

AUDIT & STANDARDS COMMITTEE ADDENDUM

4.00PM, TUESDAY, 27 JUNE 2023

COUNCIL CHAMBER, HOVE TOWN HALL

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ADDENDUM

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Brighton & Hove City Council

Audit & Standards Committee

Agenda Item 15

Subject: External Audit Plan and Informing the Audit Risk Assessment 2022/23

Date of meeting: 27 June 2023

Report of: Grant Thornton UK LLP (External Audit)

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Ward(s) affected: All

Note: The special circumstances for non-compliance with Council Procedure Rule 7, Access to Information Rule 5 and Section 100B (4) of the Local Government Act as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that - Completing audit planning activities and issuing plans for 22/23 audits has been a challenge for auditors across the Local Government sector following on from prior year audit backlogs resulting in resourcing issues which have led to audit planning taking place later in the year and audit plans being issued later – these challenges have been reported in in previous Sector Updates to the Committee. This plan will enable the External Audit of the 2022/23 financial statements to commence in July as planned. Further information is included in the report on planned timelines.

Note: Reasons for urgency

The special circumstances for non-compliance with Council Procedure Rule 3, Access to Information Procedure Rule 5 and Section 100B(4) of the Local Government Act 1972 (as amended), (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that the Audit Plan for the External Audit of the financial statements must be communicated to Those Charged with Governance in order to enable the audit to commence in July 2023.

For general release

1. Purpose of the report and policy context

External Audit Plan 2022/23

- 1.1 Grant Thornton's audit plan sets out an overview of the planning scope and timing of the council's statutory external audit for the financial year ending 31 March 2023. The audit plan ("Brighton and Hove City Council audit plan Year ending 31 March 2023") is attached at **Appendix 1**. The audit plan sets out, for example, the significant risks identified ahead of the main audit work (page 7-11), levels of materiality for the financial statements (page 14-15) and the proposed audit fees for 2022/23 (page 22).

- 1.2 The external auditors are responsible for forming and expressing an opinion on the council's financial statements and for considering whether there are sufficient arrangements in place at the council for securing economy, efficiency and effectiveness in its use of resources (Value for Money arrangements).

Informing the Audit Risk Assessment 2022/23

- 1.3 Informing the audit risk assessment is an external audit related review (introduced by Grant Thornton last year as part of the 2022/23 audit in response to revised financial reporting standards) which is completed by the council's management ahead of the main audit. The completed document ("Informing the audit risk assessment for Brighton and Hove City Council 2022/23") is attached at **Appendix 2**.
- 1.4 As set out on page 4, the purpose of the document 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*". The report sets out audit queries and the management responses covering general enquires of management, fraud, laws and regulations, related parties, going concern and accounting estimates.

2. Recommendations

- 2.1 That the Audit & Standards Committee considers the documents and notifies the external auditors if there are any additional matters that it considers may also impact on the planned audit work and context for the financial year ending 31 March 2023.
- 2.2 That Committee notes both the external audit plan and informing the audit risk assessment for 2022/23.

3. Context and background information

- 3.1 This is set out in summary section 1 of this report and in detail in Appendices 1 and 2. External audit is a statutory requirement for local authorities.

4. Analysis and consideration of alternative options

- 4.1 Not applicable.

5. Community engagement and consultation

- 5.1 Not applicable.

6. Conclusion

- 6.1 This report and appendices are for noting unless the Audit & Standards Committee has additional issues to raise (as set out under section 2 Recommendations).

7. Financial implications

- 7.1 The proposed audit fee (subject to review and approval by the Public Sector Audit Appointments, PSAA) is £189,539 (substantially unchanged from 2021/22 as set out on page 22 of Appendix 1). This will be funded from within existing revenue budgets.

Name of finance officer consulted: James Hengeveld Date consulted: 21/06/2023

8. Legal implications

- 8.1 The Accounts and Audit Regulation 2015 (as amended) made under the Local Audit and Accountability Act 2014 states that the council's statement of accounts must be approved by members. The council's Constitution delegates responsibility for that function to the Audit & Standards Committee. Review of these documents forms part of that responsibility.

Name of lawyer consulted: Liz Culbert

Date consulted: 21/06/2023

9. Equalities implications

- 9.1 There are none identified.

10. Sustainability implications

- 10.1 There are none identified.

11. Other Implications

- 11.1 There are none identified.

Supporting Documentation

1. Appendices

1. Brighton and Hove City Council audit plan Year ending 31 March 2023
2. Informing the audit risk assessment for Brighton and Hove City Council 2022/23

Brighton and Hove City Council audit plan

Year ending 31 March 2023

Brighton and Hove City Council

20 June 2023



Contents



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Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In March 2023, we issued [About time?](#), which explored the reasons for delayed publication of audited local authority accounts. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been discussed with your Chief Finance officer. All proposed fees are also subject to review and approval by Public Sector Audit Appointments (PSAA). See pages 21-24 for further information.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control- refer to page 9.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Brighton and Hove City Council ('the Council') for those charged with governance.

Respective responsibilities

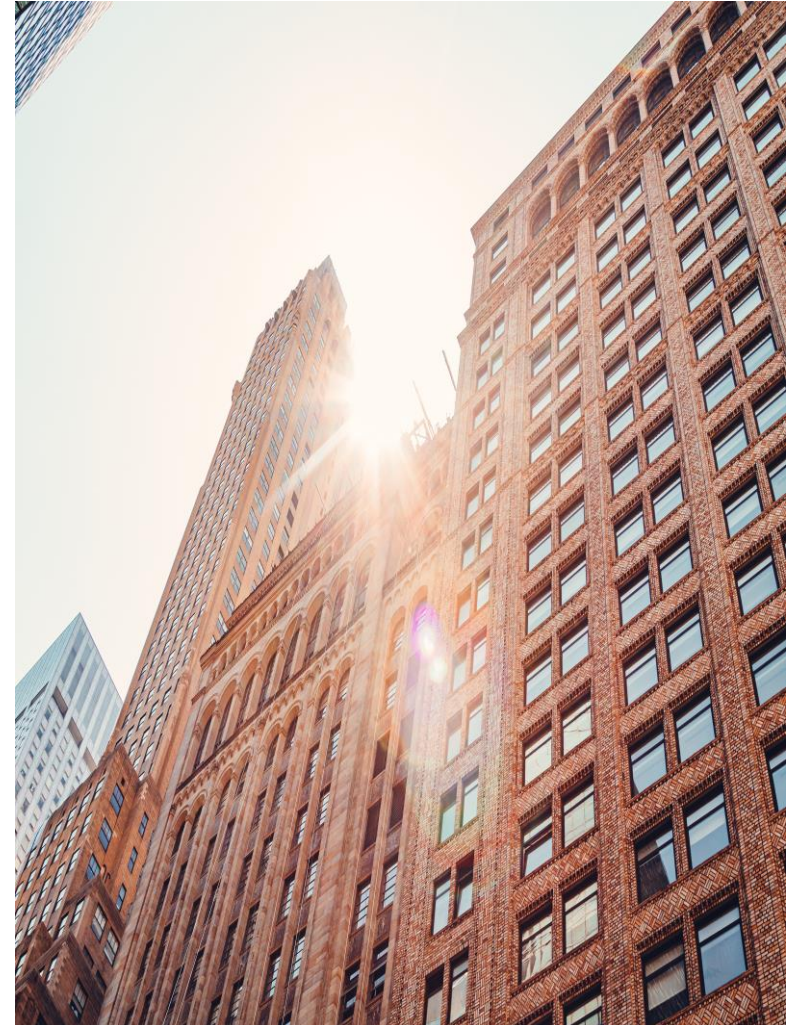
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of land and buildings
- Valuation of the pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £13.444m (PY £13.250m) for the Council, which equates to 1.45% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.672m (PY £0.660m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Financial Sustainability

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning visit took place in April 2023 and our final visit will take place from July 2023 onwards. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £189,539 (PY: £193,084 (before proposed fee variance)) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input. See pages 21-24 for further fee analysis.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition	<p>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.</p> <p>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.</p> <p>For other revenue streams, we have determined from our experience as your auditor from the previous 2 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:</p> <ul style="list-style-type: none"> - 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. 	Significant risk rebutted.

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ [ISA (UK) 315]

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraudulent expenditure recognition	<p>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition.</p> <p>We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts as:</p> <ul style="list-style-type: none"> - 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 2 years audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. 	Significant risk rebutted.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	<p>Under ISA 240 there is a non-rebuttable presumed risk that the risk of management override 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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals; • Analyse the journals listing and determine the criteria for selecting high risk unusual journals; • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including investment properties)	<p>You revalue your operational land and buildings on a rolling five yearly basis and your investment properties every year to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value at the financial statements date.</p> <p>The valuation 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 significant risk requiring special audit consideration. We have further focussed our risk assessment to the valuation of land and buildings with large and/or unusual changes to their valuation approach. In order to identify such assets in the Council's valuation programme, we will make direct inquiries with the valuer to understand the source data that underpins their valuations, corroborated the source and reasonableness of the external data they rely upon for their key assumptions, and evaluated the completeness and accuracy of source data provided directly from the Trust. We then completed analytical procedures on their valuation report, with reference to external market data, to identify those assets at greater risk of material misstatement.</p> <p>For assets which are not revalued by the external valuer in year, work is carried out with the aim of ensuring the carrying value is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer 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; • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value; • Test revaluations made during the year to see if they are input correctly into the Authority's asset register; • Evaluate 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; and • Engage 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.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net liability on defined pension scheme, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£375.3 million in the Authority's balance sheet 21/22 as pension reserves) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p> <p>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 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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update 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 evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • Assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • Test 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; • Undertake 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; and • 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.

Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Accuracy and accounting for Private Finance Initiative (PFI) liability	<p>You have assets financed through PFI schemes (Schools, Library and waste management services assets).</p> <p>PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information.</p> <p>We therefore identified the accuracy and presentation of your PFI schemes as a risk for the audit.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review your PFI models and assumptions contained therein; Obtain an understanding of any changes to PFI contracts made since the prior year; Compare your PFI models to the prior year to identify any changes; Review and test the output produced by your PFI models to generate the financial balances within the financial statements; and Review the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12.

‘In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity’s controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.’ (ISA (UK) 315)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £13.444m (PY £13.250m), which equates to 1.45% of your draft gross expenditure for the period.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
3	<p>Other communications relating to materiality we will report to the Audit Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.672m (PY £0.660m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p>

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.

	Amount (£)	Qualitative factors considered
Materiality for the council financial statements	£13.444m	<p>In determining materiality we have considered the following key factors:</p> <ul style="list-style-type: none"> - Debt arrangements: the authority has a significant level of debt, but the majority of this is with PWLB and the council follows the CIPFA Prudential Code with regard to managing the levels of debt. We are not aware of significant debt covenants or other factors that would indicate an enhanced risk. - Business environment: the Council operates in a generally stable, regulated environment, although in recent years government policies have reduced the funding available and this has increased the financial pressures on the authority. - Control environment – the audit of the 2021-22 financial statements did not identify any significant deficiencies in the control environment - Other sensitivities – There has been no change in key stakeholders, and no other sensitivities have been identified that would require materiality to be reduced.



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Civica	Financial reporting	<ul style="list-style-type: none"> ITGC design assessment
Northgate	Council Tax, Business Rates, Benefits	<ul style="list-style-type: none"> ITGC design assessment
iTrent	Payroll	<ul style="list-style-type: none"> ITGC design assessment
Ohms	Housing Rents	<ul style="list-style-type: none"> ITGC design assessment

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial Sustainability

The Council's 4-year Medium Term Financial Strategy predicts budget shortfalls of £58m over the 4-year period, including a £14m shortfall in the 2023/24 financial year. As reported in our Auditor's Annual Report for the 2021/22 financial year, there is considerable concern over the medium term as ongoing demand increases and inflationary pressure continue to put pressure on the financial position. We identified a significant weakness around financial sustainability in the 2021/22 year and made a key recommendation, and we continue to see this as a risk of significant weakness for the Council.

We will review the Council's arrangements for responding to this risk, including reviewing and discussing actions and progress against the key recommendation since the prior year.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team



Darren Wells, Key Audit Partner

Darren will be the main point of contact for the Chair, the Chief Executive and Members. Darren will share his knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with the Management Team and Audit and Standards Committee. Darren will ensure our audit is tailored specifically to you and is delivered efficiently. Darren will review all reports and the team's work focussing his time on the key risk areas to your audit.

Andy Conlan, Audit Manager

Andy will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Audit and Standards Committee, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Andy will work with Internal Audit to secure efficiencies and avoid duplication.

Muneeb Khan, Assistant Manager

Muneeb will support Andy in coordinating the audit, and will oversee particular technical areas of the audit deliver and significant risks. Muneeb will also attend Audit Committee.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Brighton and Hove City Council to begin with effect from In most cases 2018/19. The fee agreed in the contract was £139,584 (including subsequent inflation adjustments). Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf [and has been agreed with the Director of Finance].

Audit fees

	Planned Fee 2021/22	Proposed fee 2022/23
Brighton and Hove City Council Audit	£193,084	£189,539
	Note 1	Note 2
Total audit fees (excluding VAT)	£TBC	£TBC

Note 1 – The 2021/22 audit is not yet completed and signed off due to delays previously communicated to the Committee. As reported in the Audit Findings Report we will agree a fee variance for the audit when it is completed. This will be discussed and agreed with your Chief Finance Officer, and also is reviewed and approved by PSAA.

Note 2 – See fee analysis on the next page.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA (note uplifted in 2022/23)	£139,584
Reduced materiality impact on level of audit work	£3,945
Enhanced audit procedures for Property, Plant and Equipment (for engagement with an auditor's expert valuer)	£5,260
Enhanced audit procedures for Pension Liabilities (IAS19)	£4,000
Brought forward ongoing fee from 2019/20	£152,789
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised ISAs 540 / 240 / 700 introduced in 2020/21	£9,000
Total audit fees 2020/21 (excluding VAT)	£181,789
<i>New issues for 2021/22</i>	
FRC response – additional file review	£1,500
Total audit fees 2021/22 (excluding VAT)	£183,289
<i>New issues for 2022/23</i>	
Increased audit requirements of revised ISAs 315/240 introduced in 2022/23	£5,000
Additional testing of payroll change of circumstances	£500
Additional testing of Collection Fund reliefs/exemptions	£750
Total audit fees 2022/23 (excluding VAT)	£189,539

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified/ No other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits	TBC (proposed fee being discussed with management)	Self-Interest (because this is a recurring fee)	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 £TBC in comparison to the total proposed fee for the audit of £189,539 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.
Teachers Pensions return certification	10,000 (proposed fee)	Self-Interest (because this is a recurring fee)	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 £10,000 in comparison to the total proposed fee for the audit of £189,539 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	<p>Respective responsibilities</p> <p>As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.</p>
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud[deliberate manipulation] involving management and/or which results in material misstatement of the financial statements [not typically council tax fraud]		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	



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

Andy Conlan

Audit Senior Manager

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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 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 your business or any 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.

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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
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	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.
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?	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.
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?	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.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <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. 	As above.

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

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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.



