

Informing the audit risk assessment for Brighton and Hove City Council 2022/23

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Table of Contents

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	21
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	27

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Brighton and Hove City Council's external auditors and Brighton and Hove City Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Brighton and Hove City Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>The less than buoyant national economic position especially high pay and price inflation is the most significant factor for the 2022/23 financial statements.</p> <p>The latest reported 2022/23 outturn forecast is currently a £6.5 million overspend (end December 2022). Key quote <i>“The improved position [£5 million from October 2022) has resulted from a combination of strict recruitment and spending control since September, alongside normal financial management actions and receipt of increased funding for homelessness and winter hospital discharge management.”</i></p> <p>Please see also the 2023/24 budget report to Budget Council (23 February 2023) which sets out in detail the financial challenges faced by the council Subject: (brighton-hove.gov.uk). Key quote <i>“The funding available from government and local taxation is significantly short of the estimated inflationary pressures in 2023/24 which must not only provide for anticipated pay awards and price inflation in 2023/24 but must also provide for the excess inflation experienced this year (2022/23)”</i>.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Brighton and Hove City Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes we have and we do not consider that any events or transactions indicate that a change of accounting policies is required at this time.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The council has a number of outstanding LOBO loans but these are of a simple structure and do not contain any high risk aspects. Apart from this the council’s debt is substantially with the PWLB and the council does not have any special purpose investment vehicles.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>There are no significant transactions outside the normal course of business of balance sheet materiality in 2022/23.</p> <p>During 2022/23 the council has fully reviewed and rescheduled its substantial loan to the Brightoni360 company. The revised accounting treatment and Expected Credit Loss will be fully disclosed as part of the 2022/23 Statement of Accounts.</p>

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	None directly identified although the economic environment and world events generally may have longer term implications for PPE valuations, i.e. depending on the economic position etc.; these cannot be known or estimated at this time. This may therefore have implications for the certainty of PPE valuations (as do all macro or global economic events).
6. Are you aware of any guarantee contracts? If so, please provide further details	<p>The council has a contract with Brighton & Hove Seaside Community Homes ('Seaside Homes') that includes a rent guarantee clause which operates if the Local Housing Allowance (LHA) annual rate increase falls below +3.2%. LHA rates have been frozen since 2020/21 so this clause is active. At a joint meeting of the Policy & Resources and Housing Committee on 27 February 2023, it was agreed that "...the Council should seek to end the current Local Delivery Vehicle arrangements and bring the temporary accommodation currently leased to Seaside Homes back into Council control."</p> <p>Brighton & Hove City Council - Agenda for Policy & Resources Committee on Monday, 27th February, 2023, 2.00pm (brighton-hove.gov.uk)</p>
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	None that we are aware of. Contingent liabilities and assets will be disclosed as normal but none are expected to be material. Where litigation or contractual disputes are at an advanced stage and the council can estimate any loss with reasonable certainty (e.g. vento scale estimates) these are included as an accrual or a provision.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Brighton and Hove City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Solicitors used by BHCC during 2022/23</p> <ul style="list-style-type: none"> Irwin Mitchell – leasehold debt claims (litigation) Invicta Law – employment law advice (litigation). London Borough of Dagenham – equal pay advice (litigation) Wilkin Chapman - pursuing Council Tax arrears (litigation) Sharpe Pritchard – various procurements <p>I360 – Osborne Clarke; advice on potential restructure</p> <p>Invicta – two procurement files: a Highways contract and a matter they were instructed on by Procurement</p> <p>Bevan Britten – Housing JV; changes to legal agreements and Seaside Homes; potentially bringing accommodation back into Council control</p> <p>Trowers & Hamlin – pension issues re catering company</p> <p>Winckworth Sherwood – advice on Circus Street management company</p>

General Enquiries of Management

Question	Management response
<p>9. Have any of the Brighton and Hove City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p> <p>40</p>	<p>The Council recognises the threat of fraud and has a strategy against fraud and corruption. The strategy:</p> <ul style="list-style-type: none"> • acknowledges the threat of fraud; • encourages prevention; • promotes detection; • identifies a clear pathway for investigation; and • sets out the appropriate sanctions, including the recovery of losses. <p>Key focus area remains housing tenancy fraud and council tax discounts. The other key areas where the service and the Council received allegations of fraud and investigates included Covid business grants, Adult Social Care payments, and parking permit fraud.</p> <p>We did not find evidence of to demonstrate that any other significant fraud have occurred during the year, but as is normal we investigated a number of allegations that were referred to ourselves through whistleblowing allegations.</p> <p>The Council is a Unitary Authority, so it potentially has a number of areas of fraud risk. However, the Council has appropriate controls over its key financial systems, good effective governance arrangements and has good fraud referral and whistleblowing arrangements in place. Fraud investigations are co-ordinated and managed within an Orbis wide counter-fraud team led by an Audit Manager.</p> <p>Internal Audit and Counter fraud adopt a wide range of techniques to detect fraud. These include the examination of counter fraud controls in individual audits, data analytics and data matching (Including the National Fraud Initiative).</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>None identified.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>The normal annual process will be undertaken for review of Expected Credit Losses including that for the i360 loan as part of closing the 2022/23. Full details and working papers will be provided with the 2022/23 Statement of Accounts.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Brighton and Hove City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Brighton and Hove City Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Brighton and Hove City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Fraud risk is considered as part of the annual audit planning process and through the fraud risk assessment. The Internal Audit Service contains a dedicated team responsible for Counter Fraud. As part of its work, the team maintains a counter fraud risk assessment and an associated proactive fraud work plan.</p> <p>Updates on the Counter Fraud Team's work are provided to key Governance Officers (Chief Exec, Monitoring Officer and Chief Finance Officer) together with the Audit & Standards Committee on a regular basis.</p> <p>There is a detailed Risk Management Framework that includes Strategic Risks (reported to Audit & Standards Committee), Directorate-level risks and project-level risks as well as other risk assessment processes. Strategic Risk 02 (SR02) concerns financial sustainability and sets out the First, Second and Third line defences used to treat this risk under the council's Corporate Risk Assessment Framework. Essentially, this sets out that the council manages financial risk through its Targeted Budget Management (TBM) reporting framework, through maintaining an up to date MTFs, and through Internal Audit Reviews and oversight of a well trained and appropriately qualified Finance Function. The Annual Budget Report also includes an assessment of MTFs risks and considers risk provisions, reserves and working balances to offset and mitigate identified general and specific financial, legal and contractual risks.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Under the National Fraud Initiative, the Council provides data for a data matching exercise to compare records held by various bodies to identify potential error or fraud – these include those most at risk of fraud. This data includes payroll, pensions, creditors, residential care payments, concessionary travel passes, residents parking permits and clients in receipt of direct payments.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Brighton and Hove City Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>As an internal audit team we have been notified of a number of irregularities during the year. A high level summary of these will be presented in our annual report on irregularity work to Audit & Standards Committee in June 2023. Quarterly progress reports are reported to Audit Committee informing members about irregularity investigations and fraud work undertaken by Internal Audit. Details of these can be found with the committee papers on the Council's website. Senior Governance Officers regularly consider the emerging fraud risk and caseload of Internal Audit & Counter Fraud.</p>

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Please see information contained in the response to General Inquiries of Management Question 9.
5. Have you identified any specific fraud risks? If so, please provide details	We acknowledge and understand our fraud risks, and we have a dedicated counter fraud team to respond to these risks. A risk assessment of potential fraud areas shows most as Low Impact and Low/Medium Likelihood.
43 Do you have any concerns there are areas that are at risk of fraud?	In line with key fraud risks highlighted nationally & consideration of the Council's own fraud risk profile, we believe areas to focus on are: <ul style="list-style-type: none"> •Procurement •Contracts •Schools •Direct Payments •Grants •Payroll
Are there particular locations within Brighton and Hove City Council where fraud is more likely to occur?	None identified.
6. What processes do Brighton and Hove City Council have in place to identify and respond to risks of fraud?	Internal audit have a dedicated Counter Fraud team to prevent, detect and investigate fraud. The counter fraud strategy sets out our approach to tackling fraud. We undertake both proactive reactive work, and the proactive work seeks to prevent and identify fraud, and is targeted through a fraud risk assessment. We have in place a fraud reporting hotline in addition to a confidential reporting (whistleblowing) hotline to encourage the reporting of suspected fraud.

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Brighton and Hove City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The council is a unitary authority so it potentially has a number of areas of fraud risk. However, the council has appropriate controls over its key financial systems, effective governance arrangements and has good fraud referral and whistleblowing arrangements in place. Fraud investigations are co-ordinated and managed within an Orbis-wide counter-fraud team led by an Audit Manager. Key specific processes are:</p> <p>Internal Audit Plan – annual plan</p> <p>Financial Regulations</p> <p>Scheme of delegation</p> <p>Civic Financials and other systems control and reconciliations</p> <p>A balanced and flexible internal audit plan allows for sufficient coverage to provide assurance on the internal control environment, and improve any weaknesses identified.</p> <p>The council has a detailed Risk Management Framework that includes Strategic Risks (reported to Audit & Standards Committee), Directorate-level risks and project-level risks as well as other risk assessment processes.</p> <p>To support the above, the Internal Audit and Counter Fraud service undertakes a wide range of reviews and utilises a broad set of techniques to detect fraud. These include the examination of counter fraud controls in individual audits, data analytics and data matching (Including the National Fraud Initiative). The service supports the council’s whistleblowing process and provides fraud awareness e-learning to ensure all services are aware of fraud risks.</p> <p>We are not aware of any</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None known.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Brighton and Hove City Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details.</p>	<p>The council's governance arrangements include codes of conduct for members and officers, a counter fraud strategy, and a whistleblowing policy. These are periodically updated to ensure they remain relevant e.g. providing advice on using social media. The council uses its PIER HR/Payroll system to capture and record disclosure of interests and related party transactions for members and officers, enabling more effective management review of declarations. The declaration process is updated and managed as part of the closure of accounts process. The council's intranet ('the Wave') contains copies of guidance and policies accessible to all managers and staff. The council's induction programme and Manager's Checklist includes all of these policies and practices and appropriate e-learning and training.</p> <p>The council promotes its Whistle Blowing Policy regularly. IT&D provide regular corporate communications regarding potentially fraudulent email (phishing) and, for example, have recently introduced a simple reporting tool (via MS Outlook).</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Staff who have Administrative access and/or development rights in respect of major systems. Segregation of duties, authorisation processes, audit trails (operator logs) and Internal Audit reviews are the primary defences.</p> <p>Managers responsible for procuring goods or services or negotiating property/land deals. The risk is both from undermining procurement processes and/or collusion with bidders/contractors. The council's Contract Standing Orders and Waiver Authorisation processes are designed to minimise these risks, particularly in relation to high value procurements where there is additional scrutiny and oversight from the Corporate Procurement Team.</p> <p>Staff working in income processing, treasury, banking or other areas present fraud risks, particularly through collusion but these are areas where Financial Procedures, Internal Controls, reconciliation processes and systems, and Authorisation/Privacy controls are designed with Internal Audit and subject to ongoing audit reviews.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None identified. The council keeps a full record of member declarations and staff related party declarations and keeps these under review.</p> <p>The primary mitigation is through Contract Standing Orders. This precludes member involvement in any procurement and evaluation processes, except at the award stage. Similarly, officers are limited to maximum contract awards through Contract Standing Orders and Financial Regulations before needing to seek committee approval.</p> <p>For formal related parties, the mitigation is through contractual agreements which determine the governance and controls applicable.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Committee receive and review quarterly updates on the work of the Counter Fraud Team. A high level summary of these will be presented in our annual Counter Fraud report on irregularity work to Audit & Standards Committee in June 2023.</p> <p>The progress reports capture the emerging risks of fraud (summary of investigations) for the council and any breaches of internal control. Details of these can be found with the committee papers on the Council's website. The Counter Fraud Strategy is reviewed and approved by Senior Officers and the Audit & Standards Committee</p> <p>Details of any investigations and escalating fraud risks are reported to Audit & Standards Committee as part of the regular audit update reports.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>There have been issues raised through the whistleblowing process. The council keeps a full log of issues/complaints and has well-defined investigation and review processes. The log is highly confidential but is available to view if required.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No reports were made in 2022/23.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Brighton and Hove City Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Brighton and Hove City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The council's Constitution ensures that all relevant laws and regulations are followed in the conduct of the council's business.</p> <p>The Constitution sets the framework for decision making, which includes a Committee structure for specified types of decision and delegations to Chief Officers in relation to other decisions. The Constitution includes Contract Standing Orders to ensure procurement regulations are complied with and Codes of Conduct to ensure high standards of conduct and governance. The council's Audit & Standards Committee has oversight of key policies such as Whistleblowing and Code of Conduct complaints, which are monitored. Regular reporting to this Committee ensures that audit investigations are reviewed and trends identified. Two independent members are included on this Committee to provide additional expertise as well as external challenge. Every report to Committee includes legal and financial advice which must be taken into account prior to any decision being taken.</p> <p>We are not aware of any changes to the council's regulatory environment which would have a significant impact on the council's financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The committee is advised by the Monitoring Officer and receives regular reports in relation to the audit activity undertaken by the council's audit team. Questions are raised and responded to at committee and if necessary member working groups are established to look more closely at any areas of concern. All reports to all committees are required to include legal implications from a nominated legal officer to provide the Audit & Standards Committee and all other committees with assurance that decisions take into account relevant regulations and are legally compliant.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>None have been identified.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>As set out the existing contingent liabilities disclosure, the council has some general legal claims or litigation cases which had not been resolved at the Balance Sheet date. None of these are quantifiable and nor are they material in value and the claims may be successfully defended. This will be reviewed and updated as part of the 2022/23 Statement of Accounts production.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Brighton and Hove City Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The council builds in a review process into its annual closure of accounts process. This includes a meeting with the Monitoring Officer and Contract Lawyers involved in litigation to undertake a financial risk assessment and consider the requirement for provision or other disclosure in the accounts.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>There have been minor breaches in relation to VAT reporting that have been notified by HMRC and rectified accordingly without penalty.</p>

Related Parties

Matters in relation to Related Parties

Brighton and Hove City Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Brighton and Hove City Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Brighton and Hove City Council's 2022/23 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Brighton and Hove City Council • whether Brighton and Hove City Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>There is nothing significant to date. This will be reviewed in detail as part of the work underpinning the 2022/23 Statement of Accounts related parties disclosure note and working papers.</p>
<p>2. What controls does Brighton and Hove City Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Identification and assessment of relationships is built into the annual closure of accounts timetable to ensure identification and consideration of implications for the accounts and disclosure notes.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>This will be controlled by the relevant contractual agreements and defined governance arrangements authorised by Policy & Resources Committee. Where there are financial transactions, the council will have approved budget allocations for any contributions, grants or other payments it is expected to make to a related party. Budgets are approved by Budget Council or Policy & Resources Committee.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Standard Financial Procedures and the Scheme of Delegation to Officers regulate all transactions. Officers cannot undertake transactions outside the normal course of business without an approved budget.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government / NHS bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Brighton and Hove City Council will no longer continue?</p>	<p>Ensuring that statutory services provided by the council can continue is part of the normal financial and operational management processes/controls.</p> <p>The statutory framework within which local government operates requires forward financial planning, prudent provision for repayment of debt and affordability test for new debt and the setting of a balanced budget annually. Brighton & Hove City Council operates appropriately within this framework and has not undertaken any new risky investments or borrowing (an appropriate and prudent response to the current economic environment/uncertainties).</p>
<p>2. Are management aware of any factors which may mean for Brighton and Hove City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>We are aware of none.</p>
<p>3. With regard to the statutory services currently provided by Brighton and Hove City Council, does Brighton and Hove City Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Brighton and Hove City Council to cease to exist?</p>	<p>No, there are no plans for Brighton & City Council to cease to exist and the council expects to continue delivery of statutory services for the foreseeable future.</p> <p>Full details of the council's budget plans and savings gap/challenges are set out in the council's budget report to February 2023 full Council. The council has set a balanced budget for 2023/24.</p>
<p>4. Are management satisfied that the financial reporting framework permits Brighton and Hove City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes, management are satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>The council has property, plant and equipment (PPE) of a large value including council dwellings that need professional valuation.</p> <p>The council is an admitted body of the East Sussex Pension Fund and requires a professional actuarial valuation of its pension fund liabilities and assets.</p> <p>The council has provided loans to the i360 company that attract payments of interest and principal. There is an expected credit loss situation currently which needs to be reflected in the accounts and requires an assessment of the value of the credit loss. As set out in section General Lines of Enquiry, question 11, this is has been revised and restructured in 2022/23).</p> <p>The council has a range of unexceptional financial Instruments and Investments that require valuation and disclosure in accordance with its accounting policies and the accounting code of practice.</p> <p>Some provisions and reserves may require judgements and estimates (e.g. PFI reserves, debt Impairments/bad debt provision) and these are reviewed at least annually to consider the accounting treatment and information required to inform estimates.</p>
<p>2. How does the Council's risk management process identify and address risks relating to accounting estimates?</p>	<p>Experienced and qualified accountants work with services to obtain appropriate financial information and develop estimates in accordance with the council's accounting policies. Where necessary, external expertise such as experienced Actuarial firms, Property Valuers or other financial advisers may be engaged directly or indirectly if the council considers it needs independent advice and/or does not have the expertise in-house.</p>
<p>3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>A structured closure of accounts process has been put in place, led by the Financial Accounting team, which is accompanied by guidelines as to information that managers/budget holders should consider and provide as part of the process. The process is subject to oversight by the S151 Chief Finance Officer. Questions are also put to the Executive Leadership Team (ELT) and Tier 3 (Assistant Director) managers regarding potential liabilities and commitments as part of the process.</p>
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>By analysing significant comparative movements annually to understand if any improvement in the valuation or estimation method is required, via the annual audit findings report and ongoing liaison with the external audit team to identify areas where improved methodology or information may be required to inform estimates and via review against updated best practice and accounting body (CIPFA) code and detailed guidance notes.</p>
<p>5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?</p>	<p>None identified to date.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Through identification of areas that require estimation or valuation in the first instance and then making an assessment of the capacity and skills available to conduct this internally. Where the internal skills do not exist, external expertise is normally sought for non-trivial or material judgements.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The council follows best practice guidance, CIPFA practitioner Code and explanatory guidance and Financial Reporting Standards, and embeds these in instructions directly or through partners e.g. East Sussex Pension Fund, to specify the requirements that must be met to provide a valid estimation, judgement or valuation.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>For external expertise, this will be through the procurement processes which will request evidence of the quality assurance processes to be provided by the supplier. Internally, this is through senior management oversight and S151 oversight of the process including reviews of all non-trivial and material estimates.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>As above.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>There are no significant items identified in addition to those identified in Appendix A.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>See evidence above for the process of identifying, procuring and improving estimates and valuations. The council considers that these are robust processes that ensure that appropriately qualified expertise is utilised in the production of estimates, particularly significant and material judgements.</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>The report accompanying the approval of the accounts sets out the council's quality assurance approach for the production of the financial statements including key judgements and estimates. In 2022/23 the Audit & Standards Committee (as was the case for 2021/22) will formally review this document in June 2023 (subject to external audit agreement and delivery).</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
General Commentary/ Context	For all local authorities the approach to estimation is set out substantially in the CIPFA Code of Practice and associated guidance notes (underpinned by International Financial Reporting Standards). The practitioner notes are comprehensive in the advice provided (and acted on) with respect to, for example, non-current assets.	For the council (as for most authorities) there are three material areas of estimation where judgement is applied to balance sheet values: Non-current assets; Investments/cash equivalents (financial instruments) and; Pension fund liabilities.	This is set out for each area of accounting estimation identified by the external auditors below.	In applying the CIPFA Accounting Code of Practice/IFRS there is limited scope for local interpretation in the accounting estimates. In the areas where specialist professional advice is required the council uses the services of appropriately qualified experts and reviews and quality controls the outputs prior to finalising the Statement of Accounts.	No (the approach to estimation as per the CIPFA Accounting Code of Practice as informed/underpinned by IFRS is substantially consistent between accounting years).
Land and buildings valuations	The method of estimation is set out in detail the accounting policies under the section on Property, Plant and Equipment (PPE).	Asset valuations are subject to quality control, detailed review and year-on-year analytical review as part of the processes underpinning the production of the Statement of Accounts and associated working papers. Property valuations are supported by a detailed valuation report setting out the assumptions and supporting evidence behind the valuations. The standard process is for a draft report to be reviewed by management (which allows for challenge of the valuer's assumptions and supporting evidence) prior to the final valuation report being issued/incorporated into the final accounts	Independent and appropriately RICS-qualified external valuers are used for the majority of valuations.	The medium to long term impact of the pandemic and other major world events on property valuations is uncertain. Reasonable interpretation of this will be provided by the appropriately qualified valuers employed by the council to provide "snapshot" balance sheet valuations. As the council has no assets that it is currently planning to sell to fund committed spending and, in line with the rest of local authority, does not borrow against the value of its balance sheet, its land and building valuations represent no financial risk.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Council dwelling valuations	The method of estimation is set out in detail the accounting policies under the section on Property, Plant and Equipment (PPE).	Please see above (as per "Land and building valuations").	Independent and appropriately qualified external valuers.	Please see above (as per "Land and building valuations").	No
Investment property valuations	The method of estimation is set out in detail the accounting policies under the section on Property, Plant and Equipment (PPE).	Please see above (as per "Land and building valuations").	Independent and appropriately qualified external valuers.	Please see above (as per "Land and building valuations").	No
Depreciation	The method of estimation is set out in detail the accounting policies under the section on Property, Plant and Equipment (PPE).	The controls include the council's asset register annually updated in line with the council's programme of capital investment, annual review of asset lives and analytical review of depreciation charges changes year-on-year.	No	There is limited scope for interpretation under the Code as acknowledged in the accounting policies.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	This is set out in detail in the council's note to the Statement of Accounts "Defined Benefit Pension Schemes".	The defined benefit pension liability valuation estimate is produced by a firm of appropriately qualified and experienced actuaries (Barnett Waddingham LLP). Full details of the actuarial assumptions are set out in the annual IAS19 actuarial report and the valuation is carried out in line with the relevant professional standards.	Yes, professional actuarial valuation.	These are set out in detail in the note to the accounts and the relevant actuarial valuation. For example, assumed long term investment returns net of pay and price inflation, the life expectancy of existing and future pensioners.	No.
Level 2 investments	The is set out in detail in the council's accounting policies, for example, under "Fair Value Measurement". Please note that the council holds no level 2 investments (" <i>...that do not have regular market pricing, but whose fair value can be determined based on other data sources or market prices</i> ").	N/A	N/A	N/A	N/A
Level 3 investments	This is set out in detail in the council's accounting policies, for example, under "Fair Value Measurement". Please note the council only has £50k of assets (share equity in the Municipal Bond Agency) in this category.	The value is immaterial and has been devalued to 75% of £50k so only £37.5k in the balance sheet.	No	N/A (as immaterial).	No
Fair value estimates	This is set out in detail in the council's accounting policies under "Fair Value Measurement".				No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	The method of estimation is set out in detail in the council's accounting policies under "Provisions".	There is a comprehensive annual review of potential provisions as part of annual closing.	No.	The council provisions are fully detailed in the note to the Statement of Accounts and associated working papers. The value (included the business rates appeals provision) is currently below balance sheet materiality (c£4 million at 31 March 2022).	No
Accruals	The method of estimation is set out in the closing guidance notes for both the finance team and the budget holders. As required by the accounting Code of Practice/IFRS, the council aims to account for income and spending in the year the effects of the transactions are experienced and not simply when the payments are made or received.	This is set out in detail in the closing instructions to finance teams and budget holders.	No (but all accruals are reviewed/checked by the finance team prior to posting in the ledger).	All accruals are either precise allocations between financial years based on services paid for and received as per the relevant invoices or, if the invoice for the service has yet to be received, based on informed judgement (either information from the supplier or historic patterns of spending/income).	No
Credit loss and impairment allowances	This is set out in detail in the council's accounting policies and in the note to the Statement of Accounts ("Financial Assets and Liabilities – Financial instruments").	This is set out in the working papers to the Financial Instruments note to the Statement of Accounts.	No.	The estimates are based on professional judgement.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	The method of estimation is set out in detail the accounting policies under the section on Lease and Lease type arrangements and the associated note in the Statement of Accounts.	The disclosures are based on annual and comprehensive reviews/updates of lease and lease type arrangements across the council's services.	No.	There is limited (or no) scope for interpretation under the Code as acknowledged/set out in the accounting policies.	No.
PFI Liabilities	This is set out in the council's accounting policies under "Private Finance Initiative (PFI)". As set out in the PFI accounting requirements set out in the code, all three of the council's PFI contracts are supported by long-standing Fair Value models which set out the long term liability to fund the PFI asset (at inception/variation) convert the payments due under the contract to the notional/book entry capital repayment and revenue elements.	The liabilities under the contract were documented/modelled at contract inception or (limited impact as the bulk of the liability arises in the calculations undertaken at inception) varied if required due to contract variations.	Yes, in the original development of the Fair Value models for each contract. All models are now maintained internally.	All three of the council's PFI contracts date from the early 2000's so the original assumptions and Fair Value models which established the book entry liabilities over the lifetime of the contract at contract inception have been subject to annual external audit and review over a substantial number of years. [The relevant PFI assets are revalued annually for the Statement of Accounts disclosure].	No.



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