The Audit Findings for Brighton and Hove City Council

Year ended 31 March 2022

Brighton and Hove City Council

29 November 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Name : Darren Wells
For Grant Thornton UK LLP
Date : 29 November 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Brighton and Hove City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report , is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed via a combination of on site and remote working during July-November. Our findings are summarised on pages 8 to 23. We have not identified in our audit work completed to date any adjustments to the financial statements which would result in adjustment to the Authority's Comprehensive Income and Expenditure Statement. This reflects that the accuracy and completeness of the draft statement of accounts presented for audit were of a high quality. Audit adjustments are detailed in Appendix A.

We have previously reported to the Audit and Standards Committee that the public audit sector has had significant challenges in recent years, as regulatory oversight has increased significantly, meaning that firms carrying out these audits have had to increase the level of audit work and the depth/quality of that work to respond effectively. This has increased the volume of testing and follow up queries that our teams pose, and year on year means that the audit has significantly more challenge and auditor scepticism built into our work programmes and file review to ensure the high quality of audit work. Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector. This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme. The exercise has taken into account the above challenges to investment in and sustainability of the public sector audit market, and this has been reflected in significant increases in audit fees within that contract.

Our audit was started as planned on the 7 July, working papers were provided as requested and our samples were picked and shared with the Authority finance team principally in late July (83%) and early August (17%). A large proportion of the audit is dependent on audit sample testing and audit conclusions can only be safely drawn once all requested samples have been received, processed and evaluated. Typically, we agree with audited bodies a target response time of up to 5 days. The average response time this year for the audit was 24 days with a range across the total requested samples of 1 to 52 days. We note there are a number of factors contributing to this position, including: the capacity of the finance team to respond alongside other work commitments; a finance team staff resignation part way through the audit; August as a month when staff are taking leave; the experience of the audit team and their lack of knowledge of BHCC which would have increased the demands on the finance team.

The impact on returns and responses to audit queries has delayed completion of the audit,. We will, as is customary, have a debrief with the finance team at the end of the audit to discuss and agree what both teams can do to improve audit efficacy given the capacity available to both teams and the overall challenges of resourcing public audits. Part of the debrief will be a discussion with the Chief Finance Officer on a proposed audit fee variance for additional audit team resource needed to complete the audit that were outside of the audit team's control. A fee variance once discussed will be communicated to BHCC and submitted to PSAA Ltd for evaluation.

Our work is substantially complete and there are no matters of which we are aware from the work to date that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the following outstanding matters:

- Closing a small number of audit queries where responses have been returned by the Authority and the Audit Team are processing the responses to conclude;
- Receipt of five third party confirmations from banks and investment/borrowing counterparties, which have been chased both by the Audit Team and by the Authority Finance Team;
- Manager and Engagement Lead review of the assessment of the potential value of assets not revalued at 31 March 2022 against management's assessment to conclude whether the movement could be material. This estimate is very sensitive to the market indices applied;
- Obtaining assurances from the auditor of East Sussex Pension Fund as to the completeness and accuracy of data provided by the Pension Fund administrator;

(continued below)

1. Headlines (continued)

(continued)

- Manager and Engagement Lead final review of completed audit work which could raise additional audit queries and challenge;
- Receipt of management representation letter; and
- Review of a final set of updated financial statements.

The findings in this report are therefore reported at a stage where the audit is substantially complete, and the Audit Team and Council Team are working closely and collaboratively, to complete the outstanding items. There are currently no matters of which we are aware that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the completion of the outstanding work set out above. Note that due to the national issue around infrastructure assets affecting all local government audits where infrastructure assets are material, we will not be able to sign our audit opinion until this matter is resolved by the CIPFA implementation of a statutory override – see page 13 for more detail on this matter.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified based on the work to date.

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix D to this report. We expect to issue our Auditor's Annual Report before the end of December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. During our VFM fieldwork we have identified a risk of significant weakness in respect of financial sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

1. Headlines (continued)

Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. As the Council has a very material infrastructure asset balance that we will not be able to issue our opinion until the national issue around infrastructure assets is resolved by CIPFA's implementation of a statutory override which is expected to be in place by the end of December. All outstanding work on page 3 will also need to be completed. We have completed the majority of work under the Code, however the above VFM work is still ongoing, and the Whole of Government Accounts (WGA) procedures also need to be completed before we can certify the closure of the 2021/22 audit.
Significant Matters	As noted above, there have been significant delays in obtaining support for our audit samples to complete our sample testing, and in receiving responses to other audit queries. This has delayed completion of the audit significantly.

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2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you in April 2022.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding work on page 3 being resolved/completed.

Based on the work to date no material errors or issues have arisen which would require modification of our audit opinion. We will not be able to issue our audit opinion until all outstanding work on page 3 is completed and reviewed, and the national issue around infrastructure is resolved.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The audit continues to be delivered by both the Authority and Audit teams partly remotely which does require alternative technology based ways of reviewing audit evidence to be adopted. However, by working on site for 2 days a week this has helped to mitigate some of the difficulties of auditing remotely.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in April 2022.

We detail in the table adjacent our determination of materiality for the Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	13.25m	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	9.93m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	0.66m	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance
Materiality for cash and cash equivalents	£0.5m	Our assessment of what users would consider to be material with respect to cash.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
ISA240 fraudulent revenue recognition	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered all revenue streams of the Council and we have rebutted this risk for all revenue streams. For revenue streams that are derived from Council Tax, Business Rates and Grants we have rebutted this risk on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited. For other revenue streams, we determined from our experience as your auditor from the previous years, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from revenue recognition could be rebutted, because: - there is little incentive to manipulate revenue recognition; - opportunities to manipulate revenue recognition are very limited; - the culture and ethical frameworks of local authorities, including Brighton & Hove City Council, mean that all forms of fraud are seen as unacceptable. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan. Notwithstanding that we did not consider there to be a material fraud risk, we have tested all the material income streams of the Council. Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues so far in respect of revenue recognition.
Fraudulent expenditure recognition	We also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts as: - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the prior years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. No circumstances have subsequently arisen during the course of the audit process which would lead us to amend our initial assessment as reported in the Audit Plan. Notwithstanding that we did not consider there to be a material fraud risk, we have tested all the material expenditure streams of the Council. Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues so far in respect of expenditure recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: - evaluated the design effectiveness of management controls over journals; - analysed the journals listing and determined the criteria for selecting high risk unusual journals ; - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. Our audit work has not identified any further issues in respect of management override of controls, although this work is still subject to quality review by senior audit staff.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (approximately £268.7 million in the Authority's balance sheet at the 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in either of these two assumptions would have approximately 2% effect on the liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent at the year-end that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.	For the significant risk, we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their new management expert (the actuary Barnett Waddingham) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. We have also: • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. We still need to obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The work to provide these assurances is nearing completion. In carrying out our work on Level 3 investments in the Pension Fund we test in detail the valuation of those investment (of which a share forms part of the net liability for the Council), and this demonstrated that the final valuation at 31 March 2022 was different to the valuation of assets provided to the actuary for the purposes of producing the IAS19 valuations. This is due to the necessary timing of providing this information; the pension fund administrator needs to provide investment valuations at a point in time that allows IAS19 valuations to be produced for other bodies' financial statements. This requires them to provide an earlier valuation adjusted for subsequent cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is significant market value movement in the interim this can result in a valuation difference. The difference is immaterial. The understatement of assets for the Council was £3.9m and therefore the net liability was overstated by this amount. This is below our performance materiality, and therefore we are satisfied the net liability is not materially misstated – we have shown this error in unadjusted misstatements, see Appendix A. Our audit work to date has not identified any further issues in respect of valuation of the pension fund net liability.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (including investment properties) You revalue your operational land and buildings on a rolling five yearly basis and your investment properties every year. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, particularly focused/pin-pointed on the valuers' key assumptions and inputs to the valuations. For assets not revalued in the year management must ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.	For the significant risk, we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation experts engaged in the different valuation estimates which are part of land and buildings; • written to the valuers to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding; • assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value; • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; • engaged an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used. On all material areas of land and buildings which were revalued during the year we have reviewed and challenged the valuations method, and key assumptions and inputs into the valuation estimate. We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section. Our audit work so far has not identified any issues in respect of valuation of land and buildings. However this work is still in progress and outstanding items are included on page 3.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and other risks:

Issue	Commentary	Auditor view
Accuracy and accounting for Private Finance Initiative (PFI) liability	You have assets financed through PFI schemes (Schools, Library and waste management services assets). PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information. We therefore identified the accuracy and presentation of your PFI schemes as a risk for the audit.	We have: • reviewed your PFI models and assumptions contained therein; • obtained an understanding of any changes to PFI contracts made since the prior year; • compared the your PFI models to the prior year to identify any changes; • reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements; • reviewed the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12. Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this risk.
Accounting for grant revenues and expenditure correctly	The Council (similar to all other Local Authorities) has been the recipient of significant increased grant revenues during the 2021/22 year relating to Covid-19. In common with all grant revenues, the Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on the decision how the grant income and amounts paid out should be accounted for.	We have: • evaluated your accounting policy for recognition of grant income/expenditure for appropriateness and compliance with LG Code of Practice; • reviewed and sample tested grant income/expenditure to supporting evidence corroborating the arrangements and conditions for the grants and whether the Council is acting as agent or principal. Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this risk.

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2. Financial Statements – new issues and risks (continued)

Issue	Commentary	Auditor view
Valuation of Infrastructure Assets The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.	We have carried out audit inquiries to understand the control environment around the recognition and derecognition of infrastructure assets. In common with most other authorities there is not a clear mechanism by which existing infrastructure assets which still have a net book value on the balance sheet being depreciated are derecognised when the asset is replaced. There is therefore a risk that the infrastructure assets (both the gross assets and accumulated depreciation) could be materially misstated – the Council's system for derecognising these assets does not sufficiently mitigate this risk. As there is not a system by which the Council could accurately identify which infrastructure asset has been replaced (the Council instead relying on the useful economic lives being an accurate lifetime for the assets so they would be depreciated in full at approximately their replacement cycle) it is not possible to quantify what the misstatement could be. We note the Council has derecognised £47.1m of infrastructure assets on the balance sheet which were fully depreciated and at Nil net book value, so were at net Nil book value on the balance sheet.	This is a national issue effecting all local government audits. CIPFA are in the process of implementing a statutory override in this area of the accounts. This is expected to be introduced by the end of December 2022, and once this is in place we will be able to sign the audit opinion. In the meantime due to it not being possible to quantify what the potential misstatement could be, we are not able to sign the audit opinion without the statutory override.

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2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £955m	The Council owns 11,707 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged a professional valuer to complete the valuation of these properties. The year end valuation of Council Housing was £955m, a net decrease of £43m from 2020/21 (£912m).	We assessed the work of management's expert, in particular the method applied to confirm that it aligned to DCLG Stock Valuation for Resource Accounting guidance. We reviewed the process for the selection of beacons to confirm this was reasonable to ensure representative dwellings would be selected for full inspection as part of the beacons methodology. We reviewed the completeness and accuracy of the underlying information used to determine the estimate. We tested a sample of beacons revalued by comparing the valuation to expectations as set by the value of similar properties for sale in the local area and by property indices provided by our auditor's expert. Where the professional valuer had applied a desktop indexation to groups of dwellings which had not been selected for beacon valuation, we have reviewed and challenged the reasonableness of the index applied through discussion with the valuer to understand the assumptions made to conclude this index was applicable. We were satisfied that the beacons methodology was applied correctly by the authority and the valuer. The valuation method had not changed from previous years. Our sample testing of beacons showed that the selection of properties for full inspection was reasonable. Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this estimate.	Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Other - £732.3m Investment Properties - £58.1m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. Investment properties are measured at fair value. The Council engaged several different valuers to complete the valuation of properties, some at 1 April 2021 and some at 31 March 2022 on a five yearly cyclical basis. 59% of OLB assets or £439m were revalued during 2021/22. The Council produced an impairment statement and market review, where no material impairments were noted in 2021/22. The Council also produced working papers showing the estimated movement for assets not valued in 2021/22 and those assets revalued at 1 April 2021 were not materially misstated as at 31 March 2022. Management assessed that these assets could be £10.5m greater than their carrying value in the balance sheet as at 31 March 2022, which is below the audit materiality indicating the values are materially correct. The total year end valuation of Other Land and Buildings was £732.3m, a net increase of £44.8m from 2020/21 (£687.5m).	We assessed the work of management's experts; in particular, their competency, objectivity and expertise and the valuation methods and assumptions applied. We confirmed their objectivity and expertise. We engaged an auditor's expert to provide us with expertise in assessing the valuation reports of the Council's valuer responsible for valuing £438m of OLB assets revalued in 2021/22, and we also engaged an auditor's valuation expert for expertise in assessing the method and assumption used by the Council's professional valuers in valuing the investment properties. Through this challenge with the key OLB and Investment Property valuers, we were able to conclude that the valuation methodology and assumptions made by the valuers were reasonable and appropriate with reference to the CIPFA Local Government Code 2021/22and RICS –Valuations Global Standards. We noted no changes to the valuation method or departures from the RICS code for all valuers. We reviewed the completeness and accuracy of the underlying information used to determine the estimate. This included: testing the accuracy of floor plans areas provided to the valuers; querying yield percentage rates used by the valuer by requesting comparable market evidence; recalculating the capitalisation of rental income in fair value valuations to ensure accuracy; using transactional data to review for reasonableness of valuer estimate. For investment properties we reviewed the completeness and accuracy of rental income information, and the reasonableness of yield percentages applied in calculating the fair value. We have also assessed the appropriateness of the valuation method, the type of inspection performed, the assumptions made in respect of obsolescence and any assumptions made in respect of local factors. Where possible, we have engaged with valuers to understand the valuation process, including the final calculations to satisfy ourselves that the valuers' estimates have a reasonable basis. In our sample testing of OLB assets and investment properties, we have not identified any significant discrepancies in the valuers' calculations, in the source data or in the accounting treatment of the revaluation. Note however, as per page 3 that this work is subject to senior management review. To gain further assurance on the movement of assets not revalued in 2021/22 and assets valued at 1 April 2021, we make our own assessment of the potential value of these assets as at 31 March 2022 comparing against management's assessment to conclude on whether the potential estimated movement on these assets was material. Subject to satisfactory resolution of matters identified on page 3, we are satisfied that the key estimates and judgements underlying the revaluation estimate for other land and buildings is reasonable.	Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

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Significant judgement or estimate

Net pension liability – £268.7m

Summary of management's approach

The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.

The Council's net pension liability at 31 March 2022 is £268.7m (2020-21 £416.3m) comprising the Council's share of the East Sussex Pension Fund assets and liabilities. The Council has engaged an expert Barnett Waddingham for 2021/22 to provide actuarial valuations estimate of the Council's asset and liabilities derived from this scheme. A full valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £147.6m net actuarial gain during 2021/22 (2020/21: £67.8m loss).

Audit Comments

- We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate;
- We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations;
- We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable;
- The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.6%	2.55-2.6%	Considered reasonable
Pension increase rate	3.25%	3.05-3.45%	Considered reasonable
Salary growth	3.25%	4.2%	Challenged – concluded reasonable and would not lead to material misstatement
Life expectancy – Males currently aged 45 / 65	21.2 years retiring today 22 retiring in 20 years	20.5 -23.1 years retiring today 21.9- 24.4 retiring in 20 years	Considered reasonable
Life expectancy – Females currently aged 45 / 65	23.8 years retiring today 25.1 retiring in 20 years	23.4-25 years retiring today 24.9-26.4 retiring in 20 years	Considered reasonable

- We have reviewed the particular local judgements by the actuary/management around salary growth and life expectancy. We are challenging this with the actuary and Council to obtain corroboratory evidence/explanation as to the reasonableness of the assumption adopted.
- We have contacted the auditor of the pension fund accounts to obtain assurances over the completeness and accuracy of information which has been provided to the actuary for determining the estimate. We have also carried out testing back to support held by the Council.
- In our review and testing of the methods and assumptions underlying the estimate we have particularly focussed on any changes year on year to assess and challenge whether this is reasonable.
- We assessed the reasonableness of the Council's share of LPS pension assets.
- We assessed the reasonableness of increase/decrease in estimate.
- We reviewed the adequacy of disclosure of estimate in the financial statements.

Assessment

Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation	The government has continued to provide a range of financial support packages to the Council and all local authorities during 2021/22. These included additional funding to support the cost of services or offset other income losses. The Council needed to consider the nature and terms of each of the various Covid-19 measures to determine the appropriate accounting treatment, including whether there was income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year. In doing so, management have considered the requirements of section 2.3 of the Code of Practice on Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as a principle or agent, in accordance with IFRS15. The three main considerations made by management in forming their assessment were: Where funding is to be transferred to third parties, whether the Council was acting as a principle or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet; Whether there were any conditions outstanding at the year-end, and therefore whether the grant should be recognised as income or a receipt in advance; Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or to taxation and non-specific grant income within the CIES.	• We are satisfied that management have effectively evaluated whether the Council is acting as the principle or agent for each relevant support scheme, which has determined whether any income is recognised. • We tested a large sample of grants to assess whether they had been recognised correctly. • We have evaluated the completeness and accuracy of underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this was appropriate. • We have considered management's assessment for grants received, whether the grant is specific or non-specific (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate. • Management's disclosure of the Council's accounting treatment for grant income in both the financial statements and Narrative Report is sufficient.	

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £10.4m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £10.4m, a net increase of £3.1m from 2020/21.	We are currently completing our work reviewing your estimate of MRP to conclude: • whether the MRP has been calculated in line with the statutory guidance; • whether the Council's policy on MRP complies with statutory guidance; • Assess whether any changes to the authority's policy on MRP has been discussed and agreed with those charged with governance and has been approved by full council; • The reasonableness of the increase/decrease in MRP charge. Our work is in progress and will be subject to technical review by the Manager and Director as recorded on page 3.	Currently no issues highlighted, but subject to management technical review.

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
The Council becoming the accountable body for the Coast to Capital Local Enterprise Partnership (C2C LEP)	During the 2021/22 year the Council took on the role of accountable body for the C2C LEP whereby funding was transferred to the Council and the Council is responsible for the disbursement of this funding with the funding decisions made by the C2C LEP. The Council has considered the arrangement and concluded that they are acting as an agent for the C2C LEP where the Council does not have its own discretion over how funding is disbursed. Therefore the Council does not recognise the transactions in the Comprehensive Income and Expenditure Statement, and instead a cash and creditor position is recognised in the balance sheet.	We reviewed the arrangement and documentation to evidence the decision making for disbursement of funding. We were satisfied the accounting for this arrangement was reasonable and in line with the Code and IFRS.
Consideration of group accounts	Management each year must consider those entities over which it has control and conclude over whether they should produce group accounts. Management have concluded that group entities including The Homes for the City of Brighton & Hove Limited Liability Partnership (LLP) and The Homes for The City of Brighton & Hove Design & Build Company Limited (D&B Co) are not material during the 2021/22 financial year. However they will be likely to be material during the 2022/23 financial year and it is expected that group accounts will need to be produced next year.	We have reviewed the group entities, and the income, expenditure, assets and liabilities of those entities at 31 March 2022, and we are satisfied that management's judgement on not preparing group accounts at 31 March 2022 is reasonable.

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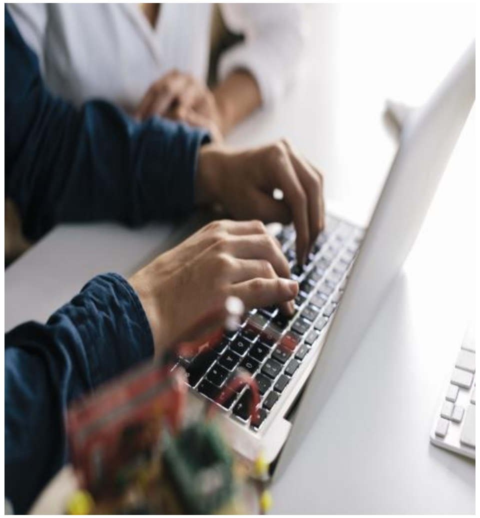
2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A signed letter of representation will be requested ahead of the auditor’s report being signed.

2. Financial Statements - other communication requirements



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Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests in respect of your bank, investments and loans balances. This permission was granted for all institutions and the requests were sent. 5 of these requests remain outstanding at the date of issuing this report. We have chased these responses several times and continue to do so.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Subject to completion of the audit procedures detailed on page 3, our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

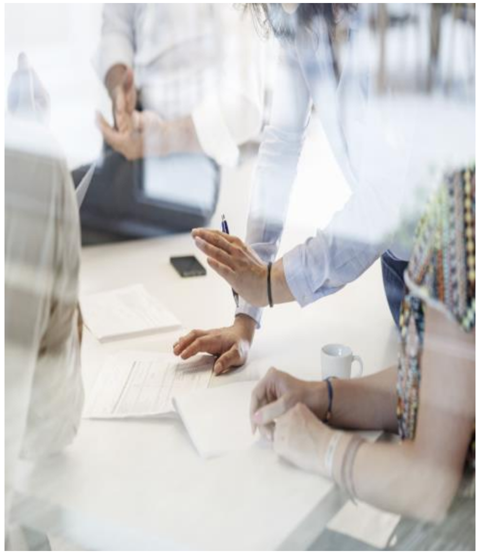
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix C.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £2 billion we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that work is not yet completed, but will be undertaken and completed once the audit fieldwork is completed. We will discuss timelines for completing this work with your Finance Team.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Brighton and Hove City **Council** in the audit report, as detailed in Appendix C, due to incomplete VFM work and the above WGA procedures which need to be completed before we can certify. As we are unable to issue our audit opinion until CIPFA have put in place a statutory override around infrastructure assets, the VFM work will be completed by that date (which is anticipated to be the end of December 2022) and we are discussing the timeline for completion of WGA procedures. We will be able to certify closure of the audit once these procedures are complete which we would expect to be by January 2023.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix D to this report. We expect to issue our Auditor's Annual Report by the end of December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified the risks set out in the table below. Our work on this risk is underway and an update is set out below.

Risk of significant weakness	Work performed to date
For 2022/23, the Council originally predicted a £18 million budget gap to be met through a £10.318 million savings plan, one-off funding and use of reserves. Month 5 financial monitoring reports now show that 57% of this savings plan is at risk and there is a predicted £13.114 million overspend on the General Fund. There is considerable concern for the medium term. The original prediction for the 2023/24 position was a budget gap of £6.25 million. By July 2022, this had jumped to £20.99 million. This puts the Council's medium term financial position at significant risk as the current General Fund Working Balance is £14.5 million.	We met with key officers and carried out a detailed review of supporting documents/evidence to consider how the Council: - identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans - plans to bridge its funding gaps and identify achievable savings - plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities - ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system - identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans. Work on concluding on this risk of significant weakness is ongoing, and we will report our conclusions on this in our Auditor's Annual Report.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	18,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £18,000 in comparison to the total fee for the audit of £193,084 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	7,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £193,084 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Council's S151 Officer. None of the services provided are subject to contingent fees.

Appendices

A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Cash in transit/balance sheet adjustment In our testing of cash and cash equivalents we identified cash which was in transit at the year end which had not been received on the year end date and therefore should have been classified as a debtor.	Nil	DR Debtors 1,072 CR Cash and cash equivalents 1,072	Nil
Overall impact	**£Nil**	**£Nil**	**£Nil**

A. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Various minor casting/disclosure amendments	We identified a small number of minor casting and disclosure issues. Management response Agreed and these were amended in the accounts.	✓
Cashflow Statement Amendment in cashflow statement heading 'Any other items for which the cash effects are investment of financial cash flow' agreed to clarify nature of balance which is made up of grants and contributions	Amendment in cashflow statement heading 'Any other items for which the cash effects are investment of financial cash flow' agreed to clarify nature of balance which is made up of grants and contributions. Management response Agreed to adjust in the financial statements.	✓
Related Parties disclosure	In our testing of the related parties disclosure, we identified a related party which had been omitted from that note. This related to transactions of £1.4m Management response Agreed to adjust in the financial statements.	✓

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A. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The [ABC] Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Infrastructure overstatement – extrapolated error During our testing of Creditors - Purchasing System Goods Received Note Invoiced account, we identified an error within this population relating to an accrual raised towards the capital expenditure incurred for an infrastructure asset. The item had been paid for in January 2021 but was also accrued for in 2020/21. As a result, the infrastructure asset was overstated by an amount of £120,916.59 and creditor accruals were also overstated by £120,916.59 in the prior year. Due to the error not being detected and corrected in the prior year, it was then carried over to the current year and was also not corrected during the year under audit. We were able to isolate and extrapolate this error to estimate the overall potential impact of the error and demonstrate this would not be material, and this is reported as an extrapolated unadjusted misstatement. This extrapolated amount is not indicative of actual misstatement/error in the population and is an estimate only, and we would not request or recommend the Council adjust for this amount.	Nil	DR Creditor accruals £1,722 CR Infrastructure assets (£1,722)	Nil	The difference is not material
Revenues understatement In our testing of revenues period cut off, we identified an error within our testing population where the income had note been accrued correctly as a debtor accrual. As a result, revenues were understated, and debtor accruals were also understated at the 31 March 2022. We were able to isolate and extrapolate this error to estimate the overall potential impact of the error and demonstrate this would not be material, and this is reported as an extrapolated unadjusted misstatement. This extrapolated amount is not indicative of actual misstatement/error in the population and is an estimate only, and we would not request or recommend the Council adjust for this amount.	Cr Other revenues (£1,346)	Dr Debtor accruals £1,346	(£1,346)	The difference is not material
Overall impact	(£1,346)	£1,346	(£1,346)	

A. Audit Adjustments

Impact of unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Net pension liability overstatement We identified that the net pension liability in the accounts was overstated due to the actuary using earlier investment assets valuation estimates as part of the estimate process (necessary in order to produce the IAS19 estimates to an earlier timeframe in producing the Authority financial statements). This error was below our performance materiality. See page 10 for further details on the nature of the error.	CR Remeasurement net defined pension liability (£3,901k) Note: The remeasurement impact would be in other comprehensive income so does not impact the deficit on provision of services. The impact would be in the pensions reserve.	DR Net pension liability £3,901k	CR (£3,901k)	The difference is not material
Overall impact	(£5,247)	£5,247	(£5,247)	

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B. Fees

We confirm below our fees charged/proposed for the audit and provision of non-audit services. Note that the final fee is to be confirmed – we will propose a fee variance for the issues around delays to the audit which have been highlighted in this report.

Audit fees	Proposed fee	Final fee
Council Audit	193,084	TBC
Total audit fees (excluding VAT)	£187,084	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Teachers Pension Return	7,500	TBC
Certification of Housing Benefit Claim	18,000	TBC
Total non-audit fees (excluding VAT)	**£25,500**	**£TBC**

The fees reconcile to the financial statements.

Audit fees –detailed analysis

Scale fee published by PSAA	£128,084
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£8,000
Enhanced audit procedures for Property, Plant and Equipment **(including £5,000 for engagement with an auditor's expert valuer)**	£10,000
Enhanced audit procedures for Pensions	£4,000
Increase in respect of additional work on Value for Money under new NAO Code	£26,000
Impact of new auditing standards	£17,000
New issues for 2021/22	
Additional file review – in response to increase regulation and issues in FRC public audit reviews	£1,500
Fee variance for: - Delay in the provision of sample responses, and in responses to audit queries and the impact on the audit progress (see page 3)	TBC
Total audit fees (excluding VAT)	£193,084 TBC

C. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report.

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Independent auditor's report to the members of Brighton and Hove City Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Brighton and Hove City Council (the 'Authority') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Core Financial Statements, the Notes to the Housing Revenue Account Statement and the Notes to the Collection Fund Statement. 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. 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 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 are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability

to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- 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 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

C. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Standards Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), the Local Government Finance Act 2012and the Local Government Act 2003.
- We enquired of senior officers and the Audit and Standards Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and the risk of management bias in accounting estimates. We determined that the principal risks were in relation to:
  - Large and unusual manual journal entries
  - Material accounting estimates which were subject to significant management judgement, a high level of estimation uncertainty and high sensitivity to small changes in assumptions.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Appointed Section 151 Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual manual journal entries;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment properties and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment properties and defined benefit pensions liability valuations was communicated with the team.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

C. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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 review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made 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.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Brighton and Hove City Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report; and

- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Darren Wells, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

D. Audit letter in respect of delayed VFM work

Commercial in confidence

Grant Thornton

Our ref: BHCC 2021/22 VFM

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Brighton and Hove City Council
3rd Floor, Bartholomew House,
Bartholomew Square,
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BN1 1JE

29 November 2022

For the attention of those charged with governance (the Audit and Standards Committee, Brighton and Hove City Council)

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 December 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Darren Wells

Director

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Grant Thornton

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