

Brighton & Hove City Council Annual Audit Letter

Year ending 31 March 2013

October 2013

Ernst & Young LLP



Private and confidential

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

1 October 2013

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 2012/13 Audit Results Report issued on 24 September 2013.

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
Director
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 2012/13 audit work has been undertaken in accordance with the Audit Plan issued on 16 April 2013 and 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 which it reports publicly on the extent to which it complies with its own code of governance. This includes how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period. It is also responsible for having 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 Council's arrangements 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 2013 in accordance with International Standards on Auditing (UK & Ireland)	On 26 September 2013 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 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with the governance of the Council (the Audit & Standards Committee) communicating significant findings from our audit.	On 26 September 2013 we issued our 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 2013.
Consider the completeness of disclosures in the Annual Governance Statement, identify any inconsistencies with 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 during 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 2013 we issued our audit completion certificate.
Issue a report to those charged with the governance of the Council summarising our certification (grant claims and returns) work.	We plan to issue our annual certification report for 2012/13 to those charged with governance in January 2014 when work in this area is complete.

2. Key findings

2.1 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 2013.

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

We identified no significant risks impacting on the audit of the financial statements. Our main findings in relation to the areas of other financial statement risk are set out below.

Other financial statement risks:

Bank reconciliations

A small number of issues were identified in the Council's 2011/12 year end processes to reconcile its bank accounts and other cash balances. As part of our 2012/13 work to walk-through the cash and bank system we also identified an unreconciled difference between the housing benefit bank balance in the cash management system and the balance shown in the bank statement.

Findings

We are satisfied these issues have been addressed subject to a very small remaining difference on the general account reconciliation.

New long term asset and lease accounting system

The Council has changed the system it uses to record and account for long term assets and leases during 2012/13. As part of work needed to implement the new system the Council transferred and reconciled closing 2011/12 balances between the old and new systems.

Findings

We reviewed the transfer and reconciliation of closing 2011/12 balances between the old and new systems to ensure that balances have been brought forward correctly to 2012/13 in the new system. This work identified no issues.

Payroll

In previous years both external and internal audit have reported significant weaknesses in the internal control environment within the payroll system. Weaknesses in the control environment were further exacerbated by the inherent complexity of the Council's payroll.

Findings

During the year the Council has worked to simplify its payroll as part of its pay modernisation agenda, and improve the operation of controls. This work has been actively considered by senior officers, the Audit & Standards Committee and internal audit. We tested payroll transactions to gain assurance for our opinion on the 2012/13 financial statements. Although we did not identify material errors, our work confirmed that the payroll remains highly complex, particularly in terms of the number of different allowances payable. This increases the risk of both error and fraud occurring. The implementation of a simplified system of allowances through pay modernisation in 2013/14 will simplify the payroll and should help to mitigate this risk. We would also like to recognise the good level of assistance to the audit provided by People Centre officers at a very busy time.

Journals processed on the general ledger

External audit has identified in previous years that manual adjustment journals processed on the general ledger are not always subject to formal checking and authorisation. This creates a risk that income and expenditure is misclassified on the general ledger and misreported the financial statements. The Council introduced controls to address this issue.

Findings

We tested the authorisation control established over high risk or more complex journals and found it to be operating effectively. We also used our computer-based analytics tool to support our substantive testing of journals. We considered the output from our interrogation of journals, followed up outliers and unusual trends and tested a sample of journals using a risk-based approach. Our work in this area identified no errors or other issues.

Pensions disclosures in the financial statements

The Council participates in the local government pension scheme administered locally by East Sussex County Council. Some weaknesses in arrangements to process entries in the financial statements have been raised in previous reports to those charged with governance.

Findings

Our work found some improvements have been made to arrangements in this area. However, the Council recognises there remains scope to continue to improve its processes.

Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Findings

We identified no material misstatements or evidence of material fraud. We do, however, continue to note that the high level of complexity of payroll increases the risk of undetected fraud and error occurring in this area.

2.2 Value for money conclusion

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

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

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

We issued an unqualified value for money conclusion on 26 September 2013

2.2.1 Financial Resilience

The Council has continued to use its 'Targeted Budget Management' approach to monitor financial performance and has a good track record of maintaining its spending within budget. The 2012/13 out turn position reported for the General Fund is an under-spend of £4.610 million compared to £4.513 million assumed at budget setting time. The out turn for the Housing Revenue Account is an under-spend of £1.963 million and the out turn for the Dedicated Schools Grant is an under-spend of £1.089 million. The overall level of under-

spending delivered in 2012/13 slightly out performs the target level of under-spending for the year set out in the Council's medium term financial plans.

The Council has set out its key priorities for the period 2011-2015 in its corporate plan. The corporate plan is supported by a medium term financial strategy (MTFS) which is updated annually as part of the budget setting process. The Council has also updated its broader governance arrangements to address the significant changes arising from the Localism Act 2011, including the general power of competence and the abolition of the Standards Board regime.

During the year a refresh of the MTFS was undertaken which now extends to 2018/19. The refresh considers the impact of the 2013/14 budget settlement and the very significant financial challenges facing the Council over the next six years. In setting its 2013/14 budget the Council has recognised that a number of 2014/15 proposals have needed to be fast-tracked to maintain a sustainable financial position. It also recognises that, unless cost pressures can be effectively managed, it is unlikely to be able to sustain support for all services in their current form over the medium term.

2.2.2 Economy, efficiency and effectiveness

The Council has a well established value for money programme and a good track record of delivering its planned savings that has continued into 2012/13. It also makes effective use of cost and performance information to assess the impact of spending decisions and monitor the delivery of its savings plans, and to help ensure spending cuts are not having detrimental impact on service quality and performance in priority areas

However, available comparative data suggests that the Council remains 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. Spending is decreasing in the majority of areas but not at a faster rate than at statistically similar authorities. The Council intends to use this information, alongside other benchmarking carried out, to inform its ongoing work to improve the value for money it delivers. Benchmarking is routinely used by the Council to ensure that the areas of higher spend match Council priorities and also considers authorities that may have more similar characteristics to the Council outside the statistical nearest neighbour group, such as some London boroughs.

2.3 Whole of government accounts

The Council is required to prepare a consolidation pack for the whole of government accounts. On 26 September we reported to the National Audit office the results of our work on its accuracy.

We found that the consolidation pack was consistent with the statutory financial statements but we reported one unadjusted error of approximately £2 million. Our sample testing of creditors in the statutory accounts identified an over-accrual. The amount reported is the extrapolated value of the over-accrual. The Council did not adjust the statutory accounts or the consolidation pack as the estimated impact is not material and was based on an extrapolation only.

2.4 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.

2.5 Certification of grants claims and returns

We intend to present our Annual Certification Report for 2012/13 to those charged with governance in January 2014 when our work on 2012/13 grant claims is complete.

3. Control themes and observations

As part of our audit of the financial statements, we obtained sufficient understanding of internal control to plan our audit and determine the nature, timing and extent of testing. Our audit was not designed to express an opinion on the effectiveness of internal control. We are, however, required by auditing standards to communicate any significant deficiencies detected to those charged with governance. We identified no significant deficiencies in internal control as part of our audit.

We identified and reported one other issue in our audit results report. We undertook work during the year to gain an understanding of the Council's material contracts. Our work highlighted that the Council did not have a complete or up to date master register of all its contracts. Some records were maintained by both the Council's legal and procurement teams but neither was fully complete. We raised a recommendation in this area and a record of all contracts over £75,000 requiring the corporate seal at the end of 2012/13 has now been established by legal services. This has also prompted the Council to reconsider the current requirement for all contracts over £75,000 to require the corporate seal and it is likely to increase this threshold level.

4. Audit fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010.

The fee for the additional Code work shown in the table below relates to a review of a proposed severance case in October 2012 at the Council's request.

	Final fee 2012/13 £'000	Planned fee 2012/13 £'000	Scale fee 2012/13 £'000	Explanation of variance
Total Audit Fee – Code work	210,330	210,330	210,330	-
Certification of claims and returns	23,700*	23,700	23,700	-
Additional Code work	933	-	-	Review of a proposed severance case

**Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13.*

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