

Brighton & Hove City Council

Year ending 31 March 2014

Annual Audit Letter

October 2014



Building a better
working world



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23 October 2014

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Brighton & Hove City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to the Audit & Standards Committee in our Audit Results Report issued on 23 September 2014.

The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of the Council for their assistance during the course of our work.

Yours faithfully

Helen Thompson
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 24 June 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on an annual basis on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of the governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Brighton & Hove City Council for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland).	On 26 September 2014 we issued an unqualified audit opinion for the Council.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 26 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the Audit & Standards Committee) communicating significant findings resulting from our audit.	On 23 September 2014 we issued our Audit Results Report for the Council.
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 26 September 2014.
Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.

Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

No issues to report.

Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

On 26 September 2014 we issued our audit completion certificate.

Issue a report to those charged with governance of the Council summarising the certification of grant claims and returns work that we have undertaken.

We plan to issue our annual certification report for 2013/14 to those charged with governance in January 2015 when our work in this area is complete.

2. Key findings

Financial statement audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 26 September 2014.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good.

The main issues identified as part of our audit of your financial statements, including our conclusions in relation to the areas of risk/areas of audit emphasis outlined in our Audit Plan were:

Significant risk 1 – Risk of Management Override

Risk:

As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Specifically, we considered the impact of an allegation received by the Council from a whistle blower during the year, relating to a historic failure to declare a material related party interest, on our approach to the audit of the 2013/14 financial statements.

Results:

The whistle-blowing allegation related to the failure to disclose a material related part interest associated with the procurement of temporary accommodation by the Council's housing service.

In response to the risk identified, the Council has undertaken its own work. There is an ongoing disciplinary investigation by the Council, as well as an ongoing police investigation. In addition, a detailed review has been carried out by management designed to assess the impact of the issue on Council expenditure, the efficacy of internal controls and any potential failure in the Council's arrangements to secure value for money.

We reviewed the joint work undertaken by the Council's central finance, internal audit and procurement teams as part of the assurance for our opinion on the financial statements. Our approach was to treat this work as a management control and to seek to place reliance on its findings. In order to do that we reviewed, challenged and re-performed on a sample basis the work undertaken by the Council. Based on our review we concluded that the work undertaken by management was properly performed. We therefore consider the overall findings and conclusions from that work to be reliable. Based on the findings of that work, and our re-performance of it, we are satisfied that there was no material misstatement of expenditure potentially affected by the whistle-blowing allegation.

Our work on the Council's financial statements is guided by the concept of materiality. Information is only material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. We reviewed our assessment of materiality in light of the whistle blowing allegation and amended our audit strategy to reflect the increased risk of material misstatement. This increased the level of testing required in all areas of the audit, and especially in relation to testing housing expenditure.

Our audit found no material misstatement due to fraudulent financial reporting, or evidence of material fraud, impacting on the year of account. However, our audit is not designed to give absolute assurance, and non-material fraud does occur each year at the Council.

The work undertaken by management, and our re-performance of it and additional testing, highlighted some weaknesses in the Council's arrangements which need to be addressed. Specifically, there are clear deficiencies in the Council's arrangements for the signing and sealing of leases. We found weaknesses in record keeping for leases, and the Council was not able to locate the records for a significant minority of the leases considered by our work. There was also a lack of consistency and clarity in lease terms and conditions across similar lease agreements.

We also considered both the accuracy of the disclosure made in the related party transactions note in the financial statements, and the adequacy of the Council's arrangements to identify and disclose related party transactions more generally. Based on our work we were satisfied that the disclosure of the issue in the related party transactions note in the financial statements was accurate. We were also satisfied the Council's arrangements for the identification and disclosure of related party interests and transactions are reasonable overall. There is, however, scope for improvement. This is recognised by the Council and actions have already begun to improve the level of control in this area. We also considered the accuracy and adequacy of disclosure of the issue in the Council's Annual Governance Statement. We were satisfied that the disclosures originally made were accurate and note that management increased the level of disclosure in the Annual Governance Statement during the course of the audit.

Significant risk 2 - National Non-Domestic Rates (NNDR) rateable value appeals provision

Risk:

The Business Rates Retention Scheme came into force on 1 April 2013. Under the scheme a proportion of the business rates collected by councils are retained locally and half paid over to central government. The potential cost of successful rateable value appeals is significant to the Council. There is also a high level of estimation uncertainty in determining an accurate provision for the cost in the financial statements.

Our work focussed on reviewing the accounting transactions made and assessing the reasonableness of the estimation made.

Results:

We were satisfied the Council developed an approach to ensure that a materially accurate and complete provision was included in the financial statements. The provision was calculated correctly based on an analysis of available information and professional judgment.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 our conclusion was based on two criteria:

- ▶ the organisation has proper arrangements in place for securing financial resilience; and
- ▶ the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We issued an unqualified value for money conclusion on 26 September 2014. We did not identify any significant risks to the value for money conclusion, but we did identify two other risks in our Audit Plan. In addition, we assessed whether there were value for

money implications arising from the whistle blowing allegation received. The table below summarises the findings from our work.

Other risk 1 – Council spending

Risk:

The Audit Commission produces value for money and financial ratio profiles for local authorities on an annual basis. This provides an indication of the relative spending of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area.

Review of the comparative VFM profile data in previous periods has suggested that the Council is high spending compared to its statistical nearest neighbours. This is true for both its overall per capita spending, and per capita spending in each of its main service areas.

The Council continues to face significant financial challenges over the medium term. A clear focus on addressing high cost areas is therefore essential to the economy, efficiency and effectiveness of services delivered and the overall financial resilience of the Council.

Findings:

The Council's financial position remains sound at the end of 2013/14 and it continues to be financially resilient.

However, the scale of the financial challenge it faces continues to grow and, based on available comparative information at the end of 2012/13, its overall level of spending remains high relative to others. There is a significant budget gap over the medium term which will need to be addressed through more fundamental service prioritisation, re-design and commissioning and de-commissioning decisions.

Other risk 2 – Better Care Fund

Risk:

The Council has a well-established value for money (VFM) programme and a good track record of delivering its planned savings. However, it is becoming increasingly difficult for the Council to continue to deliver good quality services against a backdrop of growing demand and increased financial challenges.

The June 2013 Spending Round announced the creation of a £3.8 billion Integration Transformation Fund – now referred to as the Better Care Fund (BCF). The BCF is a single pooled budget for health and social care services to work more closely together in local areas, based on a plan agreed between the NHS and local authorities.

It therefore offers a substantial opportunity to the Council to build on its existing partnerships with NHS commissioners and providers to bring resources together to address immediate pressures on services and lay foundations for a much more integrated system of health and care.

This creates both risks and opportunities for the Council. The £3.8 billion is not new or additional money. £1.9 billion will come from clinical commissioning group (CCG) allocations (equivalent to around £10 million for an average CCG) in addition to NHS money already transferred to social care.

Findings:

We are satisfied there is evidence the Council is making good progress in developing arrangements to improve its system leadership, governance and level of integrated working across the city with NHS and other commissioners and providers in preparation for implementation of the Better Care Fund.

Whistleblowing allegation

Risk:

We considered the impact of an allegation received by the Council from a whistle blower during the year, relating to a historic failure to declare a material related party interest, on the Council's arrangements to secure value for money.

Findings:

Based on the work carried out, we have concluded there is evidence of historic weaknesses in the Council's arrangements to assess and take action on the value for money provided by providers of temporary accommodation.

We are, however, satisfied that the financial value of the issue is not sufficiently significant to impact on our value for money conclusion.

Objections received

We did not receive any formal questions or objections to the Council's 2013/14 financial statements from members of the public.

Whole of government accounts

We reported to the National Audit Office on 26 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the whole of government accounts.

We did not identify any areas of concern.

Annual governance statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

We completed this work and did not identify any areas of concern.

Certification of grants claims and returns

We intend to present our annual certification report for 2013/14 to those charged with governance in January 2015 when our work on 2013/14 grant claims and returns is complete.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicate to those charged with governance at the Council, as required, significant deficiencies in internal control.

The control themes and observations reported as part of our Audit Results Report are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description and Impact	Recommendation
<p>Housing leases</p> <p>Based on our review of leases for temporary accommodation we found:</p> <ul style="list-style-type: none"> ▶ Weaknesses in the Council's arrangements for the signing and sealing of leases. ▶ Weaknesses in record keeping for leases. Specifically the Council was not able to locate a significant minority of the leases considered by our work. ▶ A lack of consistency and clarity in lease terms and conditions across similar lease arrangements. <p>Our testing of other disclosures in the financial statements relating to the Council as lessor has identified some further weaknesses in lease documentation and record keeping.</p>	<p>Improve documentation and internal control over leases having regard to the specific weaknesses in arrangements identified by both our review, and the findings from relevant Internal Audit work.</p>
<p>Related party transactions – officers</p> <p>The Council's arrangements for the identification and disclosure of related party interests and transactions for officers are reasonable overall. However, the need to continue to improve arrangements in this area is recognised by the Council. Legal and Democratic Services have introduced an enhanced set of arrangements for officers designed to more fully capture related party transactions from 2014/15.</p>	<p>None required. We will review the revised arrangements introduced as part of our 2014/15 audit.</p>

Description and Impact	Recommendation
<p>Related party transactions - members</p> <p>The Council's arrangements for the identification and disclosure of related party interests and transactions are reasonable overall. However, as part of our work we noted that the disclosure of related party interests for members is informed primarily by review of the members' register of interests.</p> <p>The Council is reliant on members keeping this information up to date. Quarterly reminders are issued, but there is no routine annual circularisation of members to check that the information is accurate. Our review of the members' register of interest highlighted some out of date information. We note, however, that the committee based system of decision making at the Council does offer some mitigation against the risk of any one member having significant influence over operating decisions taken by the Council.</p>	<p>Continue to improve arrangements to identify material related party transactions. Specifically consider whether active circularisation of members would provide a better level of assurance in this area.</p>
<p>Debtors</p> <p>Our testing identified the Council has repeatedly raised and cancelled a £1 million invoice relating to the lessee of Shoreham Airport. This has been done as a mechanism to enforce the lessee to carry out its obligations under the terms of the lease agreement. There is no debt due to the Council unless the lease condition is not met. We are satisfied that the amount raised was cancelled by a credit note at the end of the year, does not appear as part of year end debtors and therefore is correctly excluded from the financial statements. However, the invoice had been re-raised in the new financial year.</p>	<p>The Council should reconsider its current approach of raising and cancelling an invoice where it does not expect to collect a cash debt due to it.</p>

4. Fee update

A breakdown of our agreed fee is shown below. The proposed additional fee for Code work of £7,500 was agreed with the Executive Director of Finance & Resources on 15 October 2014. The proposed final fee remains subject to final agreement by the Audit Commission.

	Proposed final fee 2013/14	Planned fee 2013/14	Scale fee 2013/14	
	£'000	£'000	£'000	Explanation of variance
Total Audit Fee – Code work	217,830	210,330	210,330	<p>Additional auditor time was required due to undertake work on risks to our responsibilities arising from the whistleblowing allegation received as set out in this report.</p> <p>Specifically we were required to amend our audit strategy, compared with previous years, through:</p> <ul style="list-style-type: none"> ▶ a reduction in our materiality threshold; ▶ an increased focus on the Council's arrangements to identify and report related party transactions; and ▶ ongoing liaison with Internal Audit, including review and re-performance of its work in response to the allegation received.
Certification of claims and returns	21,602*	21,602	21,602**	

**Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in January 2015 as part of our 2013/14 Annual Certification Report.*

***Note: the Audit Commission altered the scale fee for the certification of claims and returns after our 2013/14 Audit Plan was finalised and presented to the Audit & Standards Committee in March 2014. The scale fee reduced from £26,300 to £21,602 to reflect the removal of certain claims from the regime.*

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