

Brighton & Hove City  
Council

Audit results report  
Year ended 31 March 2018

July 2018



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working world

Private and Confidential

July 2018

Dear Audit & Standards Committee Members

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 the audit of Brighton & Hove City Council for 2017/18.

We have substantially completed our audit of Brighton & Hove City Council (the Council) for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed on page 5 of this report, we confirm that we expect to issue an unqualified audit opinion on the financial statements, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit & Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Standards Committee meeting on 24 July 2018.

Yours faithfully

Paul King

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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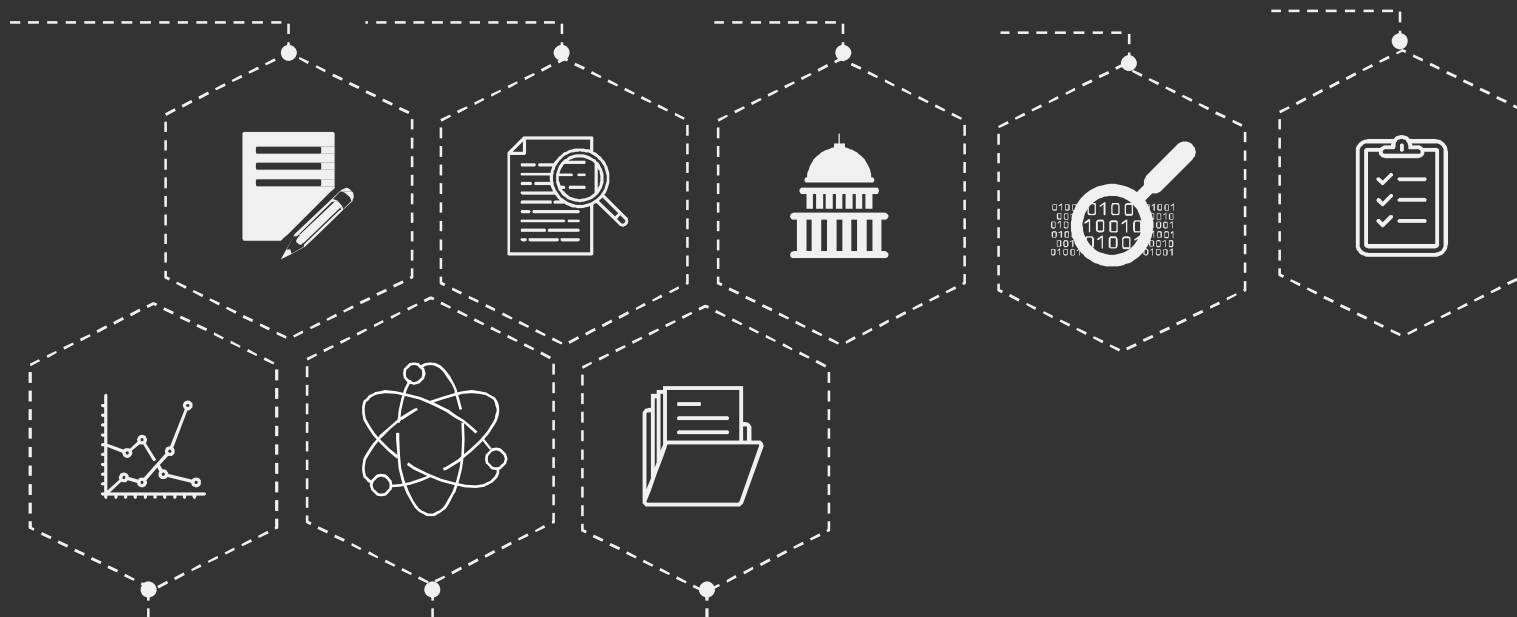
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)).

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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit & Standards Committee and management of Brighton & Hove City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Standards Committee, and management of Brighton & Hove City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Standards Committee and management of Brighton & Hove City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





# 01 Executive Summary



# Executive Summary

## Scope update

In our audit planning report presented at the January 2018 Audit & Standard Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, noting we updated our planning materiality assessment using the draft financial statements. The basis of our materiality calculation remains unchanged, using a measure of 2% of Gross Expenditure. When updated for those balances within the draft financial statements, our updated overall materiality assessment is £17.276m (Audit Planning Report – £16.93m). This results in updated performance materiality, at 75% of overall materiality, of £12.957m, and an updated threshold for reporting misstatements of £0.863m.

## Status of the audit

We have substantially completed our audit of Brighton & Hove City Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- receipt of IAS 19 assurances from the auditor of the East Sussex Pension Fund;
- review of the final version of the financial statements;
- completion of subsequent events review;
- receipt of the signed management representation letter; and
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

We do not expect to issue our audit certificate at the same time as the audit opinion due to the outstanding objection in respect of LOBO loans and completion of the Whole of Government Accounts procedures.

## Audit differences

We identified no unadjusted audit differences in the draft financial statements.

We identified one audit difference whereby the Council had revalued an asset as at 31 March 2018 which had previously burnt down. The value of Property, Plant and Equipment disclosed on the Balance Sheet was therefore overstated by £2.839m, with a corresponding adjustment to the Revaluation Reserve.

We also identified a small number of narrative adjustments to the financial statements to aid clarity of disclosures.

Further details can be found in Section 4 Audit Differences.

## Executive Summary

### Objections

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.

While we have not received any objections in 2017/18, in 2015/16 we received one objection to the 2015/16 accounts from a local elector. The objection was on the grounds that the Lender Option Borrower Option (LOBO) loans that the Council has entered into in earlier years 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, and are considering the issues raised.

We have concluded that the objection does not have an impact on our financial statement opinion or the Value for Money Conclusion. This is because we do not believe that it represents a risk of material misstatement in relation to items in the 2016/17 statement of accounts and we do not consider that the objection indicates the Authority did not have proper arrangements to secure economy, efficiency and effectiveness. However, we are unable to issue our certificate of completion of the audit for 2015/16 or 2016/17 until the objection has been determined.

We are currently finalising our views and aim to issue our audit certificate for 2015/16 and 2016/17 before 31 July 2018.

### Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Brighton & Hove City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- there are no other considerations or matters that could have an impact on these issues;
- you agree with the resolution of the issue; and,
- there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Standards Committee.



# Executive Summary

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified a significant risk a risk that the Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions due to the increasing financial challenges it faces.

We have completed those procedures set out in our audit plan and confirm that we have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission as the relevant documents were not available for review during our audit visit. We expect to have no issues to report, but will provide the Committee with a verbal update on 24 July 2018.

## Independence

We have no independence issues to report.

Please refer to Section 07 for our update on Independence.



## 02 Areas of Audit Focus





## Areas of Audit Focus

### Significant risk

#### Management Override of Control

##### What is the risk?

As identified in ISA (UK and Ireland) 240, 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.

We identify and respond to this fraud risk on every audit engagement.

##### What areas and judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates.
- PFI assets, liabilities and unitary charges.
- PPE Valuation.
- Journal entries.
- Unusual transactions.

##### What did we do?

In response to this risk, we:

- tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements using our analytics tools, based on defined criteria;
- reviewed accounting estimates, including the PFI accounting entries and PPE valuation, for evidence of management bias, and
- confirmed there were no significant unusual transactions from review of transactional testing populations throughout our audit procedures, plus review of minutes and discussions with Council staff.

##### What are our conclusions?

Our testing did not identify any evidence of management override of controls.

- We did not identify any indication of management bias through our testing of accounting estimates;
- We confirmed that assets and liabilities recognised in the financial statements were consistent with the PFI model;
- We confirmed the PFI annual spend (unitary charge) agreed to the payments made to the contract for the year;
- We confirmed the valuation of Property, Plant and Equipment was materially correct;
- We did not identify any journal entries which contained evidence of management override of controls; and,
- We have not identified any transactions which are outside the course of the Council's normal business.

Overall, our audit work did not identify any material issues, in appropriate judgements or unusual transactions which indicated that management had overridden controls.



# Areas of Audit Focus

## Significant risk

### Valuation of Land & Buildings

#### What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### What areas and judgements are we focused on?

We will focus on the key drivers for the valuation of Property, Plant & Equipment. A small change in these assumptions and judgements made by the Council's valuers can have a material impact on the financial statements. These include:

- Whether the asset is considered specialised;
- Any index or supporting documentation, including location factors, used to calculate the valuation; and,
- Useful economic lives of those assets held.

#### What did we do?

In response to this risk, we:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.

#### What are our conclusions?

While our testing suggested the valuation of Land and Buildings as at 31 March 2018 was materially correct, we did identify one asset that had been revalued in year but had previously burnt down. The value of Land and Building was overstated by £2.839m as a result. The financial statements were appropriately adjusted for this error.

Otherwise, we completed those procedures outlined opposite and confirmed that:

- The work performed by the Council's valuers was adequate and they had appropriate professional capabilities to complete the work;
- Key asset information used by the valuers in performing their valuation was supported by evidence;
- All Land and Building assets are included in the annual cycle of valuations such that they will be valued at least once every 5 years. We confirmed that other than the error highlighted above, we found no evidence that specific changes to assets that may have occurred had not been communicated to the valuer.
- Those assets not subject to valuation will not result in the asset base being materially misstated as at 31 March 2018;
- Useful economic lives were appropriate for those assets tested; and
- Appropriate accounting entries had been posted to ensure the valuation was properly recorded in the financial statements.



## Areas of Audit Focus



### Pension Liability Valuation

In our Audit Planning Report we identified the Pension Liability Valuation as an area that was not a significant risk, but was an area of audit focus due to its complexity and size within the financial statements. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £257.2 million (2016/17: £254.9m). The information disclosed is based on the IAS 19 report issued to the Council by the actuary to East Sussex County Council, the Administering Authority.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We completed a programme of work to provide assurance over the balance:

- We liaised with the auditors of East Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Brighton & Hove City Council. We note at the time of writing, the auditors of East Sussex Pension Fund have not completed their audit and have not shared their final report with us. We will provide a verbal update regarding progress to the Audit & Standards Committee on 24 July 2018;
- We assessed the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considered findings from the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Following completion of these procedures, we expect to be able to confirm that the Authority has correctly accounted for the Pension Liability in the 2017/18 financial statements.



### Faster Close

In our March 2018 progress report, we highlighted the Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. We recognised that these changes provided risks for both the preparers and the auditors of the financial statements.

We are pleased to report that the Authority has met the required deadlines and has provided the information we require; principally:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

We are therefore satisfied that the Council appropriately planned for and responded to the faster close agenda.



## Areas of Audit Focus

### IFRS 15 Implementation

The new revenue standard, IFRS 15, creates a single source of revenue requirements for all entities in all industries and is a significant departure from legacy IFRS. The new standard applies to revenue from contracts with customers and replaces all of the legacy revenue standards and interpretations in IFRS, including IAS 11 Construction Contracts and IAS 18 Revenue. IFRS 15 is principles-based but provides more application guidance and increased judgement. IFRS 15 also specifies the accounting treatment for certain items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets. This new standard has been adopted into the code for 2018/19. The new standard will have little effect on some entities, but will require significant changes for others.

The standard describes the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

Entities will need to exercise judgement when considering the terms of the contract(s) and all of the facts and circumstances, including implied contract terms. Entities will also have to apply the requirements of the standard consistently to contracts with similar characteristics and in similar circumstances.

Brighton & Hove City Council is aware of this new standard, but has not yet carried out an detailed assessment as, based on CIPFA advice, they believe that the new requirement will not have a substantial effect on the Authority's financial statements. They will continue to monitor and review any guidance in preparation of the 2018/19 accounts.





## 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIGHTON & HOVE CITY COUNCIL

##### Opinion

We have audited the financial statements of Brighton & Hove City Council (the Authority) for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority Movement in Reserves Statement,
- Authority Comprehensive Income and Expenditure Statement,
- Authority Balance Sheet,
- Authority Cash Flow Statement,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes,

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Brighton & Hove City Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director Finance & Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director Finance & Resources use has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the narrative report set out on pages 3 - 20, other than the financial statements and our auditor's



# Audit Report

## Our opinion on the financial statements

auditor's report thereon. The Executive Director Finance and Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources.

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects,

Brighton & Hove City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if :

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



# Audit Report

## Our opinion on the financial statements

### Responsibility of the Executive Director Finance & Resources

As explained more fully in the Statement of Responsibilities set out on page 21, Executive Director Finance & Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Director Finance & Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2017, as to whether Brighton & Hove City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Brighton & Hove City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Brighton & Hove City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.





# Audit Report

## Our opinion on the financial statements

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

## Use of our report

This report is made solely to the members of Brighton & Hove City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul King (Associate Partner)  
Ernst & Young LLP  
Southampton  
July 2018

The following foot note should be added to the audit report when it is published or distributed electronically:

The maintenance and integrity of the Brighton & Hove City Council's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## 04 Audit Differences



## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known 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.

### Summary of adjusted differences

We highlight the following misstatements greater than £0.863m which have been corrected by management that were identified during the course of our audit:

- We identified one audit difference whereby the Authority had revalued an asset as at 31 March 2018 which had previously burnt down. The value of Property, Plant and Equipment disclosed on the Balance Sheet was therefore overstated by £2.839m, with a corresponding adjustment to the Revaluation Reserve.
- Note 3 Critical Judgements & Assessments was updated to provide a clearer distinction between estimation uncertainty and critical judgements. This did not impact anything else within the financial statements.
- Note 10 Financial Assets and Liabilities – Financial Instruments was updated to show interest expense which is consistent with the Comprehensive Income and Expenditure Statement. The balance changed from £11.145m to £18.373m.
- A number of small narrative changes were made throughout the financial statements to aid clarity to disclosures.

There were no uncorrected misstatements.





05

## Value for Money Risks





# Value for Money

## Background

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.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

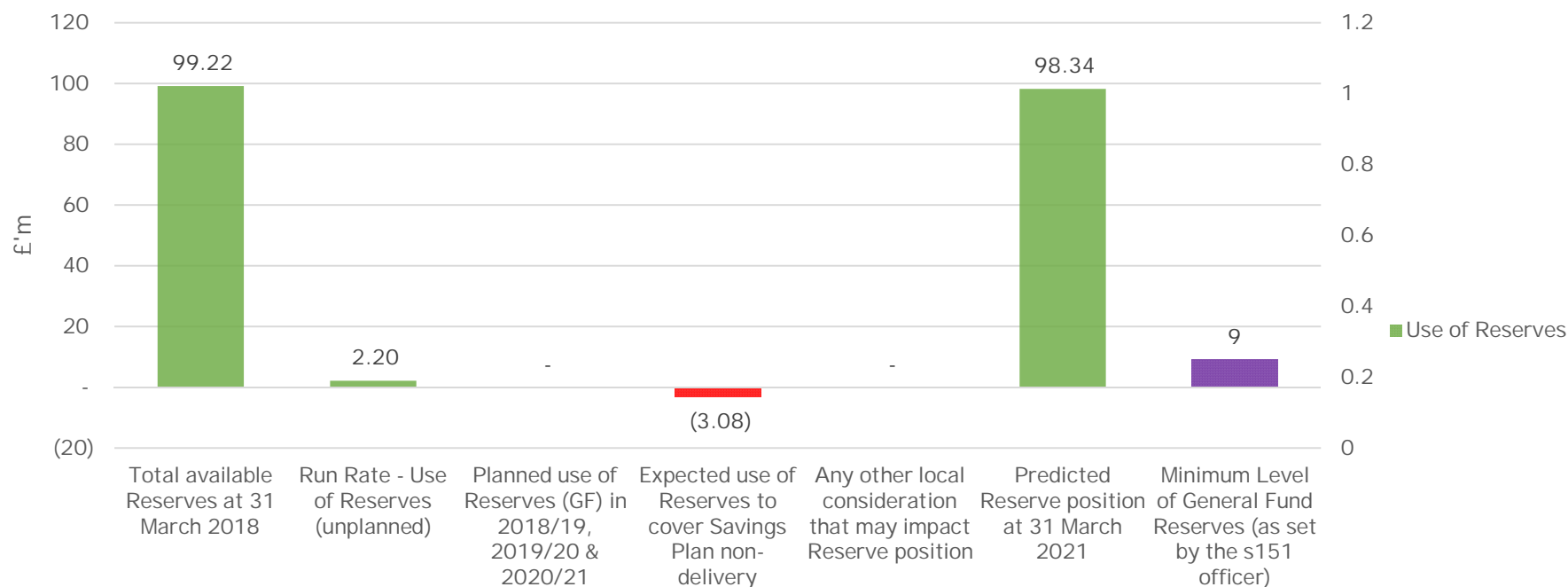
## Overall conclusion

In our Audit Planning Report we identified one significant risk a risk that the Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions due to the increasing financial challenges it faces. The table below present our findings in response to the risk.

Following completion of procedures in response to the risk, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## Assessment of Reserves Position to 2021



### Our Assessment

In our assessment we considered:

- The Authority's level of savings requirement to balance the General Fund budget in each of the next 3 years;
- The Authority's planned use of reserves to support the General Fund budget in each of the next 3 years;
- the Authority's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Authority's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

As a result of our assessment, we are satisfied that the Council is planning to maintain its level of reserves over the course of the Medium Term Financial Plan.

Further detailed considerations can be seen on page 21.

## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

### What is the significant value for money risk?

Securing Financial Resilience

### What arrangements did the risk affect?

Sustainable Resource Deployment

### What are our findings?

Use of PSAA's value for money profile tool to assess Council spending against similar councils

We reviewed the VFM profiles, now held on the LGA website which compare the Council to other English unitary councils. This highlighted that Brighton & Hove City Council has a higher total net spend per head than the average English unitary, although the spend has been reducing in line with the national trend. This data showed that spend on Council tax and Housing Benefits was significantly higher than other English unitaries, but again there is a clear downward trend such that the 2015-17 figures are largely in line with others nationally. This provides some assurance that action is being taken to reduce costs in high spend areas.

The data also shows high spend in Children and Young People Services, Housing Services and Public Health Services. The reasons for the high spend in these areas reflects the demographic within the Council's boundary, although we note spend in these areas is also reducing in a similar trend to the national average.

We are therefore satisfied that a review of these statistics does not identify further risks to our Value for Money conclusion.

Reviewing and assessing the updated assumptions within the Council's 2017/18 budget and medium term financial plan:

The assumptions within the Council's 2017/18 budget and medium term financial plan continue to be based upon reasonable and supportable assumptions. As previously reported, the Council's Medium Term Financial Strategy (MTFS) 2015-2019 forecast a gross cumulative budget gap of some £102 million up to the end of 2019/20. The Council continues to recognise that reserves cannot, and should not, be used to bridge the base budget gap in the absence of longer term plans to make the necessary savings and we note from the MTFS that there is no planned future use of reserves to address budget gaps, as highlighted on page 20. Further, a significant contribution was made to the Council's reserves in 2017/18 which while the Council does not plan on utilising to support revenue spend, does provide the Council with additional financial resilience in the medium to longer term.

The updated financial forecasts predict a budget gap of £15.036m for 2018/19 and £14.745m for 2019/20, and the Council expects to be able to make appropriate savings to balance the budget without drawing from reserves.



# Other matters to bring to your attention

### What are our findings (contd)?

Reviewing and understanding the 2017/18 outturn position:

The Council's draft financial statements have been produced and report a year end Surplus on the Provision of Services of £5.162m. This figure is not directly comparable to the budgeted position due to the way the CIES discloses the income and expenditure and the fact that the budget is set on a directorate level. We have therefore also reviewed the EFA disclosure, which shows the income and expenditure in the same manner as the budget. This confirmed there was a surplus on the provision of services of £1.311m. The Council's total usable reserves as at 31 March 2018 remain healthy at £108.038m. This represents a significant increase of £36.466m compared to 31 March 2017, and we note reserves were not used to support the revenue position.

Reviewing forecast savings from the 4 year Service & Financial Plans and progress in meeting them:

The Council's Targeted Budget Management documentation confirms that in 2017/18, £17.203m of savings were achieved, representing 78% of the approved target. As with the prior year, there are areas that underperformed when compared to the budget, principally Children's and Adult Social Care, and Learning Disability Services. We have reviewed the 2018/19 budget documentation and are satisfied that the saving requirements have been appropriately updated for the actual 2017/18 performance, and there continues to be ongoing monitoring and review of those savings requirements and plans to deliver them.

From completion of the above procedures, we are satisfied the Council has proper arrangements in place to deliver sustainable resource deployment in the medium term.





## 06 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

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

We are currently concluding our work in this area and will report any matters arising to the Audit & Standards Committee.

## Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

We note that there is currently an outstanding objection from the 2015/16 financial year regarding the Authority’s LOBO loans. We will update the Audit & Standards Committee verbally regarding the progress on this objection.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have no matters to report.





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# 07 Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated January 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. 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 which you should review, as well as us. It is important that you and your Audit & Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Standards Committee on 24 July 2018.

We confirm we have not undertaken non-audit work outside the PSAA Code requirements.



# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	158,550	158,550	158,550	162,050
Non-audit work [Grant claims]	16,957	16,957	16,957	13,898
Total fees	175,507	175,507	175,507	172,448

We note that additional fee will be charged in respect of the 2015/16 objection regarding the Authority's LOBO. We currently estimate this additional fee to be approximately £26,000 although this is subject to final completion and subsequent review and determination by PSAA.



## 08 Appendices

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:




- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

### Audit Approach:

We note that all balances within the financial statements have been tested substantively in 2017/18, which is consistent with the planned approach set out in our Audit Plan. In the previous year we adopted a controls assurance approach in some areas, including accounts receivable and accounts payable.

## Appendix B

### Summary of communications

Date 	Nature 	Summary 
3/10/2017	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Executive Director Finance & Resources and Chief Executive discuss the planning for the 2017/18 audit and Value for Money planning.
09/01/2018	Report	The Audit Plan, including confirmation of independence, was presented to the Audit & Standards Committee.
28/1/2018	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Executive Director Finance & Resources and Chief Executive discuss the planning for the 2017/18 audit and Value for Money planning.
27/03/2018	Report	A Progress Report was presented to the Audit & Standards Committee.
04/04/2018	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the Executive Director Finance & Resources and Chief Executive discuss the progress on the 2017/18 audit and Value for Money conclusion.
24/07/2018	Report	The Audit Results Report, including confirmation of independence, was presented to the Audit & Standards Committee.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

## Appendix C





# Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:




Our Reporting to you		
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit & Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	<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>	Audit Planning Report



## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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>	No conditions or events were identified, either individually or together to raise any doubt about Brighton & Hove City Council's ability to continue for the 12 months from the date of our report.
Misstatements	<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>• Material misstatements corrected by management</li> </ul>	Audit Results Report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	
Fraud	<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 Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit &amp; Standards Committee responsibility.</li> </ul>	Audit Results Report

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <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 Authority</li> </ul>	Audit Results Report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <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> Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report Audit Results Report

## Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<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>	We have received all requested confirmations.
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	None identified.

## Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report Audit Results Report
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report

# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young

[Address]

This letter of representations is provided in connection with your audit of the financial statements of Brighton & Hove City Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Brighton & Hove City Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 .
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

# Management representation letter

## Management Rep Letter

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

- 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.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
  3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 2017/18 to the most recent meeting on 19 July 2018.
  4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are 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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
  6. We 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.



# Management representation letter

## Management Rep Letter

### D. Liabilities and Contingencies

1. 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.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 17 to the financial statements all guarantees that we have given to third parties.

### E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and narrative elements of the Statement of Accounts.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

### H. Reserves

1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

### I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to value Property, Plant & Equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### J. Estimates

1. We confirm that the significant assumptions used in making the accounting estimates, including those measured at fair value, are reasonable.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the applicable financial reporting framework.

### K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.



## Appendix D

# Management representation letter

### Management Rep Letter

Yours faithfully,

\_\_\_\_\_  
(Executive Director Finance & Resources)

\_\_\_\_\_  
(Chair of Audit & Standards Committee)

#### About EY

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