

Subject:	Audited Statement of Accounts 2016/17		
Date of Meeting:	19 September 2017		
Report of:	Executive Director of Finance & Resources		
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Ward(s) affected:	All		

FOR GENERAL RELEASE**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 This report provides information about the audit of the council's 2016/17 Statement of Accounts and recommends approval of the 2016/17 audited accounts and the Letter of Representation on behalf of the council. The report accompanies the Annual Governance Statement previously approved by the Committee in July 2017.
- 1.2 Under the Accounts and Audit Regulations 2015, the council's accounts for 2016/17 must be approved by Members by the 30 September 2017. Under the council's constitution, the Audit & Standards Committee is charged with this responsibility. Note, the statutory deadline will be brought forward by central government to 31 July for the 2017/18 statements.
- 1.3 The council's current external auditors (EY) are required to give assurance that the accounts are free from material misstatement and to report significant matters arising from the audit. EY will be presenting their findings to this Committee through the Audit Results Report (ARR) elsewhere on this agenda, after which they will be able to issue their audit opinion and the accounts will be published.
- 1.4 This report presents the updated 2016/17 accounts following the outcome of the audit process. It outlines the amendments made to the accounts and provides assurances in relation to the preparation of the accounts. It also informs the committee of the outcome of the public inspection of the accounts. Copies of the revised accounts are available in the Members' rooms.

2. RECOMMENDATIONS:

That the Audit & Standards Committee:

- 2.1 Notes the findings of the auditor (EY) in their Audit Results Report (ARR). The ARR is a separate item on this agenda.
- 2.2 Notes the results of the public inspection of the accounts (Section 5).
- 2.3 Approves the Letter of Representation on behalf of the council (Appendix 1).

- 2.4 Approves the audited Statement of Accounts for 2016/17.
- 2.5 Note the acceptance of Grant Thornton as the proposed auditor appointment to Brighton & Hove City Council from 2018/19.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The main legislative requirements relating to the preparation, publication and audit of the council's accounts are contained in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.
- 3.2 It is a requirement that the annual accounts be prepared as soon as practicable after the end of the financial year and considered and approved by a resolution of the committee charged with governance or Full Council by the 30 September. Therefore, the accounts must be published and signed off by the external auditor as soon as reasonably possible after the conclusion of the audit and by the 30 September.

Format of the Accounts

- 3.3 Clearly, local authority accounts are not viewed from a commercial perspective, for example, in terms of an authority's attractiveness for possible merger or acquisition. However, local authorities are viewed in terms of their financial resilience, effective financial management and general viability (going concern). The purpose of the accounts therefore is to provide information to a whole range of stakeholders and the general public about the financial position, financial performance and cash flows of the council and to provide answers to basic questions such as:
- What did the council's services and capital programme cost in 2016/17?
 - Where did the money come from?
 - What does the council own?
 - What commitments does the council have and what provisions and reserves has the council set against these?
 - What amounts were due and what was owed at the end of the financial year?
- 3.4 In accordance with the Accounts and Audit Regulations, the accounts include:
- The Narrative report;
 - Statement of responsibilities;
 - Core financial statements (Expenditure & Funding Analysis (EFA), Movement in Reserves Statement, Comprehensive Income and Expenditure Statement (CIES), Balance Sheet (BS) and Cash Flow Statement);
 - Supplementary statements (Housing Revenue Account and Collection Fund);
 - Notes to the accounts; and
 - Accounting policies.
- 3.5 The narrative report aims to offer interested parties a more readable guide to the most significant matters reported in the accounts. A brief commentary on these key aspects of the 2016/17 accounts is included in Appendix 2 to this report.

- 3.6 The statements would normally comprise both “Single Entity Accounts”, which are in respect of wholly council controlled activities, and “Group Accounts” in respect of activities where the council has a significant interest or share in a subsidiary, associate or joint venture entity. However, there are no activities requiring the preparation of Group Accounts in 2016/17 but next year, treatment of the planned Housing Joint Venture with Hyde Housing will need to be considered in this regard.
- 3.7 EY has completed their work on the audit of the accounts and will be reporting their findings separately to this Committee through the Audit Results Report (ARR). Following this report, EY will normally be able to issue their audit opinion and the accounts will be published.

Preparation of the Accounts

- 3.8 The council is required to prepare its accounts on an International Financial Reporting Standards (IFRS) basis in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); the 2016/17 accounts cover the period 1 April 2016 to 31 March 2017. There has been no deviation from the requirements of the Code and all accounting policies adopted by the council for the 2016/17 accounts are in line with the requirements of the Code.
- 3.9 For 2016/17 there are no significant changes in reporting requirements under the Code of Practice and no changes in the council’s accounting policies. A new ‘Expenditure & Funding Analysis’ statement has however been included in the statements in accordance with the code. The guidance states that the EFA *‘is intended to allow a clear link to be made between in-year monitoring, General Fund information and final outturn as set out in the audited financial statements, thus closing the accountability loop from budgets through to outturn’*.
- 3.10 The accounts have been prepared by appropriately qualified and trained council officers who have undertaken appropriate training on the requirements for preparing local government accounts. Finance officers involved in the preparation of the accounts attend regular training and/or workshops to ensure an up to date knowledge and continuous professional development.
- 3.11 Officers have made reference to CIPFA’s practitioner’s guidance notes, disclosure checklists and other technical guidance in preparing the accounts to ensure compliance with all statutory and other regulatory requirements. Officers have also liaised closely, during the preparation of the accounts, with EY over the proposed accounting treatment of the key changes affecting the 2016/17 accounts.
- 3.12 In preparing the accounts, the council makes a number of critical judgements, accounting estimates and assumptions; the details are disclosed in Note 3 of the accounts.
- 3.13 As part of the accounts preparation process, a full review of the financial statements, notes and critical accounting transactions was undertaken by senior officers within Finance. Following this review, the accounts were then approved

by the Chief Finance Officer to be issued for public inspection and audit. Evidence of this review formed part of the working papers produced for EY.

- 3.14 During the accounts audit process, officers liaised closely with EY in respect of audit queries and worked closely to ensure prompt and successful resolution of these queries. During the audit of the 2016/17 accounts, there have been no disputes between council officers and EY in relation to the required amendments to the accounts.

Audit of the Accounts

- 3.15 EY has completed the audit of the council's accounts and their Audit Results Report (ARR) forms part of this committee's agenda. EY are responsible for:
- Forming an opinion on the financial statements;
 - Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources.
- 3.16 Compilation of the financial statements relies on data extracted from the financial systems, including those systems which interface into the financial system. It is therefore important for EY to be satisfied that these systems have adequate controls in place so that assurance can be given on the integrity of the information held within them.
- 3.17 During the course of the audit, EY identified a number of audit differences which have been discussed and agreed with council officers and amendments have been made to the financial statements for all identified differences.
- 3.18 EY identified 4 material and 9 immaterial 'audit differences' in respect of the valuation of property, plant and equipment resulting in a net downward adjustment of £23.676 million to non-current assets (property). This may seem considerable but to put this in context, the council's total non-current assets are valued at nearly £2 billion, including council house dwellings, and therefore this adjustment is approximately 1.2% of the total value. The accounts have been amended for these audit differences.
- 3.19 The ARR for 2016/17 states that an unqualified audit opinion is expected to be issued and that the council has proper arrangements in place to secure value for money in its use of resources. EY note that the council has a number of comparatively high cost services but is fully aware of the reasons for this and that, in their opinion, this does not adversely affect their value for money conclusion.

Future Appointment of Auditors

- 3.20 Members will remember that the committee agreed, at its meeting of 10 January 2017, to join the sector-led appointment of new auditors following the ending of the current national contracts in 2018. The appointment is being led by the Local Government Association company, Public Sector Audit Appointments Ltd (PSAA), and there are 484 authorities out of a possible 493 that have joined the sector-led procurement process. The procurement process is now complete and the authority has been notified that Grant Thornton was successful in winning one of the 6 lots tendered. The authority has also been notified that PSAA

propose to allocate and appoint Grant Thornton to this authority to be its auditor for 5 years starting with the 2018/19 accounts. The same auditor has also been allocated to Surrey and East Sussex County Councils with whom the council has entered into a shared service arrangement (Orbis). Similarly, the same auditor has been allocated to South Downs National Park Authority to whom this authority provides contracted services. Having a common auditor will provide opportunities for more efficient year-end closure of accounts and auditing processes.

- 3.21 The procurement covered 6 lots valued at circa £35.5m nationally. Grant Thornton are the largest auditor having won Lot 1 valued at circa £14.6m. The procurement process indicates that potential savings of approximately 18% will be made nationally however it is not yet clear how this saving will be reflected in the scale fees for the different types of authority. In addition, the newly appointed auditors will no longer be responsible for the audit of the Housing Benefit Subsidy Claim which is to be subject to separate requirements. It is not clear if the 18% saving takes into account the transfer of responsibility of this audit to local authorities, which will involve additional costs.
- 3.22 Local Authorities have until 22 September 2017 to raise any objection to the proposed allocation of auditors in relation to any potential conflicts of interest. Members are asked to note that Grant Thornton will be accepted as the proposed auditor appointment for BHCC as there is no reasonable objection the authority can raise.

Annual Governance Statement

- 3.23 It is a requirement that the Annual Governance Statement (AGS) is approved annually with the financial statements. The AGS 2016/17 was approved by the committee at its meeting on 25 July 2017.

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 4.1 Under the Accounts and Audit Regulations 2015, the council's 2016/17 accounts are to be approved by the Chief Finance Officer by 30 June and following the audit process are to be approved by Members by 30 September each year. Under Brighton & Hove City Council's constitution, the Audit & Standards Committee is charged with this responsibility.
- 4.2 After the accounts have been made available for public inspection, alterations to the accounts may only be made with the consent of the external auditor, EY. The alterations in this case have received their consent.
- 4.3 The government is bringing forward the statutory deadline for approval of the accounts to 31 July from 2017/18 onward to align local authorities with other public sector bodies. The council has therefore worked with its external auditor to trial early completion of the accounts and audit process this year in advance of this becoming a statutory requirement. This was substantially completed prior to the July deadline with only a small number of queries outstanding. This exercise has provided useful learning and experience that should enable efficient and timely production in 2017/18.

5. COMMUNITY ENGAGEMENT & CONSULTATION

- 5.1 Members of the public, in accordance with the Accounts and Audit Regulations 2015, are granted access for a period of 30 working days to the council's unaudited accounts and are invited to enquire on any aspect of these accounts. If a member of the public is not satisfied with the response received, they are able to lodge a formal objection to the accounts with EY.
- 5.2 The accounts were available for public inspection in council offices or on the council's web site from 12 June to 21 July. The council has received one enquiry from a member of the public and an enquiry from a media organisation (journalist). Responses to the queries have been compiled. No objections have been received.

6. CONCLUSION

- 6.1 It is a statutory requirement of the Accounts and Audit Regulations 2015 that the council's 2016/17 accounts should be approved by Members by the 30 September 2017 and published by the same date.
- 6.2 EY have carried out their audit of the 2016/17 accounts and have reported their findings and recommendations arising from the audit of the accounts as a separate item on this agenda. The main changes resulting from the audit are included in the Audit Results Report to ensure members are aware of the changes to the accounts agreed with EY prior to their approval.

7. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 7.1 The financial implications are included in the body of the report.

Finance Officer Consulted: Mary Grealish

Date: 29/08/2017

Legal Implications:

- 7.2 The legal framework for approving the council's statement of accounts is provided by regulation 9 of the Accounts and Audit Regulations 2015 (statutory instrument 2015/234), relevant details of which are set out in the body of the report.
- 7.3 The Regulations permit either Full Council or a committee of the council to approve the statement of accounts. As noted in the report, in Brighton & Hove it is the Audit & Standards Committee which fulfils this statutory role.

Lawyer Consulted: Victoria Simpson

Date: 29/08/2017

Equalities Implications:

- 7.4 There are no equalities implications arising directly from this report. The accounts are a statutory publication and were made available for public inspection at the council's main offices and on the council's website. Information on the accounts

will, as far as possible, be provided in a manner that meets the needs of those requesting information.

Sustainability Implications:

- 7.5 There are no direct environmental implications arising from this report. However, it is believed that the reputation of the council's financial control framework and its ability to demonstrate sound financial management could have an impact on the willingness of other funding partners to invest in and with the council. This could affect the level of inward investment in respect of projects that contribute towards sustainability.

Any Other Significant Implications:

- 7.6 The quality of a public authority's accounts is of reputational importance and where the auditor gives an unqualified opinion, citizens, partners and other stakeholders can be assured that the accounts present fairly the financial position of the council.

SUPPORTING DOCUMENTATION

Appendices:

1. Letter of Representation
2. Commentary on the Accounts

Documents in Members' Rooms

1. Statement of Accounts 2016/17

Background Documents

1. Unaudited Statement of Accounts 2016/17 (available for public inspection on the council's web site).

