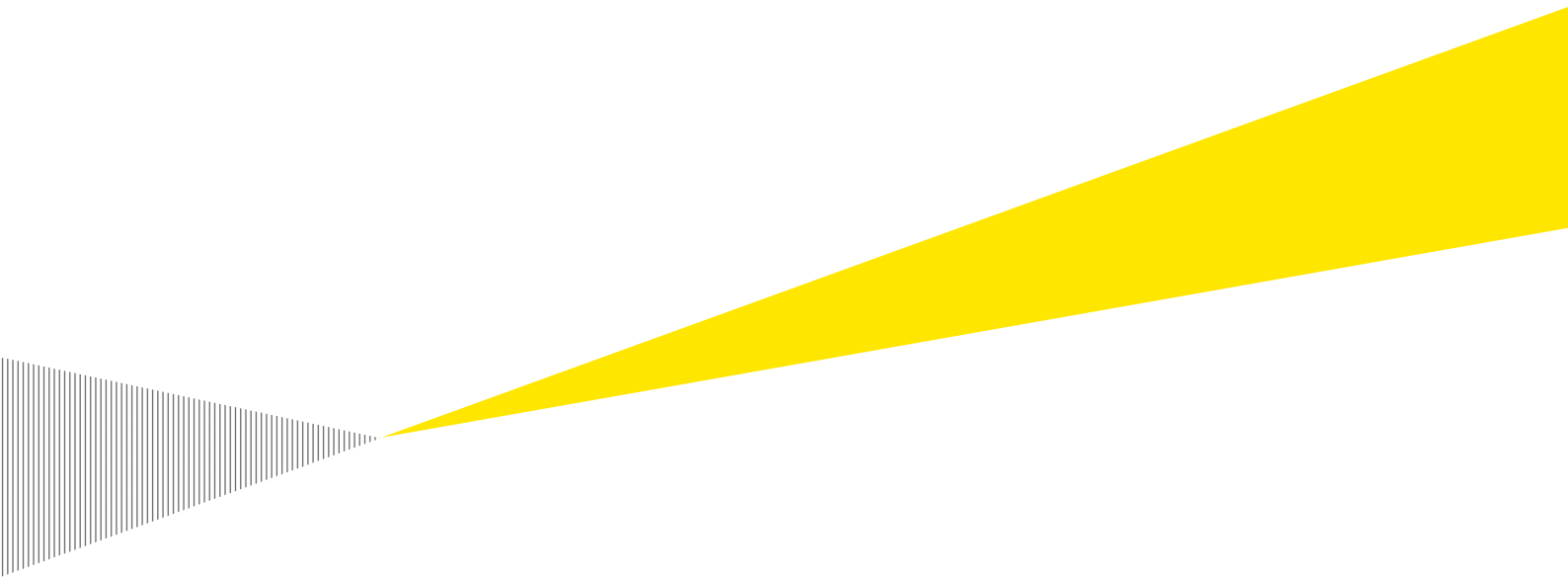


Brighton & Hove City Council

Audit & Standards Committee Progress Report

March 2018



Members of the Audit & Standards Committee,
Brighton & Hove City Council,
Hove Town Hall,
Norton Road,
Hove,
BN3 3BQ

March 2018

Audit Progress Report

We are pleased to attach our Audit Progress Report.

This Progress Report summarises our plans for the 2017/18 year. The purpose of the report is to ensure our audit is aligned with the Committee's service expectations.

Our audits are undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, auditing standards and other professional requirements.

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

Yours faithfully

Paul King
Ernst & Young LLP
United Kingdom
Enc.

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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.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

Programme of Work

Financial Statements

We are required to give an audit opinion on whether the financial statements of Brighton & Hove City Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended.

We adopt a risk based approach to the audit and as part of our ongoing continuous planning we continue to meet with key officers and other stakeholders.

Completion of interim procedures

As documented in our Audit Plan, we have completed our initial Scope and Strategy procedures. We are currently on site completing our interim testing and early substantive procedures.

As noted in our Audit Plan, we have brought forward a number of our substantive procedures in order to meet the faster close deadline. At the time of writing, the procedures we have completed include (but are not limited to):

- Testing of month 1 to 9 Income;
- Testing of month 1 to 9 Expenditure;
- Testing of month 1 to 9 PPE Additions and Disposals;
- PPE and Heritage Asset existence testing, and;
- Working with officers to outline our requirements for testing of PPE valuation at year end, with the aim of avoiding those errors identified in the prior year.

At this stage, our work has not identified any new risks to our opinion that we need to bring to your attention as those charged with governance, but expect to continue to recognise those risks previously reported regarding Management Override and the Valuation of Land and Buildings. These risks and our response to them were reported in our Audit Plan, and will be concluded in our Audit Results Report in July 2018.

Faster Close

As previously reported, 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.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

In order to ensure delivery of the audit opinion by the deadline, we require:

- 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.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To ensure the earlier deadline is met, we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Work with the Council to implement EY Client Portal, which will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on -demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.

Value for money assessment

We have completed our Value for Money (VFM) planning and reported a risk to our opinion of Securing Financial Resilience. The developments set out below will also be taken into account in our detailed VFM work so far as they are relevant to the risk identified.

The conclusions from our VFM work will be reported to you in July 2018.

News & Latest Developments

| Area | Issue | Impact |
|--|--|---|
| Provisional 2018–19 Local Government Finance Settlement | <p>On 19th December 2017 the Government set out the provisional funding plan for the 2018–19 financial year, which will be the third year of the four year multi-year settlement that was accepted by 97% of local authorities. The main themes of the provisional settlement were:</p> <ul style="list-style-type: none"> • Council tax referendum principles – as a result of the financial settlement consultation process the government has decided to set the core referendum principle at 3% in 2018–19 and 2019–20, to match the higher than expected inflation. This change will give local authorities more flexibility in deciding how money will be raised to offset the increasing financial pressures and demand on services. • Business rate retention - By 2020–21 it is estimated that the business rate retention across the local government system would be 75%, compared to the current level of 50% retention. It was also announced that the 100% business rates retention pilot schemes were going to be expanded to include a further 10 local authorities. • New homes bonus - The Government has decided to continue to set the national baseline (below which no bonus will be paid) at 0.4% for 2018/19. The national baseline represents the annual growth of Band D properties within a local authority above which the new homes bonus will be awarded. Government retained the option to adjust the baseline in future years based on housing statistics as reported through council tax base figures. | <p>The Local Government Finance Settlement provides some certainty regarding the Councils funding in the short and medium term. This information will be relevant to the Council as it prepares its budgets for 2018-19 and beyond.</p> |
| Public Sector Pay | <p>Since 2013, the Government has implemented a policy of a 1% annual pay increase cap for public sector workers, which was estimated to have saved approximately £5bn by 2019–20. In the Autumn Budget 2017 the Government confirmed the end of the 1% pay increase policy. Therefore from 2018–19, pay review bodies will be able to award pay increases of greater than 1% as they determine to be appropriate. However, this will be an additional cost pressure for local authorities that will require financing.</p> <p>The national employers, who negotiate pay on behalf of 350 local authorities, suggested that most employees with salaries over £19,430 should receive a 2% increase for 2018–19 and a further 2% for 2019–20. Lower salaried workers will receive higher increases based on hourly pay; from £7.78 to £9.00 in April 2019 and an increase equivalent to 15.65%. National employers have said this would add another 5.6% to the national pay bill over the two years to 2020.</p> | <p>The revision to the policy will impact the Council's financial forecasting in the short and medium terms, and will need to be considered to ensure it does not create an additional funding gap for the Council.</p> |

| Area | Issue | Impact |
|--|--|---|
| IFRS 15 — revenue from contracts with customers | <p>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.</p> <p>The 2018/19 Code of practice on Local Authority Accounting in the United Kingdom (the Code) will determine how IFRS 15 revenue from customers with contracts will be adopted by local government bodies.</p> <p>The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The CIPFA/LASAAC Local Authority Accounting Code Board met on 6 June 2017 and discussed the implication of IFRS 15 on Local Government entities. The minutes of this meeting corroborate our view that for most entities income streams from contracts with customers are likely to be immaterial. The vast majority of income streams are taxation or grant based which do not fall within the scope of IFRS 15 as they are not contractually based revenue from customers.</p> <p>However, this may not always be the case for some authorities where there is a high public interest in commercial activities. The following income streams are within the scope of IFRS 15 and will need special consideration if they are material to the users of the financial statements:</p> <ul style="list-style-type: none"> • Fees and charges for services under statutory requirements • Sale of goods provided by the authority • Charges for services provided by a local authority | <p>The Council will need to review the requirements of IFRS 15 and the 2018/19 Code when available to understand the impact this will have on the financial statements.</p> |

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