

Our reference HT/BR006/1112statements

20 December 2011

Les Hamilton
Chairman of the Audit Committee
Brighton & Hove City Council
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— Dear Les

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

In order to comply with a number of International Standard on Auditing I am required to obtain an understanding of the following:

- 1) How the Audit Committee, as the body charged with governance, exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
 - identifying and responding to risks of fraud in the organisation;
 - communication to employees of views on business practice and ethical behavior; and
 - communication to those charged with governance the processes for identifying and responding to fraud.
- 2) How the Audit Committee oversees management processes to identify and respond to the risk of fraud and possible breaches of internal control.
- 3) Whether you have knowledge of any actual, suspected or alleged frauds
- 4) How you gain assurance that all relevant laws and regulations have been complied with.
- 5) Have 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?

In addition to the above questions about how you gain assurance from management, I have included at Appendix 1, 8 questions about your views on fraud. Your responses will inform my assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work I undertake.

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Please provide a response by 31 March 2012 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Simon Mathers
Audit Manager

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?	
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? 	
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? 	
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? 	
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? 	
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? 	
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 	

	<p>detection? If so, how?</p> <ul style="list-style-type: none"> ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues which are high risk of fraud? 	
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? 	