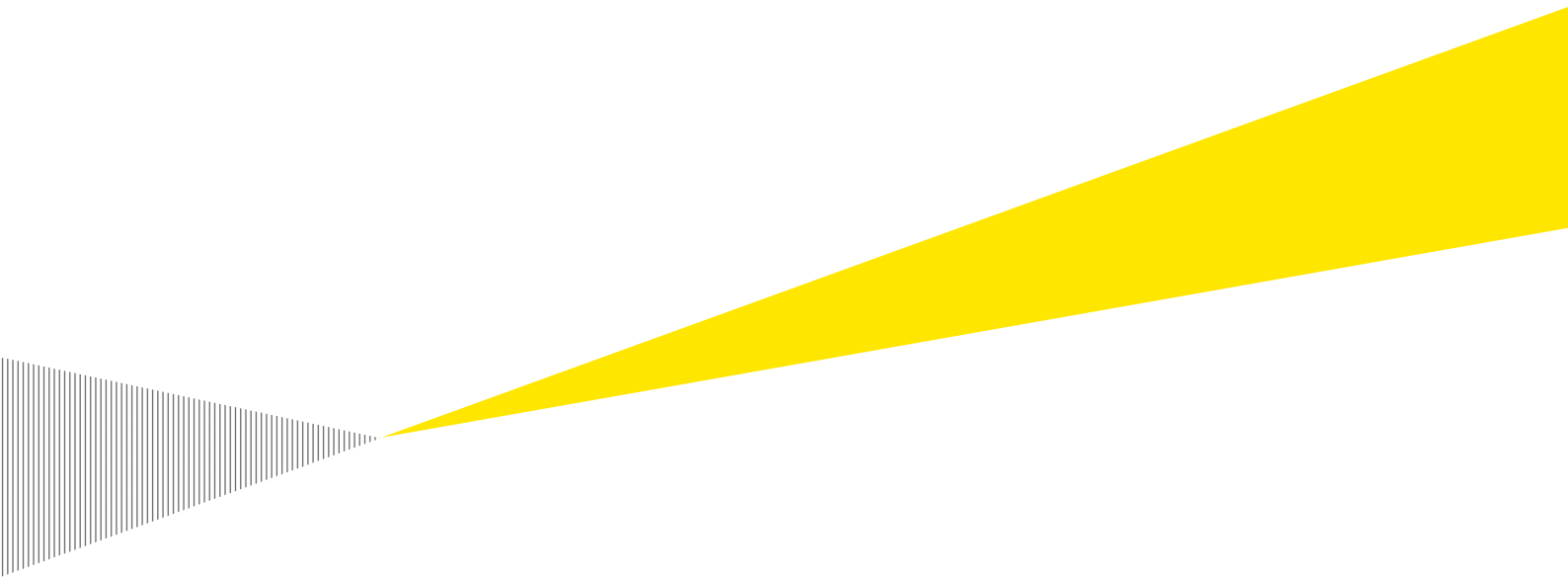


Brighton & Hove City Council

Audit & Standards Committee Progress Report

February 2017





Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB
Tel: + 44 2380 382000
Fax: + 44 2380 382001
ey.com

Audit & Standards Committee
Brighton & Hove City Council
Hove Town Hall
Norton Road
Hove
BN3 3BQ

February 2017

Dear Members,

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Audit & Standards Committee in January 2017. The purpose of this report is to provide the Committee with an update of our plans for the 2016/17 audit, to ensure they continue to be aligned with your service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

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

Contents

2016/17 audit	Error! Bookmark not defined.
Looking Ahead.....	3

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](http://www.psa.co.uk) (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 Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. 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.

2016/17 audit

Financial statements audit

We issued our audit plan in January 2017 where we outlined how we intend to carry out our responsibilities as auditor, including our proposed audit approach.

We have completed a number of additional interim procedures since the Audit Plan was issued and are pleased to confirm we remain satisfied that those risks identified in the audit plan remain appropriate. These included:

- Risk of management Override.
- Risk in respect of the Valuation of Land and Buildings
- A Value for Money risk regarding the Councils ability to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Second Interim Visit

We started our second interim visit on 27 February, to undertake outstanding documentation and walkthroughs of material systems, complete controls testing (including reliance on the work of Internal Audit) and undertake early substantive testing.

We will report to the next Committee should any additional risks be identified from this work.

Post Statements Audit

Anticipating the move to faster closing, whereby the Council will have to publish its audited statement of accounts by 31 July 2018 for the 2017/18 financial year, we are looking to start our post statements work on the 2016/17 statement of accounts at the beginning of June 2017.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

We plan to present our audit results report, setting out the findings of our work and overall conclusions, to the Audit & Standards Committee on 25 July 2017.

Value for Money Assessment

We have completed our planning work and expect to carry out our detailed work during our post statements audit visit. We plan to report the results of this work to the Audit & Standards Committee on 25 July 2017.

LOBO Objection

In our 2015/16 Audit Results Report we noted that an objection had been received from a member of the public. The objection stated that the Lender Option Borrower Option (LOBO) loans that the Authority entered into are unlawful, on the grounds that the decision to take out the loans was unreasonable and irrational. We have accepted this objection as it met the criteria for consideration.

Our consideration of this objection remains ongoing. We have received additional information from the Council and are in the process of reviewing it. We anticipate sharing our preliminary views with the Council and the objector shortly.

Looking Ahead

Financial Statements Presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Our Approach will focus on:

- Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code
- Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.
- Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

Highways Network Assets

At its meeting on 9 November, the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) decided to postpone the full implementation of the move to measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements.

Amendments have therefore been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 to defer the introduction of Highways Network Assets. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

© Ernst & Young LLP. Published in the UK.
All rights reserved.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

