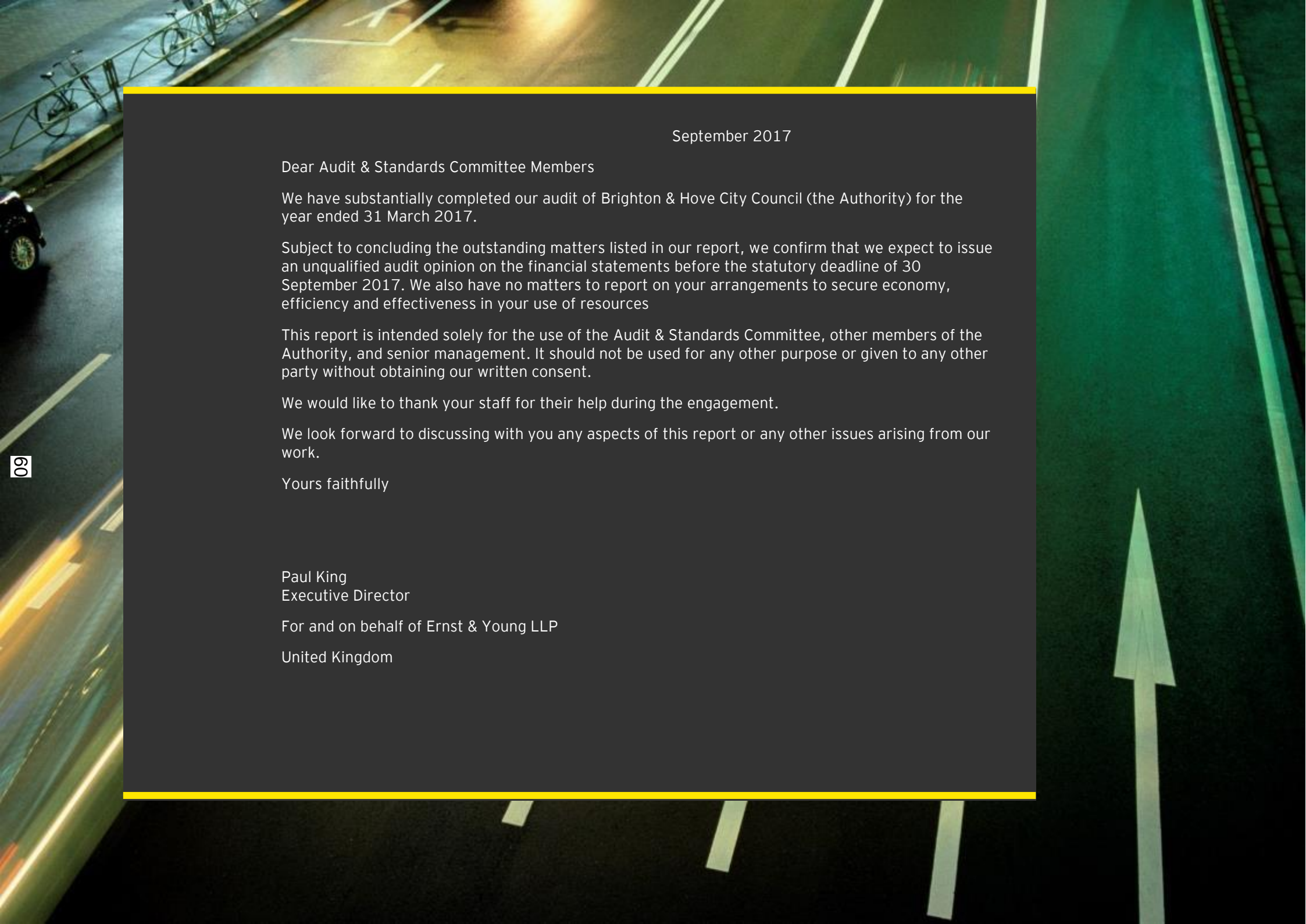


**Brighton & Hove City  
Council  
Audit Results Report**

Year ended 31 March 2017



September 2017

Dear Audit & Standards Committee Members

We have substantially completed our audit of Brighton & Hove City Council (the Authority) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements before the statutory deadline of 30 September 2017. 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 look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Paul King  
Executive Director

For and on behalf of Ernst & Young LLP  
United Kingdom

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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 September 2015)" 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, other members of the Authority 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, other members of the Authority 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, other members of the Authority 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 obtaining our written consent.



# 01 Executive Summary



## Executive summary

### Overview of the audit

#### Scope and materiality

In our Audit Plan presented to the January 2017 Audit & Standards Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £16.725m. We reassessed this using the actual year-end figures, which has increased this amount to £16.796m. The threshold for reporting audit differences has increased from £0.836m to £0.840m. The basis of our assessment of materiality has remained consistent with prior years at 2% of Gross Revenue Expenditure.

#### Status of the audit

We have substantially completed our audit of Brighton & Hove City Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. 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 in Section 3. However until work is complete, further amendments may arise:

- ▶ Completion of review of the Council's PFI Schemes
- ▶ Completion of our work on IAS19 Pensions valuation and disclosures
- ▶ Final review of audit work
- ▶ Review of the final version of the financial statements
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission
- ▶ Receipt of the signed management representation letter
- ▶ Completion of subsequent events review



## Executive Summary

### Executive summary (continued)

#### Status of the audit (continued)

We cannot formally conclude the audit and issue an audit certificate until we have determined the objection to the 2015/16 accounts regarding the Authority's Lender Option Borrower Option (LOBO) loans. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

#### Objections and questions from members of the public

Under the Accounts and Audit Regulations 2015 members of the public can, for a period of 30 working days, ask questions of the Authority and raise objections with external auditors.

While we have not received any objections in 2016/17, last year 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 Authority 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 considering the responses received from the local elector and the Authority to our provisional views.

#### Audit differences

There are no unadjusted differences arising from our audit.

A number of corrected differences have been identified, including:

- ▶ Hove Town Hall was undervalued by £7.8m on the Balance Sheet, as the valuer had valued it on a Depreciated Replacement Cost basis rather than Existing Use Value basis as required by the Code of Accounting Practice.
- ▶ King Alfred Pool was overvalued on the Balance Sheet by £8.6m. This arose because depreciation on the asset had been calculated using an incorrect asset life.
- ▶ The Keep had been included on the Balance Sheet at its full value. As this asset is shared with East Sussex County Council, who own two thirds of the asset, the Authority should have only accounted for one third of it.
- ▶ Our review of the Fixed Asset Register identified £1.3m of duplicated assets.
- ▶ A number of additional adjustments to the Council's Property, Plant and Equipment balances.

A full listing is contained in the Audit Differences section.



## Executive Summary

### Executive summary (continued)

#### Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the 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.

#### 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 Plan we identified a risk that the Authority will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



## Executive Summary

### Executive summary (continued)

#### 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 are in the process of completing those procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission and expect to have no issues to report.

We have no other matters to report.

#### Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

#### Independence

Please refer to Appendix B for our update on Independence. We have no independence issues to report.





# 02 Areas of Audit Focus





## Areas of Audit Focus

# Audit issues and approach: Risk of management override of controls

### 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.

For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.

#### What did we focus on?

We focused on aspects of the financial statements where management could override controls to benefit the year-end financial position, primarily:

- ▶ Journal entries.
- ▶ Material accounting estimates.
- ▶ Unusual transactions.

#### What did we do?

We:

- ▶ tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ reviewed accounting estimates for evidence of management bias;
- ▶ evaluated the business rationale for significant unusual transactions; and
- ▶ reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

#### What are our conclusions?

- ▶ We have not identified any inappropriate journal entries or adjustments made in the general ledger or the preparation of the financial statements.
- ▶ We have not identified any instances of management bias from our review of accounting estimates.
- ▶ We have not identified any significant unusual transactions for which there is not an appropriate business rationale.
- ▶ We have not identified any expenditure on property, plant and equipment which has been inappropriately capitalised.

Overall, our audit work did not identify any evidence of management override of control.



# Areas of Audit Focus

## Audit issues and approach: Valuation of Land and Buildings

### Valuation of Land and Buildings

#### What is the risk?

The draft 2015/16 financial statements recognised a reduction in the value of Property, Plant and Equipment (PPE) of some £500 million. We challenged this movement both generally and within specific asset categories, including the valuation of land. This resulted in a revised external valuation report which has the effect of increasing the value of PPE by £92.2 million, to reflect local knowledge of the availability and value of land in Brighton & Hove. Due to the significant changes in the valuation reports received in 2015/16, we made a number of recommendations to the Council to ensure appropriate and robust challenge of asset valuations and to ensure early communication with the valuer (including local information). The risk remains that the PPE balance could be materially misstated in 2016/17.

#### What judgements are we focused on?

We focused specifically on those recommendations to the Council made in 2015/16, which include:

- ▶ the Council should undertake a more robust exercise to challenge the reasonableness of asset valuations; and
- ▶ The Council should ensure that there is early communication with any external valuers with regard to the timeline for 2016/17 and that any specific local information that should be taken into consideration is shared with them in a timely manner.

#### What did we do?

We

- ▶ ensured the Council had undertaken a robust exercise to challenge the reasonableness of asset valuation provided by their expert;
- ▶ ensured that specific local information that should be taken into consideration had been included in the valuation; and,
- ▶ employed our own expert valuers to review and challenge the work of the Council's valuer.

#### What are our conclusions?

- ▶ While the Council has undertaken a review of the reasonableness of the valuation provided, we found one asset where an incorrect valuation basis had been used by the valuer. The asset was treated as specialised and therefore valued at Depreciated Replacement Cost, rather than Existing Use Value. This has been amended in the financial statements. These results suggest that while progress has been made, the Council should continue to improve the robustness of the valuation provided by the expert.
- ▶ We were satisfied that specific local information had been considered as part of the valuation. This review highlighted the issue set out above. We were satisfied the Council had undertaken early communication with the external valuer.
- ▶ Our valuers reviewed and challenged the Council's expert. This included:
  - The valuation methodology for operational properties valued on a Depreciated Replacement Cost (DRC)
  - Assessment of Gross Replacement Cost, remaining lives and depreciation
  - Consideration of land values adopted for valuations
- ▶ Whilst some aspects of the valuations could be improved, including: the extent to which assets were inspected rather than subject to a desktop review; the componentisation of assets; and the range of land values adopted (being at the lower end of the range the EY valuer would expect) we are satisfied that these do not affect the overall reasonableness of the valuations and we concluded that sufficient assurance has been obtained over the appropriateness of the work of the Council's expert valuer.

Overall, our audit work led to a number of adjustments to the financial statements in order to ensure the valuation of land and buildings was fairly stated. We consider the control implications of these adjustments in our section on Follow Up of 2015/16 Recommendations below.



# Areas of Audit Focus

## Other audit issues arising



### Pension Valuations and Disclosures

The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £254.897 million (£270.279 million at 31 March 2016).

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.

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.

Our approach has focused on:

- ▶ Liaising with KPMG as auditors of the East Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Brighton & Hove City Council;
- ▶ Assessing the conclusions drawn on the work and assumptions used by Hymans Robertson (the Pension Fund actuary) by using and reviewing the work of the Consulting Actuary commissioned by Public Sector Auditor Appointments Ltd for all Local Government sector auditors (PwC); and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

At the time of writing this report we have concluded our work, but are awaiting a response on some points of detail from KPMG as auditors of East Sussex Pension Fund. Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable.

No other issues have been identified in completing our work.



### Follow-up of 2015/16 Recommendations

In our 2015/16 Audit Results Report, we raised a number of recommendations. We have followed these up as part of our 2016/17 audit and report our findings below:

2015/16 Recommendation	EY Findings	2016/17 Recommendation
1. We recommend that the Authority:	During 2016/17 there was early and more engagement between the Council, their largest external valuer, and EY. However our work on	Ensure there is rigorous review of the information provided to expert valuers and the information received from the valuer in order to ensure the basis of the valuation provided is appropriate.



## Areas of Audit Focus

<p>a. undertake a more robust exercise to challenge the reasonableness of asset valuations; and</p> <p>b. ensure that there is early communication with any external valuers with regard to the timeline for 2016/17 and that any specific local information that should be taken into consideration is shared with them in a timely manner .</p>	<p>valuations during 2016/17 has continued to identify a range of issues. This includes:</p> <ul style="list-style-type: none"> <li>• the external valuer using the wrong method (DRC rather than EUV);</li> <li>• the external valuer not taking into account the Council's part ownership of two assets;</li> <li>• the external valuer using inconsistent asset lives for different parts of the same asset; and</li> <li>• the internal valuer not sufficiently challenging the valuation reports.</li> </ul> <p>This should continue as a recommendation until the Council can produce financial statements without material differences on the valuations of fixed assets.</p>	
<p>2. The bank reconciliation is an integral part of the Authority's control environment and appropriate resource levels should be focused on producing an accurate bank reconciliation that can be agreed to supporting working papers.</p>	<p>Bank reconciliations are performed on a monthly basis and are signed off by the Head of Corporate Financial Services. A reconciliation to the amounts in the year-end Balance Sheet has been included in the relevant working paper.</p> <p>We have not identified any issues with bank reconciliations during 2016/17. This recommendation has been fully actioned.</p>	<p>This recommendation has been fully actioned. No further action is necessary.</p>
<p>3. The Authority should ensure that the working papers to support lease disclosures have been reviewed prior to completion of the draft accounts.</p>	<p>The Council states that all working papers in respect of leases have been reviewed and authorised before being released to EY.</p> <p>Our substantive testing in 2016/17 identified misstatements in the leases disclosures of council as lessee - operating leases. All errors were identified in the property section of the working paper as a result of data extraction issues from Logotech, the property system. The extrapolated error is below SAD.</p>	<p>The Council should undertake rigorous review of its working papers supporting lease disclosures.</p>



## Areas of Audit Focus

	Finding errors in one part of the leases disclosure indicates that the recommendation has only been partially implemented,	
4. Authorisation limits, including those of a temporary nature should be adhered to for both purchase orders and non-purchase orders.	<p>The Council state there have been no temporary controls in place during 2016/17. The delegation of authorisation limits for non-order invoices is taken from Authority Purchasing and this is used in conjunction with a Supplementary List which is maintained on a spreadsheet by the Creditors team. An exercise was undertaken by the Creditors team to bring the current list up to date and to arrange for the Creditors service to be added to the leaver's list circulation so the authorisation limits lists can be update as necessary. Review dates of these lists are diarised.</p> <p>However, during 2016/17 our controls testing found multiple failures in the authorisation of non-purchase orders where limits had not been adhered to. This is a similar finding to 2015/16, and raises the risk of unauthorized expenditure.</p>	Ensure authorization controls regarding non-purchase order expenditure are in place and adhered to.



# 03 Audit Report



## Draft audit report

### Our opinion on the financial statements

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

##### Opinion on the Brighton & Hove City Council's financial statements

We have audited the financial statements of Brighton & Hove City Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement and related notes
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund Statement and the related notes
- Other Notes to the Financial Statements
- Expenditure and Funding Analysis and 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 2016/17.

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.





# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

#### Respective responsibilities of the Executive Director of Finance and Resources and auditor

As explained more fully in the Statement of the Executive Director of Finance and Resources Responsibilities set out on page 22, the Executive Director of Finance and 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Finance and Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

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 2017 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 2016/17.



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

#### Opinion on other matters

In our opinion, the information given in Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### 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

## Draft audit report (continued)

### Our opinion on the financial statements

#### **Conclusion on Brighton & Hove City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

##### ***Authority's responsibilities***

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***

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.

##### ***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 Comptroller and Auditor General (C&AG) in November 2016, as to whether the 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the 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 2017.



# Audit Report

## Draft audit report (continued)

### Our opinion on the financial statements

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.

#### **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, 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 2017.

#### **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, and until the objection relating to 2015/16 has been concluded. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Paul King  
Executive Director  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton  
September 2017

#### **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 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

# Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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 have included all known amounts greater than £0.839m relating to Brighton & Hove City Council in our summary of misstatements below. We will include a full listing of adjusted differences when we complete our audit work.

We highlight the following misstatements in the financial statements or disclosures identified during the audit. These have been corrected by management:

- ▶ Hove Town Hall was undervalued by £7.8m on the Balance Sheet, as the valuer had valued it on a Depreciated Replacement Cost rather than Existing Use Value as required by the code.
- ▶ King Alfred Pool was overvalued on the Balance Sheet by £8.6m. This arose because depreciation on the asset had been calculated using an incorrect asset life.
- ▶ The Keep had been included on the Balance Sheet at its full value. As this asset is shared with East Sussex County Council, who own two thirds of the asset, the Council should have only accounted for one third of it.
- ▶ Our review of the Fixed Asset Register identified £1.3m of duplicated assets.
- ▶ Further valuation issues were identified relating to the following assets:
  - Patcham High School (valuation based upon an incorrect floor area).
  - Maresfield Waste Facility (asset partly owned by BHCC. Full amount was included on Balance Sheet).
  - Portslade Sports Centre Land and Building assets (valuation based on an incorrect site area).
  - Whitesmith Composting Facility (asset partly owned by BHCC. Full amount was included on Balance Sheet).
  - Brackenbury Primary School [Block 1] (valuation based on an incorrect site area).
- ▶ We also identified a number of minor disclosure errors which were amended in the final version of the statements.

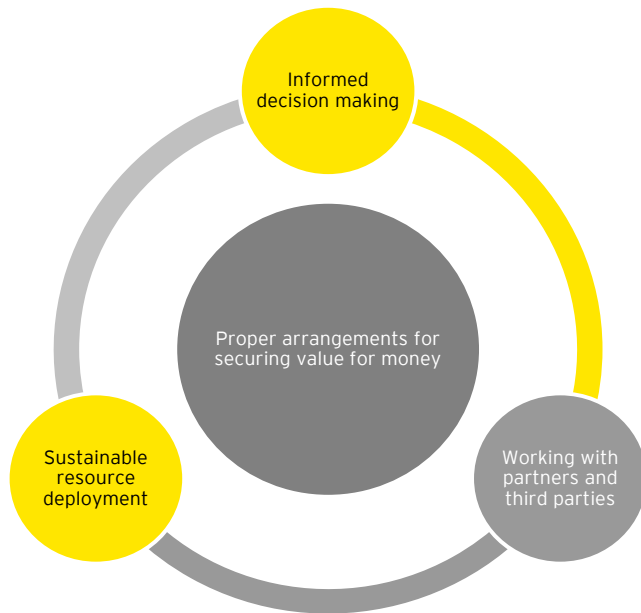
There were no uncorrected misstatements.



# 05 Value for Money



## Value for Money



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

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

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

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion

We identified one significant risk around these arrangements. The tables below present our findings in response to the risk in our Audit and any other significant weaknesses or issues we want to bring to your attention.

These findings mean we expect to have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.





# Value for Money

## VFM risks

We are only required to determine whether there is any risk 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 Plan.

### What is the significant VFM risk?

### What arrangements did this affect?

**The Council will not be able to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.**

Deploying resources in a sustainable manner

The Council continues to face very significant and increasing financial challenges. It must save in excess of £20 million in its 2016/17 budget to match its spending to the resources it will have available. In total it predicts that it will need to save some £68 million from its budget over the next four years.

Continued reductions in government grants, and increasing demand and cost around key services such as adult social care and children’s services are the key drivers of the need for significant savings. The Council continues to seek alternative solutions to ensure that local services can be maintained and supported in the future, in line with local need.

### What are our findings?

#### Reviewing the PSAA’s value for money profile tools to assess Council spending against similar councils:

We reviewed the PSAA’s value for money profile tools which compared the Council to its nearest statistical neighbours. This highlighted a number of areas where the Council’s expenditure is higher than other similar councils. However, many of those areas where the Council is higher spending due to the unique demographic of the population within the Council’s boundary. Adult Social Care is within the highest 10% of statistically similar authorities, while Children’s and Young People Services and Housing Services are in the top 5%. Each of these areas are known to the Council and areas of specific focus. The fact these figures are higher than statistical neighbours does not suggest the Council doesn’t have proper arrangements in place to achieve economy, efficiency and effectiveness.

#### Reviewing and assessing the assumptions within the 2016/17 budget and medium term financial plan:

- 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 recognises 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 Medium Term Financial Strategy that there is no planned future use of reserves to address budget gaps. Subsequent to the MTFS the Council’s Budget Setting for 2016/17 revised the budget gap to £64 million, the reduction reflecting a number of assumptions including annual Council Tax rises of 1.99% and the 2% Adult Social Care Council Tax precept, and assessing services where funding can be curtailed;



# Value for Money

## Other matters to bring to your attention

### What are our findings (continued)?

As part of the 2017/18 Budget Setting process, the Council also continued the programme of 4 year Service & Financial Plans for the Council's service directorates introduced as part of the 2016/17 Budget Setting process. These plans set out detailed plans for savings to close the revised budget gap of £47 million over the period 2017/18 to 2019/20. Taking the savings plans alongside other measures and changes to revenues and budgets, there is a forecast residual gap for the three years of just under £7 million. The outturn position for 2016/17 as reported in May 2017 was a small underspend of £1.35 million on the General Fund and savings of some £18 million against a target of just under £21 million.

The Council also now plans to ensure that a more commercial approach is taken to contract management; this is in line with good practice and is also designed to offset financial pressures that may arise from demand-led services. The Council has set aside funding into a number of earmarked reserves to manage the impact of future funding reductions, increased budgetary pressures and the cost of organisational redesign. At this point, having reviewed the 2016/17 outturn, the MTFS and the forecast savings from the 4 year Service & Financial Plans, our conclusion is that the Council has put in place arrangements to reduce the budget gap to an acceptable level over the medium term, and that the measures taken during 2016/17 have been both robust and proportionate. It is important that the Council continues with its plans and achieves the forecast savings to cover the budget gap as planned.



# 06 Other reporting issues



## 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 2016/17 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 2016/17 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 but do not expect to have any matters to report.



## Other reporting issues

# 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"). Subject to the determination of the objection to the 2015/16 statement of accounts noted above, 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.

### 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 Brighton & Hove City Council'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;
- ▶ Related parties;
- ▶ External confirmations;
- ▶ Going concern;
- ▶ Consideration of laws and regulations; and
- ▶ Group audits

We have no matters to report.



# Assessment of Control Environment

### Financial Controls

Under ISA (UK&I) 265 it is mandatory to communicate significant deficiencies in internal control in writing to any audit client.

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. We have only tested controls in so far as to support our audit opinion. We have therefore not tested the operation of controls in order to inform an opinion on the Councils internal control environment.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Beyond those issues and associated recommendations arising from our work on Valuation of Land and Buildings and Follow-up of 2015/16 Recommendations discussed elsewhere within this report, we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.







**07** Appendices



## Appendix A

# Required communications with the Audit & Standards Committee

There are certain communications that we must provide to the Audit & Standards Committee. We have done this by:

		 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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan - January 2017
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Any significant difficulties encountered during the audit</li> <li>▶ Any significant matters arising from the audit that were discussed with management</li> <li>▶ Written representations we have requested</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Any other matters significant to overseeing the financial reporting process</li> </ul>	Audit Results Report - September 2017
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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>▶ Significant corrected misstatements, in writing</li> </ul>	Audit Results Report - September 2017





# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Audit &amp; Standards Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Audit Standards Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, where applicable:</p> <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/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the Audit &amp; Standards Committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	We have no matters to report.
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations.



# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off”</li> <li>▶ Asking the Audit &amp; Standards Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit &amp; Standards Committee.</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>	We have no matters to report.
Independence	<p>Communication of all significant facts and matters that have a bearing on EY’s objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <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 on the firm’s general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	Audit Plan - January 2017 Audit Results Report - September 2017
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed.</p> <p>Breakdown of fee information at the completion of the audit.</p> <p>Any non-audit work.</p>	Audit Plan - January 2017 Audit Results Report - September 2017
Certification work	Summary of certification work	Certification Report - Expected January 2018



# Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated January 2017.

We complied with the APB 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 2017.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

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

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Opinion Audit & VFM Conclusion	TBC	158,550	158,550	TBC
<b>Total Fee - Code Work</b>	<b>TBC</b>	<b>158,550</b>	<b>158,550</b>	<b>TBC</b>
Certification of Claims and Returns	13,898	13,898	13,898	16,957
Non-audit work	0	0	0	0




Notes: the final 2015/16 fee is subject to the determination of the objection to the accounts. The 2016/17 fee is subject to the impact of the additional work that we have carried out on Property, Plant & Equipment.



## Appendix C

# Outstanding matters

The following items are outstanding at the date of this report:

Item 	Actions to resolve 	Responsibility 
Completion of a small number of procedures relating to Property, Plant & Equipment.	EY to work with management to respond to additional procedures arising from errors identified.	EY and management
Review of responses from EY's PFI Expert	EY to review response and follow-up any matters arising.	EY
Review of final version of financial statements.	EY to review once all audit amendments have been included.	EY & Management
Completion of Whole of Government Accounts procedures.	EY to complete.	EY
Management representation letter	Receipt of signed management representation letter.	Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management





## Appendix D

# Accounting and regulatory update

### Accounting update

Since the date of our last report to the Audit & Standards Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Brighton & Hove City Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured</li> <li>▶ How the impairment of financial assets are calculated</li> <li>▶ Financial hedge accounting</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>▶ Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Remeasure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items</li> </ul>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ for local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>▶ There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Disaggregate revenue into appropriate categories</li> <li>▶ Identify relevant performance obligations and allocate income to each</li> <li>▶ Summarise significant judgements</li> </ul>



## Appendix D

<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>
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## Appendix E

# Management representation letter

### Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Ernst & Young  
Wessex House,  
19 Threefield Lane,  
Southampton  
SO14 3QB

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 2017. 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 2017 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 2016/17.

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:



# Management representation letter

### Management Rep Letter

#### 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 2016/17.
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 2016/17. 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 2016/17, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [\[specify reasons for not correcting misstatement\]](#).

#### B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.





## Appendix E

# Management representation letter

### Management Rep Letter

#### C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

#### D. 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 held through the period to the most recent meeting on the following date: 24 July 2017.

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.

#### E. 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.



## Appendix E

# Management representation letter

### Management Rep Letter

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.

#### F. 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.

#### G. Other information

1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

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

1. We agree with the findings of the specialists that we engaged to evaluate the Valuation of Property, Plant and 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.

#### I. 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.

To be signed by the Executive Director of Finance & Resources and the Chairman of the Audit & Standards Committee

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