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Date: 29th March 2012
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Dear Helen

Re: 2011/12 Audit of Brighton & Hove City Council Financial Statements – Compliance with International Standards on Auditing

I am writing with reference to your letter to the Audit Committee at its meeting on 20th December 2011, under the agenda item “Request for assurances from the Audit Committee to support the audit of 2011/12 financial statements”. This sets out relevant assurances from those charged with governance required by the Council’s external auditors under the International Auditing Standards. These assurances are provided below, representing Brighton & Hove City Council’s formal response from those charged with governance, which for the purposes of the financial statements is the Audit Committee.

As in previous years, the Audit Committee have considered the nature and extent of any significant internal and external operational, financial, compliance, fraud or other risks facing the council which might have an impact on the financial statements. These risks have been addressed in both the planning process for the audit of the financial statements (where officers and auditors have discussed key risks) and, to the extent that it is necessary, in the production of the financial statements. The process for the production of the Annual Governance Statement should also mean that all key risks that relate to the financial statements have been considered. Specific assurances are given below.

1. How the Audit Committee, as the body charged with governance, exercise oversight of management's processes in relation to:

1.1 Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud

This responsibility is exercised through the effective functioning of the Audit Committee, the constitution and operation of which follows CIPFA guidelines. The Director of Finance (S151 Officer) and Head of Audit & Business Risk or deputies, attend all meetings of the Audit Committee to discuss and review findings of Internal and External Audit reviews and the level of adequacy of management’s response. The Audit Committee also consider the

Annual Governance Statement including proposed actions and monitoring these in relation to improving governance and controls.

The Audit Committee also reviews the Internal Audit Strategy and Annual Plan and is able to comment on areas proposed for review. The council's Strategic Risks and associated Management Action Plans are regularly reviewed by the Audit Committee and the council's Risk Management Framework ensures that fraud risk would be escalated through to the Audit 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. Roles and responsibilities of members and officers are clearly set out in the Codes of Conduct, Scheme of Delegation, Counter Fraud Strategy and Risk Management Strategy which also describe the relevant registers, declarations and escalation processes to be complied with. The Audit Committee declares that it has no knowledge of any actual, suspected or alleged fraud that could affect the council in relation to the 2011/12 financial statements.

1.2 Identifying and responding to risks of fraud in the organisation

The Audit 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 includes is both proactive and reactive, based on a risk assessment and considers risk identified at a national and local level as a basis for the deployment of resources.

The Audit 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 Audit Committee also oversees the preparation of the Annual Governance Statement for the Leader and Chief Executive to sign off and the implementation of the actions.

1.3 Communication to employees of views on business practice and ethical behaviour

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. 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.

The Audit Committee takes an active interest on how the Council's stance on fraud and corruption is communicated, this being shown by reviewing the Council's Counter Fraud Strategy and recommending approval the Executive.

1.4 Communication to those charged with governance on the processes for identifying and responding to fraud

The Audit Committee approves the Internal Audit Strategy and Annual Audit Plan, the latter includes an annual Counter Fraud Programme. These contain the processes for identifying and responding to fraud. In addition during late 2010/11 the Audit Committee received a report and presentation on a Fraud Risk Analysis and Measurement Review on areas of potential fraud exposure.

2. How the Audit Committee oversees management processes to the risk of fraud and possible breaches of internal control

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

The Audit 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. Whether you have knowledge of any actual, suspected or alleged frauds

The Audit Committee receives an annual report and regular progress reports from the Head of Audit & Business Risk which would include 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. How you gain assurance that all relevant laws and regulations have been complied with

The Audit 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 2011/12 financial statements.

The Audit Committee relies on a number of methods to gain assurance 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;
- Through a robust Counter Fraud Strategy that reinforces to Staff and Members their responsibilities in adhering to all relevant laws and regulations; and
- Proper arrangements in place for the prevention, detecting and deterring fraud.

5. How you carried out a preliminary assessment of the going concern assumption and if so, have you identified any events which may cast significant doubt on the authority's ability to continue as a going concern?

The Audit Committee have satisfied themselves in relation to the application of the going concern assumption. The Audit Committee received the audited set accounts for 2010/11 at its meeting on 27th September 2011 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 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 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 Committee receives for information, regular budget monitoring reports (TBM) throughout the 2011/12 financial year which shows the Council to be in strong, in year financial position.

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

The Audit 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
Chairman of the Audit Committee

Appendix 1

No	Questions for those charged with governance	Those charged with governance response
1.	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?	The Audit Committee is informed by the Head of Audit & Business Risk in his annual report and regular progress reports. Further details on identified losses and frauds risks can be obtained from the Head of Audit & Business Risk.
2.	<p>Do you suspect fraud may be occurring within the council?</p> <ul style="list-style-type: none"> • Have you identified any specific fraud risks within the council? • Do you have any concerns that there are areas within your council that are at risk of fraud? • Are there particular locations within the authority where fraud is more likely to occur? 	<p>The Audit Committee receives regular progress reports from the Head of Audit & Business Risk that includes a summary of fraud investigations. For any significant cases, the Head of Audit & Business Risk would have a confidential meeting with the Chair and Deputy.</p> <p>The Audit Committee has not and would not normally identify any specific fraud risks within the Council but rely on being informed by the Head of Audit & Business Risk.</p> <p>The Audit Committees is informed by concerns raised by the Head of Audit & Business Risk either as part of the Annual Audit Plan (including Counter Fraud Programme) or Annual/Progress Reports.</p> <p>The Audit Committee would accept that fraud is likely to occur in those higher risk areas. For example areas where benefit payments are made and income collected.</p>

No	Questions for those charged with governance	Those charged with governance response
3.	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> • If not where are the risk areas? • What other controls are in place to help prevent, deter or detect fraud? 	<p>Generally yes on what is provided to the Audit Committee by the Head of Audit & Business Risk.</p> <p>Risks in payroll were brought to the attention of the Audit Committee during 2011/12 by the Head of Audit & Business Risk. The Audit Committee is overseeing effective actions to improve controls.</p>
4.	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> • What concerns about fraud are staff expected to report? 	<p>The Council has a Counter Fraud Strategy and Whistleblowing Policy that includes responsibilities and guidance on confidential reporting.</p> <p>The Audit Committee oversees the Council's counter fraud arrangements and it ensures policies etc encourage openness of staff to report concerns over fraud.</p> <p>The Audit Committee would expect concerns over fraud to be reported to the Audit & Business Risk Team. The Head of Audit & Business Risk summarises referrals in his periodic progress reports to the Audit Committee.</p>
5.	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your council?</p> <ul style="list-style-type: none"> • How are the risks relating to these posts identified, assessed and managed? 	<p>The Audit Committee would consider these to generally be where the opportunity for fraud exists. For example where handling income or making payments.</p> <p>Risks associated with the operational areas are included in the Audit Risk Assessment and included as appropriate in the Annual Counter Fraud Programme. The risks can be from a local or national level, informed for example from the National Fraud Authority or Audit Commission.</p>

No	Questions for those charged with governance	Those charged with governance response
6.	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> • How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	<p>The Audit Committee are not aware of any related party relationships and transactions that could give rise to instances of fraud.</p> <p>The Council has a register of member's interests. Information is gathered of third party transactions and where appropriate accounted for and disclosed in the Statement of Accounts 2011/12.</p>
7.	<p>Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> • Are there particular balances where fraud is more likely to occur? • Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the council? • Could a false accounting entry escape detection? If so, how? • Are there any external fraud risk factors, such as benefits payments or collection of tax revenues which are high risk of fraud? 	<p>The Audit Committee are not aware of any entries made in the accounting records of the council that believe or suspect are false or intentionally misleading.</p>
8.	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none"> • Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets? 	<p>The Audit Committee are not aware of any organisational, or management pressure to meet financial or operating targets.</p>

