

AUDIT & STANDARDS COMMITTEE

Agenda Item

Brighton & Hove City Council

Subject:	Audited Statement of Accounts 2013/14		
Date of Meeting:	23 September 2014		
Report of:	Executive Director of Finance & Resources		
Contact Officer:	Name:	Jane Strudwick	Tel: 29-1255
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 This report provides information about the audit of the council's 2013/14 Statement of Accounts (i.e. accounts), and recommends approval of the 2013/14 accounts and the Letter of Representation on behalf of the council. It also provides information about additional disclosure in the Annual Governance Statement.
- 1.2 Under the Accounts and Audit Regulations 2011, the council's accounts for 2013/14 must be approved by Members by the 30 September 2014. Under the council's constitution, the Audit & Standards Committee is charged with this responsibility.
- 1.3 The council's external auditors (Ernst & Young LLP (i.e. EY)) are required to give assurance that the accounts are free from material misstatement and to report significant matters arising from the audit.
- 1.4 EY has conducted its audit of the accounts and has identified one material misstatement in respect of finance leases where the council acts as lessor, together with a relatively small number of presentation and disclosure amendments prior to issuing their opinion and the publication of the accounts.
- 1.5 This report presents the revised 2013/14 accounts following the audit. It outlines the amendments made to the accounts since they were presented to the June committee and provides assurances in relation to the preparation of the accounts. It also provides information regarding the summary accounts and informs the committee of the outcome of the public inspection of the accounts. Copies of the revised accounts are available in the Members' rooms.
- 1.6 Following the approval of the Annual Governance Statement on the 24 June 2014, there have been some small changes to this document. The revised Annual Governance Statement is attached as Appendix 5.

2. RECOMMENDATIONS:

It is recommended that the Audit & Standards Committee:

- 2.1 Notes the findings of EY in their Audit Results Report (ARR). The ARR is a separate item on this agenda.
- 2.2 Notes the adjusted misstatements to the 2013/14 accounts (paragraph 6.3 and Appendix 4).
- 2.3 Notes the results of the public inspection of the accounts (Section 9).
- 2.4 Approves the Letter of Representation on behalf of the council (Appendix 1).
- 2.5 Approves the audited accounts for 2013/14.
- 2.6 Approves the revised Annual Governance Statement subject to any comments or amendments as they consider appropriate.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 The main legislative requirements relating to the preparation, publication and audit of the council's accounts are contained in the Audit Commission Act 1998 and the Accounts and Audit Regulations 2011 made under Section 27 of the 1998 Act.
- 3.2 It is a requirement that the annual accounts be prepared as soon as practicable after the end of the financial year and considered by a committee or Full Council, and approved by a resolution of that committee or Full Council by the 30 September.
- 3.3 The accounts must be published and signed off by the external auditor as soon as reasonably possible after the conclusion of the audit and by the 30 September.

4. FORMAT OF THE STATEMENT OF ACCOUNTS

- 4.1 The purpose of the accounts is to provide information to a whole range of stakeholders and the general public about the financial position, financial performance and cash flows of the council and to provide answers to basic questions such as:
 - What did the council's services and capital programme cost in 2013/14?
 - Where did the money come from?
 - What does the council own?
 - What commitments does the council have and what provisions and reserves has the council set against these?
 - What amounts were due and what was owed at the end of the financial year?
- 4.2 In accordance with the Accounts and Audit Regulations, the accounts include:
 - an explanatory foreword;
 - a statement of responsibilities;
 - the core financial statements (Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement);

- supplementary statements (Housing Revenue Account and Collection Fund);
 - the notes to the accounts; and,
 - accounting policies.
- 4.3 The explanatory foreword aims to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. A commentary on these key aspects of the 2013/14 accounts is included in Appendix 3 to this report.
- 4.4 The statement would normally comprise both “Single Entity Accounts”, which are in respect of wholly council controlled activities, and “Group Accounts” in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. However, there are no activities requiring the preparation of Group Accounts in 2013/14.
- 4.5 EY has completed their work on the audit of the accounts and will be reporting their findings to this Committee through the ARR. Following this report, EY will be able to issue their audit opinion and the accounts will be published.

5. PREPARATION OF THE STATEMENT OF ACCOUNTS

- 5.1 As reported to the June committee, the council is required to prepare its accounts on an International Financial Reporting Standards (IFRS) basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); the 2013/14 accounts cover the period 1 April 2013 to 31 March 2014. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2013/14 accounts are in line with the requirements of the Code.
- 5.2 As reported to the June Committee, there have been two significant changes in the 2013/14 accounts in respect of the accounting for non domestic rates and post employment benefits. The main changes are summarised in Appendix 2 to this report.
- 5.3 The accounts have been prepared by appropriately qualified and trained council officers who have undertaken extensive training on the requirements for preparing local government accounts. Finance officers who are involved in the preparation of the accounts attend regular training to ensure an up to date knowledge and continuous professional development.
- 5.4 Officers have made reference to CIPFA’s practitioner’s guidance notes, disclosure checklists and other technical guidance in preparing the accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely, during the preparation of the accounts, with EY over the proposed accounting treatment of the key changes affecting the 2013/14 accounts.
- 5.5 In preparing the accounts, the council makes a number of critical judgements, accounting estimates and assumptions; the details are disclosed in note 3 to the accounts.
- 5.6 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior

officers within Finance. Following this review, the accounts were then approved by the Chief Finance Officer to be issued for public inspection and audit. Evidence of this review formed part of the working papers produced for EY.

- 5.7 During the accounts audit process, officers liaised closely with EY in respect of audit queries and worked closely to ensure prompt and successful resolution of these queries. During the audit of the 2013/14 accounts, there have been no disputes between council officers and EY in relation to the required amendments to the accounts.

6. AUDIT OF THE STATEMENT OF ACCOUNTS 2013/14

- 6.1 EY has completed the audit of the council's accounts and their Audit Results Report (ARR) which reports on the external assessment of the financial statements and arrangements to secure Value for Money forms part of this committee's agenda.

- 6.2 The ARR for 2013/14 states "changes made to the audit scope led to extensive additional testing compared with previous years across all aspects of the financial statements. As in previous years the financial statements have been well prepared and supported, and the Audit & Standards Committee should take assurance that increased testing, and reduced materiality thresholds, has not led to an increase in the number of reported corrected and uncorrected errors compared with previous years".

- 6.3 During the course of the audit, EY identified one material misstatement in respect of finance leases where the council acts as lessor. The misstatement related to two cases where the lease terms had been altered but the council's detailed accounting records had not been updated accordingly. EY also detected a relatively small number of other presentation and disclosure errors in the financial statements. All misstatements identified from the audit have been discussed and agreed with council officers and amendments have been made to the financial statements for all identified misstatements. Details of these amendments and the financial statements affected are included in Appendix 4 of this report.

- 6.4 A number of additional disclosures have been made to the Annual Government Statement which were identified as part of the audit. The updated Annual Government Statement is included in Appendix 5 of this report.

7. SUMMARY OF ACCOUNTS

- 7.1 Each year, the council produces a summary version of the accounts which aims to provide summarised information about the council's performance and financial standing in a clearer and easier to understand format than the prescribed layout of the main accounts. The Summary of Accounts will be published on the council's website alongside the 2013/14 accounts.

8. ANNUAL GOVERNANCE STATEMENT

- 8.1 A revised Annual Governance Statement for 2013/14 is attached as Appendix 5 to this report. This document was previously approved by this committee on the 24 June 2014. The revised paragraphs are numbered 60 to 64. Additional disclosure has been provided to include the most up to date information in

relation to the whistleblowing investigation in relation to the undisclosed related party transaction connected to procurement of temporary accommodation.

9. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 9.1 Under the Accounts and Audit Regulations 2011, the council's accounts are to be approved by the Chief Finance Officer by 30 June and following the audit process are to be approved by Members by 30 September each year. Under Brighton & Hove City Council's constitution, the Audit & Standards Committee is charged with this responsibility.
- 9.2 After the accounts have been made available for public inspection, alterations to the accounts may only be made with the consent of EY. The alterations in this case have received their consent.

10. COMMUNITY ENGAGEMENT AND CONSULTATION

- 10.1 Members of the public, in accordance with the Audit Commission Act 1998, are granted access for a four-week period to the council's unaudited accounts and are invited to enquire on any aspect of these accounts. If a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the accounts with EY.
- 10.2 The council received enquiries from three members of the public. These enquiries encompassed many areas of the accounts. Responses to the queries have been compiled and sent. At the time of writing this report, the enquiries have not resulted in any objection to the accounts.

11. CONCLUSION

- 11.1 It is a statutory requirement of the current Accounts and Audit Regulations that the council's 2013/14 accounts should be approved by Members by the 30 September 2014 and published by the same date.
- 11.2 EY have carried out their audit of the 2013/14 accounts and have reported their findings and recommendations arising from the audit of the accounts as a separate item on this agenda.
- 11.3 The main changes resulting from the audit are included in this report to ensure members are aware of the changes to the accounts agreed with EY prior to the approval of the accounts.

12. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 12.1 The financial implications are included in the body of the report.

Finance Officer Consulted: Jane Strudwick Date: 09/09/14

Legal Implications:

- 12.2 The legal framework for approving the council's statement of accounts is provided by regulation 8 of The Accounts and Audit (England) Regulations 2011

(statutory instrument 2011/817), relevant details of which are set out in the body of the report.

- 12.3 The Regulations permit either Full Council or a committee of the council to approve the statement of accounts. As noted in the report, in Brighton & Hove it is the Audit & Standards Committee which fulfils this statutory role.

Lawyer Consulted:

Oliver Dixon

Date: 10/09/14

Equalities Implications:

- 12.4 There are no equalities implications arising directly from this report. The accounts are a statutory publication and were made available for public inspection at the council's main offices and on the council's website. Information on the accounts will, as far as possible, be provided in a manner that meets the needs of those requesting information

Sustainability Implications:

- 12.5 There are no direct environmental implications arising from this report. However, it is believed that the reputation of the council's financial control framework and its ability to demonstrate sound financial management could have an impact on the willingness of other funding partners to invest in and with the council. This could affect the level of inward investment in respect of projects that contribute towards sustainability

Other Significant Implications:

- 12.6 The quality of a public authority's accounts is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the accounts present fairly the financial position of the council.

SUPPORTING DOCUMENTATION

Appendices:

1. Letter of Representation
2. Summary of the main changes for the 2013/14 accounting period
3. Commentary on the Accounts
4. Details of amendments made to the Accounts
5. Revised Annual Governance Statement

Documents in Members' Rooms

1. Statement of Accounts

Background Documents

None

Letter of Representation

Helen Thompson
Director
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Brighton & Hove City Council - Audit for the year ended 31 March 2014

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors 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 2014:

A. Financial Statements and Financial Records

I have fulfilled my responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code).

I acknowledge my responsibility for the fair presentation of the financial statements. I believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Council in accordance with the CIPFA Code and are free of material misstatements, including omissions. I have approved the financial statements.

I confirm that, as the Responsible Officer, I have:

- ▶ reviewed the accounts;
- ▶ reviewed all relevant written assurances relating to the accounts; and,
- ▶ made other enquiries as appropriate.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

I believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA Code that are free from material misstatement, whether due to fraud or error.

B. Fraud

I acknowledge that I am responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

C. Compliance with Laws and Regulations

I have disclosed to you all known actual or suspected non compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

I have provided you with:

- ▶ access to all information of which you are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement;
- ▶ additional information that you have requested from us for the purpose of the audit; and,
- ▶ unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

I have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 23 September 2014.

I confirm the completeness of information provided regarding the identification of related parties. I have disclosed to you the identity of the Council related parties and all related party relationships and transactions of which I am aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements. I have drawn your attention to issues in connection with the related party transaction declaration by the Head of Housing. This has been disclosed in the relevant note to the Statement of Accounts and in the Annual Governance Statement.

I have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

I have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

I have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that I have given to third parties.

F. Subsequent Events

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

I believe that the significant assumptions I used in making accounting estimates, including those measured at fair value, are reasonable.

In respect of accounting estimates recognised or disclosed in the financial statements:

- ▶ I believe the measurement processes, including related assumptions and models, used in determining accounting estimates is appropriate and the application of these processes is consistent;
- ▶ The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework;
- ▶ The assumptions used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- ▶ No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

H. Segmental reporting

I have reviewed the operating segments reported internally to the management team and the Council and I am satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8: Operating Segments, they are similar in each of the following respects:

- ▶ The nature of the products and services;
- ▶ The nature of the production processes;
- ▶ The type or class of customer for their products and services;
- ▶ The methods used to distribute their products.

I. Going Concern

I have made you aware of any issues that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Specific Representations

There have been no significant changes to the Council's Private Finance Initiative schemes during 2013/14 and contractual arrangements, including any material variations, and the accounting model used are not significantly changed from the end of the last accounting period.

The Council has experienced difficulties with its security carrier contract for cash collection and there was a significant value of cash (£2.2m) due to the Council at the end of the 2013/14 financial year which had not been banked by the contractor on behalf of the Council (i.e. cash in transit). The majority of the cash in transit as at 31 March 2014 has now been received by the Council; however, delays in the banking of cash collected have continued into 2014/15. The Council terminated the contract with

the security carrier on 2 August 2014 and continues to seek full repayment of the amounts owed.

Signed on behalf of Brighton & Hove City Council

I confirm that this letter has been discussed and agreed by the Audit & Standards Committee on 23 September 2014.

Signed:

Catherine Vaughan
Executive Director Finance & Resources
Date: 23 September 2014

Signed:

Leslie Hamilton
Chairman
Audit and Standards Committee
Date: 23 September 2014

Summary of the main changes for the 2013/14 accounting period

Accounting for Business Rates

The Government introduced a new Business Rates Retention Scheme with effect from 1 April 2013 which effectively enables the authority to retain 49% of the non domestic rates income it collects. Of the remainder, 50% is paid over to central government and 1% to the East Sussex Fire Authority. This funding is supported by a new Revenue Support Grant which reflects reducing central government spending in line with the government's deficit reduction approach. This change led to the council amending its accounting policy for non domestic rates. The collection of non domestic rates income, under the localisation of business rates, is now very similar to the collection of council tax in that the council, as a billing authority, recognises its proportion of the locally retained non domestic rates income in its Comprehensive Income and Expenditure Statement on a full accruals basis. A creditor is also recognised by the council for the income that has been collected from non domestic rate payers but not yet paid over by the council to central government and the East Sussex Fire Authority.

Accounting for Employee Benefits (Pensions)

The Code introduced changes to the classification, recognition, measurement and disclosure requirements of employee benefits introduced by the June 2011 amendments to IAS 19 "*Employee Benefits*". The key change is the combination of the interest cost and the expected return on assets into a single net figure.

In effect this means that the expected return has been replaced by a figure that would be applicable if the expected return on assets assumption was equal to the discount rate. Therefore, where a pension scheme invests in assets expected to generate higher returns, these higher profits can no longer be shown (or lower profits where it invests in assets expected to generate lower returns). This has resulted in a reclassification change to the Comprehensive Income and Expenditure Statement. There is no impact on the level of the net pension liability reported in the accounts. This change also requires significant changes to the information disclosed in the accounts in respect of post employment benefits; these are set out in the Pension Liability section of the Explanatory Foreword to the accounts together with an explanation of the impact of the change on the 2012/13 published accounts.

Transfer of Public Health

As a result of the Health and Social Care Act 2012, some of the responsibilities of Primary Care Trusts (PCTs) and Strategic Health Authorities (SHAs) passed to local authorities on 1 April 2013 with the council taking on the responsibility for public health. The accounting transactions in respect of public health are now included in the council's accounts.

Commentary on the Accounts

General Fund

The level of General Fund working balance and general reserves held at 31 March 2014 was £11.196 million; this represents the working balance of the council and is deemed appropriate by the council's Chief Finance Officer. In addition, there are also General Fund earmarked reserves of £51.026 million.

Housing Revenue Account (HRA)

This account reflects the statutory requirement to account separately for local authority housing provision. It shows the major elements of housing revenue expenditure – maintenance, administration, and capital financing costs - and how these are met by rents and other income.

The 2013/14 outturn for the HRA shows a net deficit of £0.575 million. The HRA reserves now stand at £5.486 million, which is well in excess of the recommended minimum level of balances of £2.8 million. In addition, there are also HRA earmarked reserves of £4.231 million.

Balance Sheet (BS)

This statement is particularly technical, which is unavoidable given the requirement to observe the Code of Practice and the complex capital accounting, financial instrument and pension reporting standards. There are explanatory notes to the Balance Sheet in the Statement of Accounts.

Non Current Assets

Total non current assets (including current assets held for sale) have increased from £2,079.399 million as at 31 March 2013 to £2,143.160 million as at 31 March 2014. The in year movement in non current assets is detailed in notes 16 to 20 to the core financial statements. The movement of £63.761 million relates to the following:

- An increase of £73.000 million in respect of capital expenditure incurred on to PPE, heritage assets and intangible assets which reflects the significant capital investments made;
- PPE and heritage assets upward revaluation transactions of £87.772 million;
- Depreciation, impairment and revaluation losses transactions of £69.458 million;
- Downward movement in the fair value of investment properties of £3.644 million;
- Disposal of non current assets of £23.909 million, part of which related to disposals under finance leases.

Borrowing

In accordance with the CIPFA Code on Treasury Management, the management of the council's borrowing portfolio is based on a consolidated approach and not by individual

services. At 31 March 2014, the council's level of borrowing (including the bank overdraft) was £215.514 million, an increase in the year of £2.396 million. The council has raised new loans of £3.644m during 2013/14; no borrowings were repaid. Note 35 to the financial statements provides further information on borrowings.

Investments

At 31 March 2014, the council held investments of £77.832 million. Investments are made by the in-house treasury team and the council's external cash manager. The council uses an external cash manager to take advantage of investment opportunities in specialist markets not covered by the in-house team, such as government stock.

The level of investment has increased in year by £22.386 million. The council has placed new short term investments of £623.185 million in 2013/14 and has realised cash from the maturity of short term investments of £601.121 million. Note 35 to the financial statements provides further information on investments.

Revaluation Reserve

This represents any upward revaluations of assets in accordance with the Code. Any impairment of assets is also reflected in this account only to the extent that it can be offset against previous upward revaluation of the asset. Any excess impairment is charged to the Comprehensive Income and Expenditure Statement. The reserve stands at £598.500 million as at 31 March 2014. Note 26 to the financial statements provides more details on the movement in this reserve.

Earmarked Reserves

These represent funding that has been set aside for a specific purpose. As at 31 March 2014, the council held earmarked reserves of £55.257 million, an increase in the year of £1.783 million. Details of Earmarked Reserves held can be found in note 10 to the financial statements.

Pension Liability

The estimated pension liability (net of pension assets) for future pension payments increased in 2013/14 by £68.510 million from £198.205 million at 31 March 2013 to £266.715 million at 31 March 2014.

There are a number of contributory factors to the significant increase in the pension liability; these are detailed in the Pensions Liability section of the Explanatory Foreword.

The council also recognises a reserve for the estimated net pension liability. Therefore, amounts included in the council's accounts in relation to post employment benefits have no effect on the council tax requirement as the liability is offset by a Pensions Reserve.

Details of the Pension Liability can be found in note 33 to the financial statements.

Collection Fund

As at 31 March 2014, there was an in year surplus of £1.428 million on the Collection Fund in respect of council tax and an in year surplus of £11.347 million in respect of non domestic rates.

Provisions and Contingent Liabilities

Provisions have been made in the accounts for liabilities existing at the 31 March 2014 that are reasonably certain and can be estimated with reasonable accuracy. Significant provisions are included for the following:-

Accumulated Absences – The council is required to make provision for accumulated compensated absences (e.g. annual leave and ‘flexi’ leave entitlements) that are carried forward for use in future periods if the current period’s entitlements are not used in full. The provision as at 31 March 2014 is £4.028 million.

Business Rates Appeals Provision - The council has made provision for its share of the amount that it anticipates to repay ratepayers in the future following successful appeals against the rating lists. The provision as at 31 March 2014 is £2.978 million.

Contingent Liabilities are included where there is a possible loss which is not recognised in the accounts because it cannot be accurately estimated or because the event giving rise to the possible loss is not considered sufficiently certain. Note 27 provides details of the council’s contingent liabilities as at the Balance Sheet date.

Details of Amendments to the Accounts

Finance leases where the council acts as lessor

There was a requirement to amend the accounting records for two finance leases which resulted in an adjustment to the Comprehensive Income and Expenditure Statement (CIES) and the Balance Sheet. The effect was to decrease Other Operating Net Expenditure in the CIES by £200,000 with a corresponding increase in the long term debtor held on the Balance Sheet; this adjustment reflected the miscalculation of the gain / loss from the disposal of the asset under a finance lease in the preceding financial periods. The amendment also increased the calculated disclosure of the value of the gross investment in the lease (i.e. an amount equal to the expected lease rental payments due over the life of the lease) as disclosed in note 22 to the financial statements; the value of the increase was approximately £10.4 million.

Events after the Reporting Period

The following additional event after the reporting period has been included in respect of the council's security carrier contract for cash collection:

"The Council has experienced difficulties with its security carrier contract for cash collection and there was a significant value of cash (£2.2m) due to the Council at the end of the 2013/14 financial year which had not been banked by the contractor on behalf of the Council (i.e. cash in transit). The majority of the cash in transit as at 31 March 2014 has now been received by the Council; however, delays in the banking of cash collected have continued into 2014/15. The Council terminated the contract with the security carrier on 2 August 2014 and continues to seek full repayment of the amounts owed. The council has not amended its financial statements in relation to this and reports this as a non adjusting event".

Revised Annual Governance Statement

Annual Governance Statement 2013/14

Brighton & Hove City Council
King's House
Grand Avenue
Hove BN3 2SR

Scope of Responsibility

1. Brighton & Hove City Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper practice standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively to secure continuous improvement.
2. In discharging this accountability, the Council is responsible for putting in place proper arrangements for the governance of its affairs and effective exercise of its functions, which includes the management of risk.
3. The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government and Guidance Note. This is included in the Constitution of the Council and will be updated in 2014/15.
4. This Annual Governance Statement explains how the Council has complied with its Code of Corporate Governance and also meets the requirements of the Accounts & Audit Regulations 2011.

The Purpose of the Governance Framework

5. Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, open, honest and accountable manner.
6. The governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and through which it is accountable to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives as set out in the Corporate Plan, and to consider whether those objectives have led to the delivery of appropriate, cost effective services. These objectives are underpinned by the Council's corporate values.
7. The governance framework is designed to manage risk to a reasonable level, rather than to eliminate all risk. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The Governance Framework

8. The governance framework has been in place at the Council for the year ended 31st March 2014 and up to the date of approval of the Statement of Accounts.
9. Maintaining the governance framework is an on-going process, and one to which the Council is committed in order to ensure continual improvement and organisational learning.
10. The key elements of the systems and processes that comprise the Council's governance arrangements are shown below together with explanations of how they are embedded.

Council's Purpose, Vision, Values and Performance Management

11. During 2013/14 the Council has been developing and strengthening work on new delivery models for public service reform and the additional responsibilities from new legislation. This includes the Localism Act 2011, the Health & Social Care Act 2012, the Welfare Reform Act 2012 and the Care Bill (now an Act). The Council continues to review its governance structures and systems to support its

on-going modernisation and to ensure that it is well positioned to deliver its new responsibilities effectively.

12. The Corporate Plan 2011-15, approved by Full Council in October 2011, was reviewed and updated during 2013/14 and sets out the Council's purpose, ambition, values and priorities.

Our purpose

- To represent citizens through democratic processes
- To ensure and assure services for the city including statutory responsibilities
- Safeguarding of the most vulnerable
- Leadership and co-ordination of council and the capacity and capability of partners
- Value for money ensuring a best deal for council taxpayers

Our ambition

- A high performing authority, a fantastic and distinctive place to live, work and visit
- A leader of the city region
- Demonstrably making best use of all resources. Seeking to become a self-sustaining organisation serving its customers well

Our priorities

- Tackling inequality
- Creating a more sustainable city
- Engaging people who live and work in the city
- Modernising the council

13. During 2012/13, the Council introduced new organisational values (six) as follows which have been incorporated into the Council's constitution, codes of conduct for Members and Officers and the performance management framework:

Respect: Embrace diversity with kindness and consideration and recognise the value of everyone;

Collaboration: Work together and contribute to the creation of helpful and successful teams and partnerships across the Council and beyond;

Efficiency: Work in a way that makes the best and most sustainable use of resources, always looking at alternative ways of getting stuff done;

Openness: Share and communicate with honesty about our service and self, whenever appropriate;

Creativity: Have ideas that challenge the 'tried and tested', use evidence of what works, listen to feedback and come up with different solutions; and

Customer Focus: Adopt our 'Customer Promise' to colleagues, partners, members and customers.

14. The Council introduced an ambitious modernisation programme in 2012 and continued activity in 2013/14 with the Chief Executive leading with a strong focus on improving performance management and quality of leadership across the Council. The priority to modernise the Council included specific reference to the

governance framework. The Council uses a variety of mechanisms within its overall approach to performance management and service improvement to measure quality of service to users, ensuring service delivery is in accordance with its objectives, and for ensuring the best use of resources. These include national and local performance indicators, residents' perceptions, measurable improvements in value for money, benchmarking, identification and management of key risks. These are incorporated into the Council's Performance and Risk Management Framework.

15. Performance management processes are embedded throughout the Council and regularly reported in accordance with agreed timescales. During 2013/14, Organisational Health Reports were used and included a set of key measures around finance and general organisational management, workforce and meeting the needs of the customer. Regular reports are produced to compare actual performance against targets to aid decision making.

Members' and Officers' Capacity and Development

16. The success of the Council services relies substantially on the contribution of officers to the planning, development and delivery of services. The Council recognises that the value of staff contributions will be enhanced through clear communication of the Council's expectations, developing staff skills and abilities, providing a safe, healthy, supportive and inclusive working environment.
17. The Council is committed to developing the capacity of officers through its Performance Development and Planning Scheme. A complete programme of learning and development is available to officers and Members from the Learning and Development Team. Where applicable, officers are also expected to undertake continuing professional development (CPD) of their professions. There are corporate induction processes including governance for both Members and officers starting with the Council.
18. The Council continued to monitor the embedding of its refreshed Performance & Development Plan (PDP) process for staff to ensure all have a clear and shared understanding of what is meant by performance management, behaviours and the Council's values. In February, as part of its commitment to improving our managers' leadership and performance management skills, the Council launched a new mandatory management development programme as part of its wider culture change programme called Living our Values Every Day.
19. The Council has a Member training and development programme which is accredited under the South East Employers' Charter for the Member Development Framework. This starts with an extensive induction and is followed by a generic development programme. There is further, more specific, training provided as required (for example for Members serving in Planning, Audit and Standards and Personnel Appeals Panels) as well as bespoke training and development opportunities for Members with special responsibilities.

Roles, Responsibilities and Behaviour

20. To ensure effective leadership throughout the Council, Members and officers work together to deliver common objectives with clearly defined functions and roles through the following:

- The Council's Constitution includes details of the roles and responsibilities of all its committees, the full Council and Chief Officers and the rules under which they operate including protocols;
 - The Council's political structure, including roles and responsibilities, are detailed on the Council's website; and
 - The Council's constitution and associated guidance are reviewed regularly to ensure they remain up-to-date, relevant and effective. In 2013/14 there were 3 such reviews undertaken to streamline the decision-making process, incorporate the Council's values into codes of conduct and refine the officer delegation.
 - The Council's Head of Law is the designated Monitoring Officer with responsibilities for ensuring the lawfulness of decisions taken by the Council, its committees and officers, providing support and advice on the maintenance of ethical standards and advising the Council's Audit & Standards Committee.
21. The Officer's Executive Leadership Team (ELT) includes, among its members, the Chief Executive, the Executive Director of Finance and Resources (section 151 Officer) and the Monitoring Officer (who all have special responsibility regarding governance.) This ensures leadership of, and support to, good corporate governance at the highest level of the organisation. Other members of ELT include the Executive Directors for Children, Adults and Public Health as well as the Assistant Chief Executive. They all bring additional perspectives that support legislative compliance and good governance generally.
 22. The Council has adopted a number of codes and protocols that govern the standards of behaviour expected of Members and officers. These are communicated as part of the induction process, ongoing awareness training and made available via the Council's intranet. These include codes of conduct covering conflicts of interest and gifts and hospitality.
 23. The Audit & Standards Committee remit includes promoting and maintaining high standards of conduct and ethical governance. During 2013/14 the Council revised and updated the Code of Conduct for Members and the complaints process to require Complaints Panels to be chaired by an Independent Person and simplify the process. This followed detailed work undertaken by a cross-party working group chaired by an Independent Person.

Communication and Consultation

24. The Community Engagement Framework for the City, introduced by the Brighton & Hove Strategic Partnership (now known as Brighton & Hove Connected) aims to improve the ways in which citizens and communities can influence and shape services through improved communication.
25. Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation. These include the Council Tax leaflet containing budget details, the Council's website and social media. The Council continued to develop more open and transparent budget consultation during 2013/14 'Your Money, Your Services, Your Say') including the use of an on-line budget tool and budget consultations with the community.

26. To complement the general rules under the Codes of Conduct for Members and Officers, the Council introduced a Social Media Protocol for Members and Social Networking Policy for Employees to address this increasingly important means of communication for individuals and businesses. These documents are published on the Council's website and staff intranet respectively.
27. There are a wide range of access channels and opportunities for all parts of the community and key stakeholders to engage in dialogue and consultation. This includes tenants and residents forums and through consultation events and surveys. The Council's Corporate Plan and the Annual Statement of Accounts are made available via the Council's website and distributed to certain key points across the City.
28. As part of its openness and transparency of decision making, advance notices, agendas, minutes and web-casts are available for Council meetings. The Council makes available a large amount of information through several means and is also committed to meeting its obligations to give rights of public access to information held, through the Freedom of Information Act 2000 and the wider transparency agenda. Most key decision-making meetings of the Council, including full Council, Policy & Resources Committee, Housing Committee, Planning Committee, Environment, Transport and Sustainability committee meetings are webcast. The Council has also implemented the open government licence scheme.
29. The Council has a Corporate Complaints Policy and Procedures which are in line with Local Government Ombudsman guidelines. A centrally managed process ensures consistency of receipt, investigation, responding, monitoring and reporting.

Control Framework, Risk Management and Audit & Standards Committee

30. The Council's high-level policies and procedures are updated and regularly communicated to officers and Members.
31. The principal documents include the Council's Financial Regulations and Contract Standing Orders both of which were reviewed and updated during 2013/14. There are other corporate policies on key governance topics, including Business Planning, Counter Fraud, Information Security, Equalities & Diversity, Health & Safety and Whistleblowing. These documents and related guidance and support are also available to the majority of staff through the Council's Intranet site.
32. Risk management is embedded throughout the Council and in its partnership working arrangements. The Council's Risk Management Strategy 2014-17 was consulted on and approved in January 2014 and sets out an annual programme of risk management activity for each of the three years. During 2013/14, the Council and its partners continued to work together to further develop and refresh the City Wide Risk Register and implementation of actions by the city's strategic partnerships.
33. The Council's internal audit arrangements are reviewed annually and considered to be effective, for 2013/14 conforming to the governance requirements of the Public Sector Internal Audit Standards. The Acting Head of Audit & Business Risk works closely with key members of the Executive Leadership Team and Corporate Management Teams to give assurance and improve the Council's

financial control framework, give advice and promote good governance throughout the Council.

34. The Council has a separate Corporate Fraud Team. A large proportion of the teams work is the investigation of Housing Benefit and Council Tax Benefit Fraud but in addition significant successes have been achieved in the investigation of housing tenancy fraud.
35. The Council's Whistleblowing Policy, was reviewed and refreshed during the year, aims to encourage officers, contractors and agency workers to report any instances of unlawful conduct, health and safety risks, damage to the environment, possible fraud and irregularities and unauthorised use of Council funds. The Policy is available on the Council's intranet and website, and provides the mechanisms to raise concerns and receive appropriate feedback without the fear of victimisation.
36. The Head of Health & Safety produced an Annual Report for 2013/14 to demonstrate how the Council is improving the management of health, safety and welfare across all services.
37. The Audit & Standards Committee is independent of the Council's scrutiny functions and embedded as a key part of the Council's overall governance framework. Its terms of reference are aligned to CIPFA's best practice guidance for Audit Committees. The membership is politically proportionate and the Chair is an opposition Member. The Committee also has two Independent Persons with extensive experience and who, under the revised complaints process, will chair all Member complaints panels.

Compliance with Established Policies, Procedures, Laws and Regulations

38. All officers of the Council have a responsibility to ensure compliance with established policies, procedures, laws and regulations. Training and awareness sessions are provided as necessary and appropriate induction sessions are carried out. For example, in the important area of Financial Management there is a mandatory e-learning course and follow-up workshop which all Budget Holders must attend.
39. Compliance assessments are carried out by management, auditors and through the work of statutory inspectors, including the Care Quality Commission and Ofsted.
40. The Head of Law (the Monitoring Officer) has overall responsibility for ensuring the Council acts lawfully and without maladministration. This includes reporting on any proposal, decision or omission by the Council likely to contravene any enactment or rule of law or any maladministration. No such reports were necessary during 2013/14.

Economic, Effective and Efficient Use of Resources

41. As part of the Council's modernisation programme, it has a Value for Money Programme, which is focussed on developing modernised services that can achieve substantial efficiency savings. Other objectives include delivering services in new and better ways to increase user satisfaction. To provide objective analysis of the Council's approach, EY consultants were appointed in 2013 to help identify ways in which the Council can address the enhanced need

for Value for Money, given the significant challenges as a result of reductions in central government funding which are expected to continue through to 2020.

42. Actual value for money savings achieved under the Phase 3 VFM Programme for 2013/14 were £9.417m. The programme covers a wide range of service related and cross-cutting initiatives including better procurement, preventative measures relating to social care services, and accelerated service redesign to achieve staffing efficiencies backed by a voluntary severance scheme.
43. The Council has an Information Management Board to oversee ICT Governance and includes the Monitoring Officer as 'Senior Information Responsible Officer' and two Caldicott Guardians responsible for protecting the confidentiality of service user information.

Financial Management and Reporting

44. The Council's financial arrangements fully conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). As Chief Financial Officer (CFO), the Executive Director of Finance & Resources is a key member of the Executive Leadership Board and Corporate Management Team and is responsible for the proper administration of the Council's financial arrangements and leads a suitably qualified and experienced Finance Function.
45. The Executive Director of Finance & Resources (as Section 151 Officer) has overall statutory responsibility for the proper administration of the Council's financial affairs, including preparation of the Statement of Accounts and making arrangements for appropriate systems of financial control. No reports were made during 2013/14 on any case of unlawful expenditure, loss or deficiency.
46. The Council's Medium Term Financial Strategy (MTFS) sets out the resource projections for the forthcoming five years, the financial challenges and opportunities that it faces and the approach planned to meet the priorities set out in the Corporate Plan. During 2013/14 the MTFS was updated and now includes a longer term resource projection up to 2019.
47. The Council published a detailed budget book for 2013/14 to enable a greater understanding of how the Council spends its money. It published all payments to suppliers over £250 from April 2013.

Partnership Working and Governance Arrangements

48. The governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report Governing Partnerships: Bridging the Accountability Gap (2005), are defined in the Council's Financial Regulations. Regular audit reviews are carried out on the overall governance arrangements within the Council's key partnerships.
49. The Council has a leading role in Brighton & Hove Connected (formerly known as Brighton & Hove Strategic Partnership) the local strategic partnership for the City... During 2013/14 the Brighton & Hove Strategic Partnership produced a new sustainable community strategy entitled 'Brighton & Hove – The Connected City'. The vision for Brighton & Hove was agreed as:

"Brighton & Hove- the connected city. Creative, dynamic, inclusive and caring. A fantastic place to live work and visit."
50. The new community strategy has 5 priorities as follows:

- a. Economy
 - b. Children & young people
 - c. Health & wellbeing
 - d. Community safety & resilience and
 - e. Environmental sustainability
51. The strategy is underpinned by two principles which run through all of our work. These are
- f. Increasing our equality
 - g. Improving our engagement.
52. Brighton & Hove Connected and the City Management Board have created a range of specialist partnerships that take responsibility for the creation, implementation and monitoring of key city strategies. These include Employment and Skills, Economy, Housing etc.
53. The City Management Board (CMB) is chaired by the council's Chief Executive and is the delivery arm of Brighton & Hove Connected. The board is made up of the key public service decision makers in the city in order to focus on delivery improvements city-wide including performance and risk management. Each board member is accountable to their parent body and to Brighton & Hove Connected.

The Member organisations of CMB are:

- h. Brighton & Hove City Council
 - i. Brighton & Sussex University Hospitals
 - j. City College Brighton & Hove
 - k. Clinical Commissioning Group
 - l. East Sussex Fire & Rescue Service
 - m. Jobcentre Plus
 - n. Office of the Sussex Police & Crime Commissioner
 - o. Sussex Police
 - p. University of Brighton
 - q. University of Sussex
 - r. Surrey & Sussex Probation Trust
54. The Council, in partnership with other public sector organisations at the City Management Board, has also developed the City Wide Risk Register to manage the wider risks impacting on the City.
55. In 2013/14 the Council, in close collaboration with the Clinical Commissioning Group (CCG,) undertook a fundamental review of the Health & Wellbeing Board leading to a more enhanced role for the Board that will enable it to provide system leadership across health and local authority social services. The Board is chaired by the Leader of the Council has equal voting representation between the Council and the CCG. The different component parts of the arrangement, with the Health & Wellbeing Board at its centre, are illustrated in the diagram below.



Review of Effectiveness

56. The Council has a statutory responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the systems of internal control. The review of effectiveness is informed by the work of executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Business Risk's Internal Audit and Opinion Report and also by comments made by the external auditors, other review agencies and inspectorates.
57. Through evaluation and analysis during the 2013/14 review, the Council has good assurance that its governance arrangements and systems of internal control are robust and reflect the principles of its Code of Corporate Governance.
58. An Officers' Governance Board oversees the review of effectiveness of governance arrangements including monitoring actions arising.
59. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework 2013/14 includes the following:
 - Evaluation of the robustness of governance arrangements against the six principles of good governance in the CIPFA/SOLACE Delivering Good Governance Framework;
 - The Annual Opinion of the Head of Audit & Business Risk which has reached a reasonable assurance level judgement;
 - Review and maintenance of the Constitution by the Monitoring Officer;
 - The provision of an effective Internal Audit Service, including compliance with professional standards, risk based approach, individual internal audit reports providing levels of assurance and monitoring actions to audit recommendations made for improvement;
 - Review of the role and responsibilities of the Chief Financial Officer;
 - Risk management process outcomes including strategic risk management actions plans and service risk registers; and

- Comments made by external auditors and outcomes of external assessments carried out by regulatory bodies.

Governance Issues

60. The annual effectiveness review of governance arrangements referred to above has identified the following significant weaknesses:
 - a previously undisclosed related party transaction has been identified in relation to a substantial contract for temporary accommodation.
 - arrangements to ensure compliance across the organisation with Contract Standing Orders are not sufficiently robust; and
61. The undisclosed related party transaction was identified following a whistleblowing allegation. The financial statements set out that there was £3.000m contractual and non-contractual spend with KEM in 2013/14, a supplier of temporary accommodation to the authority. A sibling of the Head of Housing is a Director of KEM. There is an ongoing disciplinary investigation by the council into this matter and it has also been referred to Sussex Police.
62. A review has been undertaken by the council's internal audit team, procurement team and finance team to ensure that the council received services for the payments made to KEM. This review also considered other areas of housing expenditure. This has provided sufficient assurance that the financial statements are not materially misstated. However it did identify clear weaknesses in the arrangements for signing and sealing leases for temporary accommodation in cases not dealt with directly by Legal services and in record keeping. It also identified a lack of consistency and clarity in lease terms and conditions across similar lease agreements. Furthermore it identified evidence of historic weaknesses in the Council's arrangements to assess and take action on the value for money received from providers of temporary accommodation.
63. Procedures for disclosure of third party transactions have also been enhanced and the Council recently introduced a compulsory scheme for annual return of declarations of interests (including NIL returns) by all Senior Officers and contract officers. This supplements the annual related party transaction declarations undertaken as part of the accounts and the combination of these should assist in minimising incidents of non-disclosure.
64. The Council's legal and procurement teams are working with contract officers in service departments by providing training, encouraging standardisation of terms and conditions and overseeing their practical application to ensure high levels of compliance with Contract Standing Orders and best practice. As part of the third party spend VFM workstream, the resourcing of the procurement function is being reviewed. This, together with other initiatives to improve the effectiveness of Council's approach to procurement, is anticipated to result in higher levels of compliance.
65. In considering the governance issues contained in the Annual Governance Statement for 2012/13, enhancements to the Council's governance arrangements have been achieved during 2013/14 including:
 - improvements to the links between the Corporate Plan and Medium Term Financial Strategy and service and financial planning in business plans;

- developing and commencing the roll-out of a culture change programme – Living our Values, every Day with a clear focus on performance of self, others and service;
- reviewing our constitution to streamline decision-making and provide better tailored guidance on ethical governance.
- conducting a review of the effectiveness of the Audit & Standards Committee in accordance with new guidance issued by CIPFA in December 2013;
- reviewing the Council’s whistleblowing arrangements to ensure these continue to provide a robust and effective mechanism for officers, and others who work in close association with the Council, to raise concerns of alleged malpractice so they can be investigated;
- the formation of an Early Retirement Compensation Panel to oversee and monitor the Council’s use of early retirement options and employer discretions to ensure consistent and cost effective business decisions are made;
- reviewing the Council’s approach to the use of Settlement Agreements (formerly known as Compromise Agreements) to ensure they are used only in circumstances where there is a robust and valid business case for doing so;
- reviewing the arrangements for officers to declare interests they may have that could potentially conflict with their role with the Council to ensure these remain robust and effective in preventing fraud and corruption.
- improving the accessibility of corporate governance information on the council’s intranet, the Wave;
- met the requirements, compliance and zero tolerance approach of the Government’s Code of Connection (CoCo) for accessing the Government Public Services Network (PSN);
- undertook a full review of the Council’s ‘family’ of partnerships across the City and introducing a City Management Board, chaired by the Chief Executive to replace the Public Services Board;
- created a Corporate Counter Fraud Team to provide more effective response to fraud risk with a particular emphasis on housing tenancy fraud;
- introduced a local ethical standards regime in accordance with the requirements of the Localism Act 2011; and
- introduced effective systems of internal control for changes related to the introduction of the Council Tax Reduction Scheme and other relevant welfare reforms.

66. In response to the significant financial challenges facing the Council, new actions have been identified to ensure continuous improvement in the Council’s governance arrangements:

- i. To embed the refreshed approach to Fraud & Corruption awareness across the council including whistleblowing arrangements and declarations of interest;

- ii. Develop a new approach to the management of corporate fraud following the transfer of housing benefit related work and associated staff to the new national Single Fraud Investigation Service.
 - iii. Further Information Governance focused work to maintain compliance with the Public Service Network (PSN) Code of Compliance and to meet the requirements of the Information Commissioners Office (ICO);
 - iv. Improve compliance with Contract Standing Orders to be incorporated into the Value for Money Programme in relation to third party spend;
 - v. Review of Code of Corporate Governance, prioritised refresh of council policies and communication methods to take account of the pace of change;
 - vi. Focus on the adequacy of Business Continuity arrangements and work to embed understanding of its practice in council service delivery;
 - vii. The continued roll out of the Living our Values Every Day culture change programme;
 - viii. Refreshing the Value for Money Programme and ensuring that its governance is fit for purpose;
 - ix. Introducing the reformed Health and Wellbeing Board and new Greater Brighton Economic Board;
 - x. Improving how we use a range of financial and non-financial information including customer insight to make improvements to service delivery.
67. All new planned and actions in progress will be monitored by the Officers' Governance Board and Audit & Standards Committee during 2014/15.
68. We are satisfied that the actions required, when fully completed, will address the need for improvements that were identified in the review of effectiveness. We will monitor their implementation and operation as part of the next annual review.
69. We propose over the coming year to take actions to address the above matters to further enhance our governance arrangements. We are satisfied that these actions will address the need for improvements that were identified in our review and will monitor their implementation and operation during 2014/15.

Signed

Signed

Penny Thompson
Chief Executive

Councillor Jason Kitcat
Leader of the Council

Dated: 2014

Dated: 2014