant issues in relation to going concern were raised in that process.

Yours sincerely



**Councillor Leslie Hamilton
Chair of the Audit & Standards Committee**