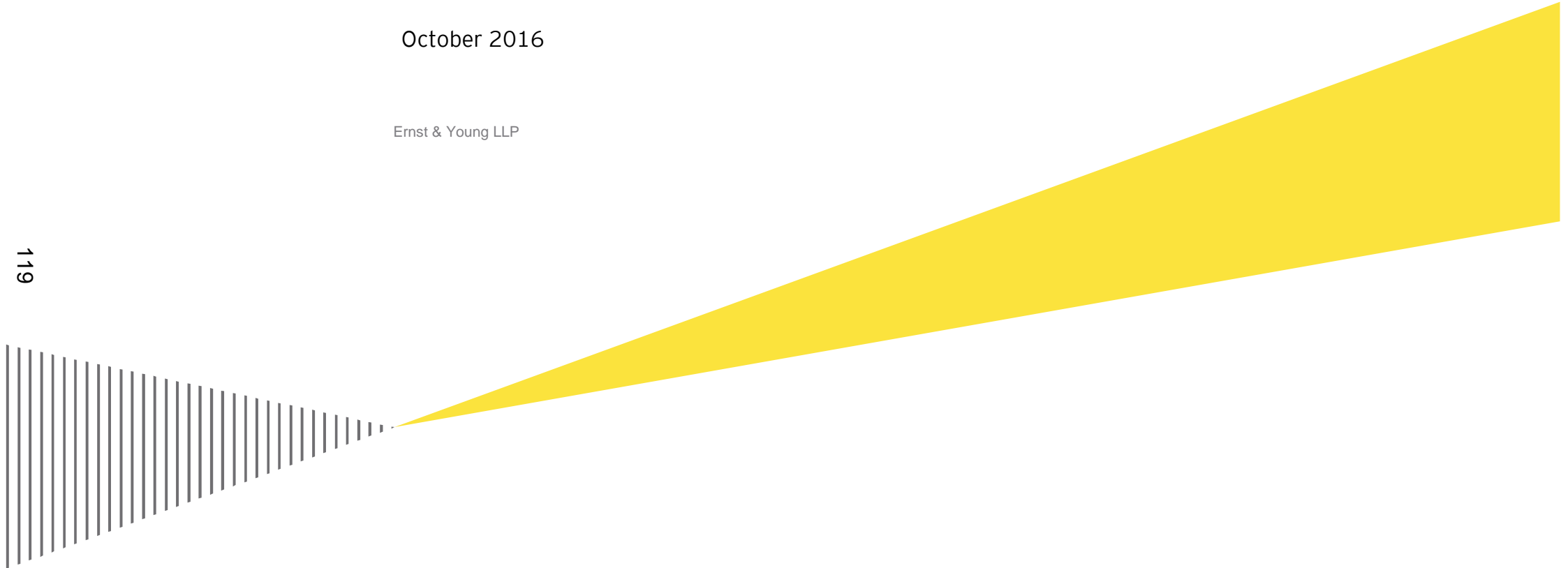


Brighton & Hove City Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (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.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Brighton & Hove City Council (the Council) following our audit for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit.

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.
Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	<p>Under the Accounts and Audit Regulations 2015 members of the public can, for a period of 30 working days, ask questions of the Council and raise objections with external auditors. The period ran from 15 June to 26 July 2016 and we received one objection to the 2015/16 accounts from a member of the public.</p> <p>The objection is on the grounds that the Lender Option Borrower Option (LOBO) loans that the Council have entered into are unlawful, on the grounds that the decision to take out the loans was unreasonable and irrational.</p>

We accepted this objection as it met the criteria for consideration. We have been able to conclude that the objection raised does not have an impact on our financial statement opinion or our value for money conclusion.

Our work on the objection is ongoing and we will report to both the Council and objector once we have completed our consideration.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Reports was issued on 27 September 2016.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We cannot issue our certificate of completion of the audit until the objection has been determined.

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

Paul King
 Executive Director
 For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 27 September meeting of the Audit & Standards Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued in February 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ on the 2015/16 financial statements; and
 - ▶ on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ if the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ any significant matters that are in the public interest;
 - ▶ any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ if we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office. We issued an unqualified audit report on 29 September 2016.

Our detailed findings were included in our Audit Results Reports presented to the 27 September 2016 meeting of the Audit & Standards Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias, reviewing accounting policies and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We completed our testing in respect of the procedures set out in our Audit Plan. In respect of these procedures we noted no:</p> <ul style="list-style-type: none">• indicators of inappropriate journal entries recorded in the general ledger or inappropriate adjustments made in the preparation of the financial statements;• indicators of management bias within accounting estimates or judgments;• inappropriate accounting policies; or• transactions lacking appropriate business rationale. <p>We have not identified any material weaknesses in controls or evidence of material management override.</p>

Significant Risk	Conclusion
Valuation of property, plant and equipment (PPE)	
<p>Land and building valuations are based upon valuation reports issued by a range of internal and external professional valuers used by the Authority. In 2014/15 our testing identified a material amendment to the valuation of PPE and we considered these issues to be a significant risk to the 2015/16 financial statements.</p>	<p>Our audit plan identified a significant risk in relation to the timing and scope of the PPE valuations and the subsequent checks undertaken by central Financial Services to assess the reasonableness of the valuations provided. We also confirmed that we would use our own internal experts in this area.</p> <p>On receipt of the draft financial statements our initial analytical procedures identified a reduction in the value of PPE of some £500 million. We challenged this movement both generally and within specific asset categories, including the valuation of land. We held lengthy discussions with the Council's finance staff, internal valuer, and external valuer.</p> <p>Consequently, a revised external valuation report was provided, which increased the value of PPE by £92.2 million, this change reflected local knowledge of the availability and value of land in Brighton & Hove.</p> <p>As a result of our work we made the following recommendations that the Council:</p> <ul style="list-style-type: none"> · undertake a more robust exercise to challenge the reasonableness of asset valuations; and · ensure that there is early communication with any external valuers with regard to the timeline for 2016/17 and that any specific local information that should be taken into consideration is shared with them in a timely manner. <p>The need for this challenge and additional work will mean an additional fee, which we will calculate at the conclusion of the audit and agree with the Council and will then be subject to determination by PSAA Ltd.</p>
Other Risks	Conclusion
Minimum Revenue Provision (MRP)	
	<p>We commissioned an EY expert to review the changes proposed by the</p>

Local authorities are required each year to set aside some of their revenues as provision for capital expenditure financed by borrowing or credit arrangements. This provision is known as MRP.

MRP is a real charge that impacts on the general fund and therefore the council tax financing requirement. The Council made changes to the basis on which it has charged MRP and its future approach to calculating the provision and as such we considered this a risk to our audit opinion.

Council in this area.

Our testing highlighted some minor changes to the underlying arrangements of the Council but these did not have an impact on the council tax financing requirement.

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money'.

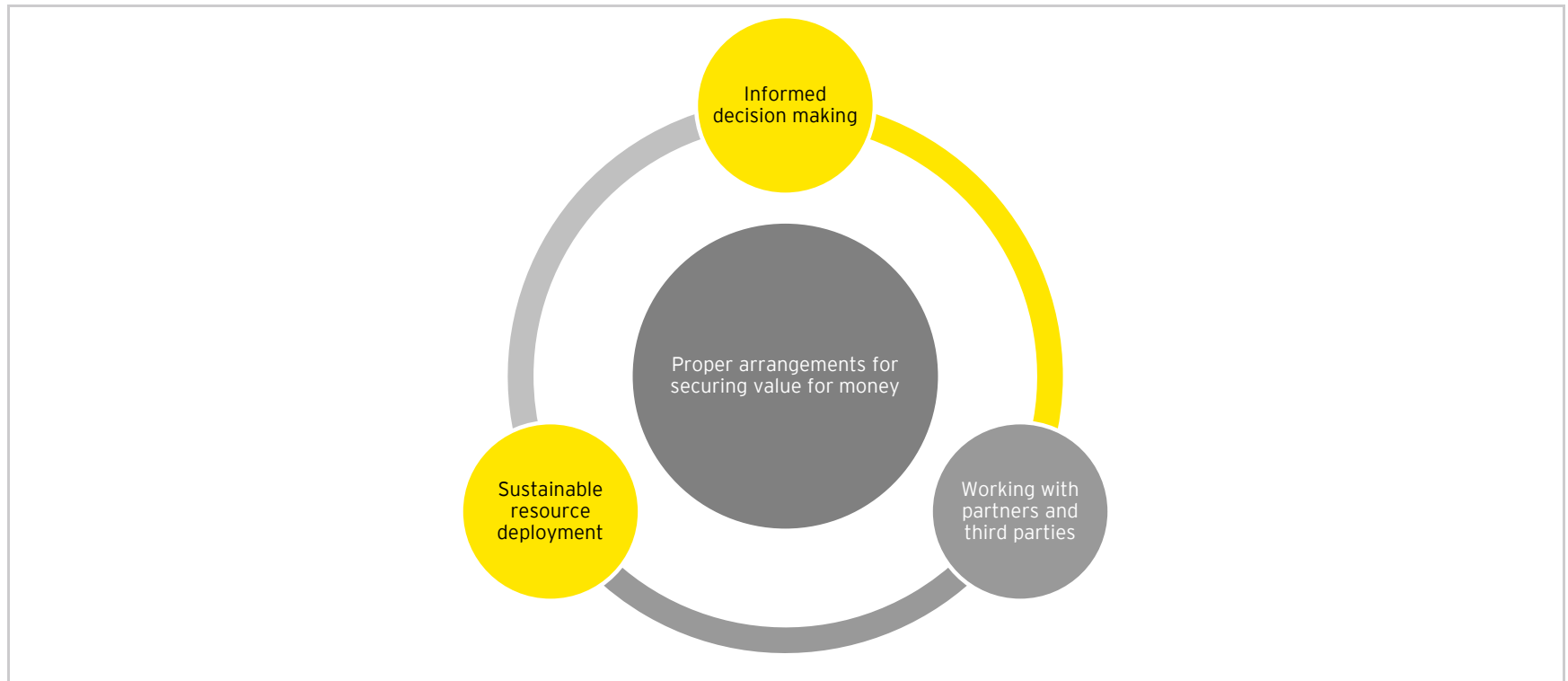
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.



We issued an unqualified value for money conclusion on 29 September 2016.

We identified a significant risk that the Council would not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We reported our detailed findings in our Audit Results Report. The overall conclusion from our procedures was that the Council is financially resilient for the foreseeable future. However, it is important that the Council continues its track record of delivering its planned budget and savings, in particular progressing the overall transformation programme and identifying clearly supported savings plans. This is critical to the Council's finances and the balance it has to strike between the funding available against the level of services it can provide.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

We had no issues to report.

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 is misleading.

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We have not identified any issues to date which require us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We received one objection to the 2015/16 accounts from a member of the public. The objection is on the grounds that the Lender Option Borrower Option (LOBO) loans that the Council have entered into are unlawful, on the grounds that the decision to take out the loans was unreasonable and irrational.

We accepted this objection as it met the criteria for consideration. We have been able to conclude that the objection raised does not have an impact on our financial statement opinion or our value for money conclusion.

Our work on the objection is ongoing and we will report to both the Council and objector once we have completed our consideration.

Other Powers and Duties

We have identified no issues during our audit that have to date required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit & Standards Committee meeting on 27 September 2016. 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 regulatory and professional requirements.

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 control, we are required to communicate to you significant deficiencies in internal control identified during our audit. We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

A close-up photograph of a person's hands holding binoculars to their eyes. The person's face is partially visible in the background, looking through the lenses. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
EU referendum	<p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>	<p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p>
Highways Network Asset (HNA)	<p>The Code of Practice on Transport Infrastructure Assets (TIA Code) was first published in 2010 and updated in 2013. The key aim of this document was to improve the asset management of TIA. During 2016, this guidance has been renamed and updated, with the Highways Network Asset (HNA) Code, Guidance Notes and Accounting Guidance being published. Local Government has historically used depreciated historic cost (DHC) as the valuation approach for infrastructure assets. The introduction of the HNA Code will see this valuation basis change to depreciated replacement cost with effect from 1 April 2016. The change will be applied prospectively from that date, so Highways Authorities are not required to disclose comparative information.</p> <p>This is a fundamental change in approach which will require new accounting and estimation approaches as well as amendments to existing systems, or implementation of new systems.</p>	<p>The impact on the Council's balance sheet will be highly significant. The impact on the audit will also be significant, as auditors will need to obtain sufficient assurance over the material accuracy of this asset.</p> <p>We will work closely with the Council at both the local level, regarding system implementation, valuation procedures and accounting, and at the wider level through the continuation of our HNA Client Workshops.</p>

Area	Issue	Impact
<p>Appointment of auditors</p>	<p>The current audit contracts expire on the completion of the 2017/18 audit. The expiry of contracts also marks the end of the current mandatory regime for auditor appointments.</p> <p>After this, the Council can exercise choice about whether they decide to opt in to the authorised national scheme, or whether to make other arrangements to appoint its own auditors.</p> <p>In July 2016, the Secretary of State for Communities and Local Government specified Public Sector Audit Appointments limited (PSAA) as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015.</p> <p>PSAA will be able to appoint an auditor to relevant authorities that choose to opt into its national collective scheme.</p>	<p>Appointment of auditors for the 2018/19 financial year is required by 31 December 2017.</p> <p>The Council should consider whether they intend to opt into the appointed person scheme to appoint your auditors from 2018/19 or if they should make their own arrangements following the legislative requirements.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2015/16 is in line with the scale fee set by the PSAA and reported in our Audit Plan and Audit Results Report.

Description	Final Fee 2015/16 £	Planned Fee 2015/16 £	Scale Fee 2015/16 £	Final Fee 2014/15 £
Total Audit Fee - Code work	TBC*	158,550	158,550	215,878
Total Audit Fee - Certification of claims and returns	15,957**	15,957	15,957	18,531
Non-audit work	0	0	0	0

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

** In 2015/16 we have undertaken additional work outside the scope of the scale fee in relation to the PPE valuation significant risk and in dealing with the objection that we have received. We are still assessing the impact of this additional work on the fee and will agree this with the Director of Finance and report the final agreed fee to the Audit & Standards Committee via our regular progress reports.*

***Our work on the certification of the Council's claims and returns is ongoing, our final fee for this work will be reported to those charged with governance in December 2016 within the Annual Certification Report for 2015/16.*

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ED None

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