

# Brighton & Hove City Council

Audit results report for the year ended 31 March 2014

September 2014

Ernst & Young LLP







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23 September 2014

Dear Members of the Audit & Standards Committee

## **Audit results report**

We are pleased to attach our audit results report for the forthcoming meeting of the Audit & Standards Committee. This report summarises our preliminary audit conclusion in relation to Brighton & Hove City Council's (the Council's) financial position and results of operations for the year ended 31 March 2014. We will issue our final conclusion after the Audit & Standards Committee scheduled for 23 September 2014.

The audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

This report is intended solely for the information and use of the Audit & Standards Committee and the Council. It is not intended to be and should not be used by anyone other than these specified parties.

A copy of this report will be sent to the Audit Commission in accordance with the requirements of its Standing Guidance.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Standards Committee meeting scheduled on 23 September 2014.

Yours faithfully  
For and on behalf of Ernst & Young LLP

**Helen Thompson**  
Ernst & Young LLP  
**United Kingdom**  
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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 accountable officer 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 Audit Results Report 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. Overview of the financial statement audit

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 the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its 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;
- ▶ 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.

We also report to the National Audit Office (NAO) under its group instructions.

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

## **Financial statements**

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified opinion on the Council's financial statements. Our findings are set out in section 3 of this report.

## **Summary of audit differences**

Our audit identified a number of misstatements in the accounts presented for audit, as summarised below.

- 
- ▶ There are no uncorrected misstatements resulting from our work.
  - ▶ Our testing of finance leases where the Council acts as lessor identified two cases where the lease terms had been altered but the Council's detailed accounting records had not been updated accordingly. This resulted in a £200,000 increase in the associated long term debtors on the balance sheet and £200,000 reduction in other net operating expenditure in the consolidated income and expenditure statement. The change increased disclosure of the gross investment in the lease at Note 22 of the financial statements by approximately £10.4 million. A number of other changes to disclosures in the financial statements were made to fully correct for the error.
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## **Economy, efficiency and effectiveness**

Following the performance of the procedures outlined in our Audit Plan, we anticipate issuing an unqualified value for money conclusion. Our detailed findings and conclusions are set out in section 4 of this report.

## **Whole of Government accounts**

We have completed the work required to issue our 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.

As part of our work we noted that the Council had removed the £1 million threshold previously applied to the inclusion of intra-group counter party balances. It has not, however, set or consistently applied a replacement de minimis level leading to some inconsistency in the value of balances included in the consolidation pack. We are, however, satisfied based on our work that all counter party balances of greater than one £1 million have been included in the consolidation return.

### **Audit certificate**

The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

## 2. Scope update

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in March 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.

Our work comprises a number of elements. In our Audit Plan, we provided you with an overview of our audit scope and approach for the audit of the financial statements, our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, and the work that we are required to perform in respect of the Whole of Government Accounts return.

We carried out our work in accordance with our Audit Plan. We outlined the work we needed to complete to address the audit risks associated with the whistle blowing allegation received by the Council. The audit fee reported in our Audit Plan was predicated on there being no significant changes to the risks associated with the audit in previous years. We were required to amend our audit strategy, compared with previous years, through:

- ▶ A reduction in our materiality threshold. This increased the level of testing required in all areas of the audit, and especially in relation to testing housing expenditure.
- ▶ An increased focus on the Council's arrangements to identify and report related party transactions.
- ▶ Ongoing liaison with Internal Audit, including review and re-performance of its work in response to the allegation received.

We will need to quantify the extent of this additional work and discuss the impact on the planned fee. We will update the Audit & Standards Committee through the Annual Audit Letter.

### 3. Significant findings from the financial statement audit

In this section of our report, we outline the main findings from our audit of your financial statements, including our conclusions in relation to the areas of risk outlined in our Audit Plan.

#### 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 have 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

We:

- ▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ reviewed accounting estimates for evidence of management bias;
- ▶ evaluated the business rationale for significant unusual transactions;
- ▶ reviewed the Council's response to the issues arising from the allegation received from the whistle blower as they relate to our responsibilities;
- ▶ evaluated the Council's arrangements for identifying and properly disclosing significant related party transactions in its financial statements; and
- ▶ tested expenditure and other disclosures in the financial statements potentially affected by issues arising from the whistle blower's allegation.

##### Audit findings and conclusion

In addition to our response to the risk identified, the Council has undertaken other work. There has been an ongoing disciplinary investigation by the Council, police investigation and a detailed review 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 have considered and, where appropriate, placed reliance on the findings of the detailed work undertaken by management together with undertaking our own detailed testing. Our audit is designed to express an opinion on the 2013/14 financial statements, reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, and address current statutory and regulatory requirements. The focus of our work has therefore been on discharging those responsibilities.

We found no material misstatement due to fraudulent financial reporting, or evidence of material fraud, impacting on the year of account. Note, however, that our audit is not designed to give absolute assurance and immaterial fraud does occur each year at the Council. 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 undertook work to consider the impact on our responsibilities of the whistle-blowing allegation received on the historic failure of a senior employee to declare a material related party interest. The allegation related to the procurement of temporary accommodation by the Council's housing service. Specifically, we considered a joint piece of work undertaken by the Council's central finance, internal audit and procurement teams to gain 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 it was necessary for us to review, challenge and re-perform on a sample basis the work undertaken by the Council.

The focus of the work undertaken by management was to identify those areas of 2013/14 expenditure potentially affected by the whistle-blowing allegation, and test that expenditure back to supporting evidence to show that a valid and supportable procurement route was followed in commissioning the spend. 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.

However, 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 it enters into. We found weaknesses in record keeping for leases, and the Council was not able to show that it was able to locate 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.

As part of our work in this area we 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 are satisfied that the disclosure of the issue in the related party transactions note in the financial statements is accurate. We are 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 are satisfied that the disclosures originally made were accurate and note that fuller disclosure of the issue in the annual governance statement has been made by management 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 half of the business rates collected by councils will be retained locally and half paid over to central government.

The level of NNDR paid on business property depends on its 'rateable value'. This is calculated by the Valuation Office Agency (VOA).

Where local businesses believe the current value for business properties is wrong they can:

- ▶ appeal to the VOA and ask them to correct details.
- ▶ appeal the rates if the local business and the VOA can't agree. This appeal is heard by a valuation tribunal.

Where rating appeals are successful, monies to settle the appeals will come out of the Council's funds and will also impact on other local public bodies that precept on the Council. This includes not only claims from 1 April 2013 but also claims that relate to periods before the introduction of the business rates retention scheme. As appeals are to the Valuation Office, authorities may not be aware of the level of claims. Appeals can be speculative in nature and multiple appeals can be made against the same property and valuation on different grounds.

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.

We:

- ▶ sought to understand and assess the reasonableness of the Council's methodology in estimating any planned provision in respect of rateable value appeals outstanding at the balance sheet date.
- ▶ considered both the completeness and accuracy of the data on the number of appeals outstanding and the basis for the assumptions made by the Council on the likelihood of success.

**Audit findings and conclusion**

We are satisfied the Council has developed an approach to ensure that a materially accurate and complete provision is included in the financial statements, and the provision has been calculated correctly based on an analysis of available information and professional judgment.

Specifically, we are satisfied that management has used both available data from the VOA on appeals outstanding at the balance sheet date and a historic analysis of data covering both the volume of appeals raised and the percentage success rate to estimate the provision required. Officers have used professional judgment and their experience of the area to review and challenge the output of the model devised. We are also satisfied that the provision made correctly includes an element for potential future appeals against historic valuations not yet lodged at the balance sheet date.

We are required by ISA (UK&I) 260 and other ISAs specifying communication requirements, to report any significant issues to the Audit & Standards Committee as those charged with governance. The matters we have to report are set out in the table below.

Policy/practice/finding	EY comments
<b>Significant matters discussed with management</b>	<p>We received initial communications from the Executive Director of Finance &amp; Resources in January 2014 alerting to the issue raised by a whistle-blower. Subsequently we have held ongoing meetings with the Acting Head of Internal Audit and the Executive Director of Finance &amp; Resources to keep up to date with developments and their on our responsibilities.</p> <p>As appropriate we have also involved EY experts to help inform our response to the issue.</p>
<b>Written representations</b>	<p>Additional representations will be sought from management and those charged with governance in relation to:</p> <ul style="list-style-type: none"> <li>▶ the Council's Private Finance Initiative schemes;</li> <li>▶ the Council's response to the whistle-blowing allegation; and</li> <li>▶ the financial impact of the recent termination of the Council's contract for cash collection.</li> </ul>

## 4. Economy, efficiency and effectiveness

The Code of Audit Practice 2010 sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

- ▶ arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ▶ arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We did not identify any significant risks to the value for money conclusion, but we did identify two other risks in our Audit Plan. The table below summarises the findings from our work and we include our findings in more detail below the table. In addition, we assessed whether there were value for money implications arising from the whistle blowing allegation received.

Other risks:	Impacts arrangements for securing:	Key findings:
<b>Council spending</b>		
<p>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.</p> <p>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.</p> <p>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.</p>	<p>Economy, efficiency and effectiveness</p> <p>Financial resilience</p>	<p>The Council's financial position remains sound at the end of 2013/14 and it continues to be financially resilient.</p> <p>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.</p>

**Better Care Fund**

<p>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.</p> <p>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.</p> <p>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.</p> <p>This will create 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.</p>	<p>Economy, efficiency and effectiveness Financial resilience</p>	<p>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.</p>
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**Whistleblowing allegation**

<p>We have 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.</p>	<p>Economy, efficiency and effectiveness</p>	<p>Based on our work 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.</p> <p>We are, however, satisfied that the financial value of the issue is not sufficiently significant to impact on our value for money conclusion.</p>
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**4.1 Council spending**

In common with most public sector bodies, recent government spending reviews and financial settlements have had a significant impact on the Council. The financial challenge facing the Council is clearly set out in its medium term financial strategy (MTFS) which was refreshed

during the year and now covers the period 2014/15 to 2019/20. The impact of reductions in funding is the key driver of the projections in the MTFs. We are satisfied that the MTFs has been properly updated in light of the current economic climate, particularly projected reductions in available funding, inflation and the impact of recent legislative changes, for example welfare reform and the localisation of council tax support and business rates. However, the scale of the financial challenge faced by the Council continues to grow. The MTFs estimates that the Council will need to identify budget reductions of nearly £90 million over the five year period 2015/16 to 2019/20. This represents a reduction of almost 25 per cent in the General Fund gross budget which is a very significant challenge. The Corporate Peer Challenge review carried out in June 2014, at the request of the Council, reinforces the size of the task and highlights the need for more radical savings solutions.

The Council's financial position remains sound at the end of 2013/14. The minimum level of working balances deemed appropriate remains set at £9 million for the General Fund, representing about four weeks of council tax revenue; and £2.8 million for the Housing Revenue Account (HRA), representing five per cent of gross HRA expenditure. In both cases the actual level of unallocated balances at the end of 2013/14 is higher than the acceptable minimum, with approximately £11.2 million of General Fund and £5.5 million of HRA reserves held. Based on its financial statements, the Council also held a further £69 million of other usable reserves at the balance sheet date, although £53.5 million of those reserves were earmarked for specific purposes. A number of these reserves, such as the Local Management of Schools reserve, PFI reserves and Insurance reserve are not available to support the general spending of the Council.

Although the Council has a good track record of delivering its financial plans including its value for money improvement targets, and its financial position at the end of the year continues to be sound, the scale of the financial challenges are growing. As at month 2 of 2014/15, the Council is forecasting an outturn over-spend position for the General Fund of approximately £6 million. There is therefore a continuing imperative to change more radically, particularly considering the size of the budget gap during the remainder of the MTFs period. This will need to be addressed through more fundamental service prioritisation, re-design and commissioning and de-commissioning decisions.

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 performance of an individual body against a comparator group of statistical nearest neighbours which have similarities in population, expenditure, and geographical area. We have used the latest available VFM profile data, largely relating to financial year 2012/13, to review the cost and efficiency of Council services relative to both its statistical nearest neighbours and all other unitary authorities.

Our review of the updated VFM profiles suggests that the Council's spending relative to both its statistical nearest neighbours and all other unitary authorities remains high. This is true for both its overall per capita spending, and per capita spending in the majority of its main service areas, the only exception to this being environmental services. This is consistent with our findings in both 2011/12 and 2012/13. Spending is decreasing in the majority of areas, but given the Council's relatively high spending levels overall this does not appear to be at any faster rate than at statistically similar authorities. Spend per capita is particularly high in children's services and housing services, where the Council is in the top 5% relative to statistical nearest neighbours. The spend on adult social care, which is a key area of focus in the Council's current VFM improvement programme, is also above average overall.

As part of our work we also specifically considered three specific service areas which are either demand led and significant areas of Council spending by value, closely linked to its VFM improvement activity or directly linked to areas of audit risk. They were:

- ▶ adult social care;
- ▶ children & young people; and

► housing services.

In all cases the level of service spending was compared to statistical nearest neighbours.

For adult social care we found that spend remains above average overall and particularly high for older people. Spend is decreasing but this is having no significant impact on the level of spend relative to others suggesting that spending is not decreasing more quickly than elsewhere. The Council is, however, in the best 20 per cent of councils in terms of the percentage of social care clients receiving self-directed support.

For children and young people the main high spend areas continue to be planned spend on children's social care services per young person aged 0 to 17, which continues to be in the top five per cent, and planned spend on looked after children per young person aged 0 to 17.

Spend on total General Fund and Housing Revenue Account housing services per head remains in the top five per cent, but has decreased from the previous period. The Council's overall 2012/13 spend per head is nearly three times that of the comparator group average. Spend on homelessness services per head remains in the highest five per cent and is almost six times higher than at statistical nearest neighbours. Average weekly management costs per dwelling are in the top 20 per cent and the average weekly cost of maintenance per dwelling is above average.

Finally, we used the VFM profiles to consider the financial resilience of the Council relative to statistical nearest neighbours. We found that both the absolute value of the council tax financing requirements and the value of income from fees and charges remains in the top ten per cent, which is consistent with the high level of relative spend on services. The analysis also supported our conclusion that the Council's financial standing remains relatively sound, with an above average level of non-schools reserves as a percentage of spend, although the level of reserves relative to the comparative group has reduced year on year. Overall management and support costs are also below average and decreasing more rapidly than in other service areas.

## 4.2 Better Care Fund

We are satisfied overall 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 national health service (NHS) and other commissioners and providers in preparation for implementation of the Better Care Fund.

Changes to funding through the Better Care Fund will affect how the whole system of social care, across the public and private sectors, works together. This is against a backdrop of reduced budgets for, and increased savings required from, local government and already significant changes to the NHS. The Council recognises this and all involved with health and social care service design and delivery for citizens in Brighton & Hove will need to be aware of the changes to funding, and the short timescale for funding changes with new, but emerging performance targets. The current statutory duties of organisations continue, but may be added to.

It is clear that the Council considers integration with the NHS, including the Better Care Fund, as a key opportunity to deliver both improved outcomes and financial savings. It is also aware there are potential negative impacts and risks have been raised in both the Council's own strategic risk register and the city-wide risk register in recognition of this. The Council already has well established joint working arrangements with NHS commissioners and providers. There are various pre-existing arrangements under section 75 of the NHS Act 2006 in relation to personal social care, community health and educational services for children and young people, and personal social services and community health care for adults.

The Council's Health & Wellbeing Board (HWB) has been in existence since April 2012, initially in shadow form, and since April 2013 as a statutorily constituted committee of the Council. The Council recognises that the expectation at the time HWBs were created was

that they would fundamentally change the way that local authorities and the health service work by bringing different players together and being a catalyst for change and deeper integration. The Council acknowledges that the HWB in Brighton & Hove, as with other HWBs, has not been as effective as it could potentially be. The pressure on resources, the increasing conditionality of central government funding through the better care system and the new requirements under the Care Bill meant there was an urgent need to examine the existing arrangements and identify a better way forward. The previous structures and governance arrangements were considered inadequate to deliver a more strategic, co-ordinated delivery of services. There was also an accepted need for system leadership across the Council and CCG to provide the necessary strategic direction and governance structure to achieve greater integration and co-ordinated approach resulting in better outcomes for residents. In May 2014, the Council therefore agreed significant changes to the role, purpose and ways of working of the HWB to reflect this need for greater co-ordination and integration of health and local authority functions.

Good progress has been made by the Council during the year in accelerating development of arrangements for implementation of the Better Care Fund. Every council and CCG is required to develop a plan in line with national guidance. The plan is expected to identify local priorities and demonstrate how the proposed arrangements meet six nationally specified conditions. The Brighton & Hove Better Care Plan was approved by the Health and Wellbeing Board in February 2014. As part of this detailed budget allocations were also agreed in partnership with the CCG. Feedback was received from NHS England on the initial plan submission which noted a good level of partnership working and use of existing service developments for improving user experience and outcomes. A revised submission of the plan is due on 19 September 2014.

A key part of its Better Care Plan is the Council's intention to scope and develop an integrated and holistic frailty model for residents who are vulnerable and who have complex needs. It is planned this will be delivered by a multi-disciplinary team who will consistently consider both the mental health, physical health and social care needs of the individual. As part of this a homeless integrated model is currently being developed and implemented in one geographical location.

### 4.3 Whistleblowing allegation

We considered the impact on our value for money conclusion 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. This involved consideration of relevant work undertaken by Internal Audit, including a specific review of controls in temporary accommodation, and other relevant reviews of the use of external suppliers of temporary accommodation by the Council. Based on our work 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. Although some controls are in place and relevant data is available there is clear scope to use this data better to routinely produce and monitor management information to provide an indication of the value for money offered by external providers of temporary accommodation. We note that a number of the control weaknesses confirmed by our review of the Council's arrangements for temporary accommodation have previously been highlighted in reviews undertaken by Internal Audit, but have not been fully acted upon by service management.

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

## 5. Control themes and observations

As part of our work, 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 of internal control we are required to communicate to you significant deficiencies in internal control.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

### 5.1 Current year observations

Description	Recommendation
<p><b>Housing leases</b></p> <p>Based on our review of leases for temporary accommodation we found:</p> <ul style="list-style-type: none"> <li>▶ Weaknesses in the Council's arrangements for the signing and sealing of leases.</li> <li>▶ Weaknesses in record keeping for leases. Specifically the Council was not able to show that it was able to locate a significant minority of the lease considered by our work.</li> <li>▶ A lack of consistency and clarity in lease terms and conditions across similar lease arrangements.</li> </ul> <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><b>Related party transactions - officers</b></p> <p>The Council's arrangements for the identification and disclosure of related party interests and transactions for officers are reasonable overall. The Council circularises all senior employees as part of the year-end financial statements processes. Our testing noted that 4 responses (from a total of 57) were not received. In each case we are satisfied that the Council has taken appropriate follow-up action.</p> <p>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>
<p><b>Related party transactions - members</b></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. 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 highlight 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>

Description	Recommendation
<p><b>Debtors</b></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 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>

## 5.2 Status of previous year's recommendations

Description	Recommendations
<p>We made a relatively small number of recommendations as part of our 2012/13 audit results report. We are satisfied that action has been taken in respect of the recommendations raised.</p>	<p>None.</p>

## 5.3 Challenges for the coming year

Description
<p><b>Council cash collection contract</b></p> <p>The Council has experienced significant difficulties with its security carrier contract for cash collection and the value of cash in transit at the end of 2013/14 was approximately £2.2 million. Although we are satisfied that the majority of the cash in transit at the year-end has now been received, delays in the banking of cash collected on behalf of the Council by the contractor have continued into 2014/15. The Council terminated the contract with the security carrier on 2 August 2014, continues to seek full payment of the amounts owed to it and has obtained specialist debt recovery advice.</p>
<p><b>2014/15 financial performance and 2015/16 budget setting</b></p> <p>The increasing pressure on the Council's finances continues into the 2014/15 financial year. As at month 2 the Council is forecasting an outturn over-spend position for the General Fund and HRA of approximately £6 million, although there is approximately £1.9 million of unallocated risk provision that could be offset against this. The main cause is higher than expected costs in adult social care and the level of forecast over-spend is significantly higher than at an equivalent stage in previous years. This, coupled with the continuing need to secure further efficiency improvements and cost reductions, significantly increases the challenge faced by the Council in being able to deliver its budgeted 2014/15 outturn and set a balanced budget for 2015/16.</p>



## 6. Status of our work

### 6.1 Financial statement audit

Our audit work in respect of our opinion on the Council's financial statements is substantially complete. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	▶ To be tabled at the Audit & Standards Committee on 23 September 2014.	Management and Audit & Standards Committee
Annual accounts	<ul style="list-style-type: none"> <li>▶ Approval of accounts by Audit &amp; Standards Committee.</li> <li>▶ Accounts re-certified by the Executive Director of Finance &amp; Resources.</li> </ul>	Management, Audit & Standards Committee and EY

On the basis of our work performed to date, we anticipate issuing an unqualified auditor's report in respect of the Council's financial statements. However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

### 6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an unqualified value for money conclusion in regard to the Council's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

### 6.3 Objections

At the date of writing this report we have received no objections from members of the public.

## 7. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2013/14 £'000	Planned fee 2013/14 £'000	Scale fee 2013/14 £'000	Explanation of variance
<b>Total Audit Fee – Code work</b>	<b>To be determined</b>	<b>210,330</b>	<b>210,330</b>	
Certification of claims and returns	21,602*	21,602**	21,602**	
Non-audit work:	73,900	75,000		
Advisory services for value for money through modernisation				

\*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 December 2014 within the Annual Certification Report for 2013/14.

\*\*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.

Our final fee is yet to be determined. The changes to the audit strategy required as a consequence of the whistle blowing allegation received led to a significant increase in the volume of testing required. We will assess what effect this had on our fee, taking into account the significant support received from the Council's Central Accounting Team.

Fees for the auditor's consideration of correspondence from the public and formal objections are charged in addition to the scale fee.

### Non-audit work

The Council appointed EY, through a competitive process, to provide support for its programme to identify savings opportunities spanning 2014/15 to 2018/19. We assessed this proposal against the potential threats set out above and concluded there were no threats, and appropriate safeguards had been put in place. The assessment was shared with the Audit Commission which provides a regulatory role in relation to safeguarding the independence and objectivity of auditors. The Audit Commission also concluded that appropriate safeguards were in place, and the work did not pose an independence threat.

## 8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

We have asked the Council to correct all misstatements over £387,000. We have included all amounts greater than approximately £3.9 million relating to the Council in our summary of misstatements below.

We highlight in particular the following misstatements identified during the course of our audit that have been corrected by management. Our testing of finance leases where the Council acts as lessor identified two cases where the lease terms had been altered but the Council's detailed accounting records had not been updated accordingly. This resulted in a £200,000 increase in the associated long term debtors on the balance sheet and £200,000 reduction in other net operating expenditure in the consolidated income and expenditure statement. The change increased disclosure of the gross investment in the lease at Note 22 of the financial statements by approximately £10.4 million. A number of other changes to disclosures in the financial statements were made to fully correct for the error.

There were no uncorrected misstatements.

## 9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2014. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Standing Guidance and in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit & Standards Committee on 23 September 2014.

## Appendix A Required communications with the Audit & Standards Committee

There are certain communications that we must provide to the Audit & Standards Committee. These are detailed here:

Required communication	Reference
<b>Terms of engagement</b>	The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies.
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	Audit plan
<b>Significant findings from the audit</b>	Audit results report
<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process)</li> </ul>	
<b>Misstatements</b>	Audit results report
<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	
<b>Fraud</b>	By correspondence with the Chair of the Audit & Standards Committee.
<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit &amp; Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	Audit results report. We have raised a recommendation that the Council should continue to improve its arrangements to identify material related party transactions.
<ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	
<b>External confirmations</b>	Audit results report. We have obtained all external confirmations sought
<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	

Required communication	Reference
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit &amp; Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>We have not identified any material instances of non-compliance with law and regulation.</p> <p>We made written enquiries to management and those charged with governance. We also have also received representations as part of the letter of management representation. No instances of material non-compliance have been disclosed by either management or those charged with governance.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit plan and update in section 9 of this report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Audit results report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit results report</p>
<p><b>Fee reporting</b></p> <ul style="list-style-type: none"> <li>▶ Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).</li> </ul>	<p>Audit plan, audit results report and annual audit letter</p>
<p><b>Summary of certification work undertaken</b></p> <ul style="list-style-type: none"> <li>▶ Annual report to those charged with governance summarising the certification work undertaken</li> </ul>	<p>Annual certification report – to be issued in December 2014.</p>

## Appendix B Letter of representation

To:  
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 noncompliance 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 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 Board 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.

#### **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:

Name: Catherine Vaughan

Position: Executive Director Finance & Resources

Date: 24 September 2014

Name: Leslie Hamilton

Position: Chairman, Audit & Standards Committee

Date: 24 September 2014

EY | Assurance | Tax | Transactions | Advisory

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