



The Audit Findings for Brighton and Hove City Council

Year ended 31 March 2020

27 October 2020



Contents



Your key Grant Thornton team members are:

Darren Wells

Engagement Lead

T: 01293 554120

E: darren.j.wells@uk.gt.com

Andy Conlan

Engagement Manager

T: 02077 282492

E: andy.n.conlan@uk.gt.com

Thomas Pattison

In-Charge

T: 01293 554098

E: thomas.pattison@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Brighton and Hove City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for the Audit and Standards Committee (those charged with governance).

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.</p> <p>Although the income and expenditure impacts in 2019/20 were not significant and are likely to be felt in 2020/21, the pandemic has presented the Council with significant front-line challenges such as administration of grants to businesses, providing adequate support and accommodation to the homeless and vulnerable and closure of schools among many others.</p> <p>The pandemic has also impacted on the Finance Team who like many other employees have had to adapt to working from home at short notice. Working from home was not the norm prior to Covid-19 and it did present some challenges with system access and capacity for staff.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 23 July 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.</p> <p>Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams have had to perform the audit entirely remotely. This has required the audit team to use regular video calls to ensure that both teams kept in close contact as we would when carrying out fieldwork on site. The audit team have also had to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements. Remote working also requires our teams to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer).</p> <p>The above has proved more time consuming than carrying out an audit under normal circumstances. There have been challenges for both the audit team and the Council's team to conduct the audit virtually during the pandemic with additional complexity that both teams had to face and address within a short space of time. However, we have worked together to overcome these issues to meet a tight audit timeframe.</p> <p>We started the audit in July 2020. Draft financial statements were provided to the audit team on the 22nd July 2020. An updated set of statements were subsequently provided on 13th August 2020. There were some key working papers that we required for our audit work to progress efficiently which were not available at the start of the audit, and some audit sample responses took some time to turn around due to internal capacity issues. These issues did delay audit progress at the start of the agreed timeframe.</p>
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Headlines (continued)

Financial Statements

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

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

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

Our audit work was completed on remotely during July–October 2020. Our findings are summarised on pages 7 to 15. We have not identified any adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement stated in the draft accounts. There were some changes to disclosure and classifications identified during the audit, and we identified some non-adjusting audit errors which were not material to the financial statements and management has decided not to adjust these in the accounts presented for members on 27 October. We are still working through the valuation of property, plant and equipment and in particular we are in discussion with the Council's valuer about council house dwelling valuation. Subject to the outcome of this work (as noted in the first bullet point below), this has the potential to result in a material adjustment to the balance sheet.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete, subject to the following outstanding matters:

- Receipt and consideration of all responses to our queries to the professional valuer around movements to the valuation of land and buildings, including council dwellings. We have challenged the applications of a Nil% indices valuation applied to council dwellings which were not revalued in year by the Beacon sample methodology and we are currently in discussion with the valuer and finance team to gain further evidence and assurance as to how dwellings are held at a materially correctly stated current value;
- Completion of testing of a sample of PPE valuation movements to the evidence of the direct inputs into those valuations;
- Resolving audit queries we have made to officers regarding prior period errors in the Financial Instruments disclosure note which have been corrected in the 2019/20 accounts (see page 11 Other Issues for further information);
- Closing minor queries coming out of our audit sample testing;
- obtaining a letter from the East Sussex Pension Fund auditor from which we take assurance over the systems and controls that take place at the Pension Fund and which could impact the pension liability;
- Review of the updated Note 3 disclosure of estimation uncertainty for the material uncertainty relating to the pension fund net liability when this is available.
- Completion of review of cash flow forecasts and budgetary documents to support the going concern disclosures in the accounts;

Headlines (continued)

Financial Statements (continued)

- Completion of our work in agreeing certain non-material disclosures and agreeing disclosures relating to Covid-19 are sufficient;
- Finalising quality reviews of the audit file which could potentially raise additional audit queries;
- Receipt of the signed management representation letter; and
- Review of the final amended set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the Council.

Completion of our work closing the audit queries the Financial Instruments could lead to changes to accounts disclosures, but would be unlikely to lead to any adjustment to the Comprehensive Income and Expenditure Statement or Balance Sheet.

Subject to the satisfactory resolution of the items noted above, our anticipated audit report opinion will be unqualified but will include an 'Emphasis of Matter' paragraph highlighting the 'valuation material uncertainties' in relation to property, plant and equipment valuation and property investments held by the pension fund. This is described in more detail at page 7.

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Brighton and Hove City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18 to 25.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code, but are unable to issue our completion certificate until we complete the Whole of Government accounts additional work as prescribed by the National Audit Office (NAO). The instructions for this Whole of Government accounts work has yet to be issued by the NAO.

Local residents have written to us seeking to object to the 2019/20 statement of accounts, requesting that the auditor makes a report in the public interest. We have not yet had the opportunity to consider the matters brought to our attention.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in November 2020, as detailed in Appendix E. These outstanding items are reported on Page 4.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan and plan addendum.

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	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£12,338k	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	£9,253k	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	£617k	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance
Materiality for related party transactions and senior officer remuneration	£50k	Our assessment of what users would consider to be material with respect to these disclosure areas.
Materiality for cash and cash equivalents	£500k	Our assessment of what users would consider to be material with respect to cash

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Covid- 19

We have:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The completed draft financial statements were provided on 13th August 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence;
- engaged the use of auditor experts for higher risk (based on income and expenditure levels) councils.

As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by the professional valuer relating to land and buildings, and also by an investment manager for pooled property investments underlying the net pension liability.

We have discussed with management the disclosure of the uncertainty in the PPE valuation in the sources of estimation uncertainty note in the accounts. In the draft accounts presented for audit the PPE valuation material uncertainty was not disclosed with sufficient clarity. It was also not accompanied by supporting information to allow users to understand the sensitivity of the estimate to key variables. We discussed this with the finance team who agreed to update Note 3 Critical Judgements and Assumptions Made to include clearer wording around the material uncertainty which was in line with the professional valuation report, and also to include information around the sensitivity of the estimate. We have included a 'Emphasis of Matter' in our audit opinion to ensure that users of the accounts are aware of the material uncertainty. This has been included in our schedule of disclosure changes resulting from the audit in Appendix C.

The material uncertainty relating to the pooled property investment underlying the net pension liability will be disclosed by the finance team in the accounts Note 3 Critical Judgements and Assumptions Made. We will include a emphasis of matter in our audit opinion to ensure that users of the accounts are aware of the material uncertainty. Note we have not included this in our schedule of disclosure changes resulting from the audit as this change came about as a result of information provided by the Pension Fund administrator. As at the date of issuing this report the Authority is awaiting information from the Pension Fund to inform this disclosure, and therefore we have included review of the reasonableness of this disclosure as outstanding work on page 3.

See appendix C for changes to disclosures agreed during the audit.

Subject to completion of the work on page 3, our work against this risk has not raised further issues.

Significant audit risks

Risks identified in our Audit Plan

Income from fees, charges and other service income

We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants 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.

Auditor commentary

For the material income streams where we have not rebutted the presumed risk of revenue recognition, we have:

- evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice;
- updated our understanding of your system for accounting for income and evaluate the design of the associated controls;
- reviewed and sample tested income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; and
- evaluated and challenged significant estimates and the judgments made by management in the recognition of income.

Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any further issues in respect of revenue recognition.

Management override of controls

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and as part of accounts production for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any further issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Valuation of land and buildings

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written 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;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value;
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register;
- evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;
- engaged an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.

On all material areas of land and buildings which were revalued during the year we have reviewed and challenged the valuations method, and key assumptions and inputs into the valuation estimate.

For Council Dwellings we have reviewed the indexation that has been applied to those dwellings which were not revalued via the beacon rolling basis valuation. The valuer has applied a nil indexation to properties which were not revalued via the Beacons methodology. We have calculated our own point estimate of movements of those properties using alternative indices of property valuation movements in the South-East and this indicated a valuation movement which is materially different to that assessed by the Council's valuer. We have challenged the professional valuer on this and requested a more detailed explanation and corroboratory evidence to support their judgement.

We tested revaluations made during the year and the accuracy of the input into the asset register and financial statements. We identified four input errors which understated the valuation of land and buildings by £3,351k. Based on materiality, officers have decided not to adjust this error in the accounts presented to members. We include it as an unadjusted error in Appendix C.

Recommendation: We recommend that a further internal check or reconciliation is performed between the valuation reports and fixed asset register prior to posting the revaluation journals (see Appendix A).

Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any further issues in respect of valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by using an auditor's expert.

We have provided information about our detailed review of the estimation process in the key judgement and estimates section.

We report our commentary on sources of estimation uncertainty stemming from the Covid-19 pandemic impacts and their disclosure in the accounts at page 7, the Covid-19 audit risk.

In 2018 the Court of Appeal ruled there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members – this also impacted Local Government Pension Schemes. Following the McCloud judgment the cases were referred back to Employment Tribunals for remedy. The tribunal issued an interim declaration providing that claimants who were active members on 31 March 2012 are entitled to be treated as having met the conditions for full transitional protection. In July 2020, the government released a consultation on applying the remedy, and this is the next phase of the Government's response to address this discrimination. From an accounting perspective, we concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is implemented, we do not regard publication of the consultation to be an adjusting event. It may be some time before the outcome of the consultation is known, and an adjusting event crystallises, but management should continue to keep the development of the pension schemes under review. The accounts presented to members, correctly, do not reflect the impact of the government's remedy consultation.

At the time of writing this report, audit work to confirm the application of controls to ensure 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 is still in progress. We gain assurance over this by obtaining a letter from the East Sussex Pension Fund auditor from which we take assurance over the systems and controls that take place at the Pension Fund and which could impact the pension liability.

Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any further issues in respect of valuation of the net liability.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>Financial Instruments – Prior period error</p> <p>The finance team have picked up 2 material prior period errors in the presentation and disclosure of the Financial Instruments note. The finance team made corrections for these errors in the comparatives for the 2019/20 accounts.</p>	<p>The accounts note headings and commentary in the draft accounts did not state that the prior year comparatives had been restated, or give any commentary on the nature of the change and the impact on financial statement lines which would allow the user of the accounts to understand the changes to the note.</p>	<p>International Accounting Standards state that where there is a prior period restatement arising from an error, the disclosures should include an explanation of the nature of the change and the amount of the correction for each financial statement line item affected including the correction at the beginning of the earliest prior period presented.</p> <p>This was discussed with management and it was agreed to update the disclosures to comply with the Code.</p> <p>We requested further working papers and evidence to support the accuracy of the changes to the comparatives. We have detailed management's changes to the comparatives in Appendix C.</p> <p>As stated on page 3, at the date of issuing this report we are still completing work to gain assurance over the material accuracy of the restated comparatives.</p> <p>Recommendation : Where the Authority does need to make material prior period corrections to Notes or primary statements, these should be supported by robust working papers and be counter-reviewed by another member of the finance team to check the accuracy and the trail from the prior year disclosure to the corrected amounts (Appendix A).</p>

PFI Accounting

We carried out testing on the PFI models to gain assurance over the updating of the models during the year to produce materially correct accounting notes.

We identified some errors in disclosures where the Schools PFI model underlying workings had not been correctly updated to produce the disclosures of future liabilities. This has resulted in a £2.7m understatement of future payments in Note 17.

We have included this as an unadjusted misstatement in Appendix C as the amount is not material.

Recommendation : Management should ensure that checks are put in place around the updating of PFI models in line with PFI accounting concepts (Appendix A).

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £885m	<p>The Council owns 11,577 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged a professional valuer to complete the valuation of these properties. The year end valuation of Council Housing was £885m, a net decrease of £12m from 2018/19 (£873m).</p>	<p>We assessed the work of management's expert, in particular the method applied to confirm that it aligned to DCLG Stock Valuation for Resource Accounting guidance.</p> <p>We reviewed the process for the selection of beacons to confirm this was reasonable to ensure representative dwellings would be selected for full inspection as part of the beacons methodology.</p> <p>We reviewed the completeness and accuracy of the underlying information used to determine the estimate.</p> <p>We tested a sample of beacons revalued by comparing the valuation to expectations as set by the value of similar properties for sale in the local area and by property indices provided by our auditor's expert.</p> <p>Where the professional valuer had applied a desktop indexation to groups of dwellings which had not been selected for beacon valuation, we have reviewed and challenged the reasonableness of the index applied through discussion with the valuer to understand the assumptions made to conclude this index was applicable. We also used our own auditor valuer to gain expert assistance in reviewing the reasonableness of this index.</p> <p>We were satisfied that the beacons methodology was applied correctly by the authority and the valuer. The valuation method had not changed from previous years. Our sample testing of beacons showed that the selection of properties for full inspection was reasonable, and that the valuation of selected beacons was in line with our expectations.</p> <p>As at the date of this report, and as described on page 9, we are still completing our work in challenging the reasonableness of the judgement applied by the Council's valuer in respect of the valuation of council houses not part of the detailed beacon valuation made in year.</p>	 <p>Work outstanding to conclude the process and assumptions are reasonable</p>

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £729m	<p>Other land and buildings comprises £473.4m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£254.9m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged several different valuers to complete the valuation of properties, some at 1 April 2019 and some at 31 March 2020 on a five yearly cyclical basis. 57% of OLB assets or £420.6m were revalued during 2019/20.</p> <p>The Council produced an impairment statement and market review, where no material impairments were noted in 2019/20.</p> <p>The Council also produced working papers showing the estimated movement for assets not valued in 2019/20 and those assets revalued at 1 April 2019 were not materially misstated as at 31 March 2020. Management assessed that these assets could be £8m greater than their carrying value in the balance sheet as at 31 March 2020.</p> <p>The total year end valuation of Other Land and Buildings was £729.3m, a net increase of £5.8m from 2018/19 (£723.5m).</p>	<p>We assessed the work of management's experts; in particular, their competency, objectivity and expertise and the valuation methods and assumptions applied. We confirmed their objectivity and expertise.</p> <p>We engaged an auditor's expert to provide us with expertise in assessing the valuation reports of the Council's valuer responsible for valuing £391m of £420.6m of OLB assets revalued in 2019/20. Through this challenge with the key OLB valuers, we were able to conclude that the valuation methodology and assumptions made by the valuers were reasonable and appropriate with reference to the CIPFA Local Government Code 2019/20 and RICS –Valuations Global Standards.</p> <p>We noted no changes to the valuation method or departures from the RICS code for all valuers. As a result of one of our challenges to Montagu Evans, the valuer issued an updated valuation report noting the limitation of scope in-so-far that a small portion of the portfolio had been valued on the basis of restricted information.</p> <p>We reviewed the completeness and accuracy of the underlying information used to determine the estimate. This included: recalculating floor plans areas provided to the valuers in order to determine our own estimate; querying yield percentage rates used by the valuer by requesting comparable market evidence; recalculating the capitalisation of rental income in fair value valuations to ensure accuracy; using transactional data to review for reasonableness of valuer estimate. We have also assessed the appropriateness of the valuation method, the type of inspection performed, the assumptions made in respect of obsolescence and any assumptions made in respect of local factors.</p> <p>Where possible, we have engaged with valuers to understand the valuation process, including the final calculations to satisfy ourselves that the valuers' estimates have a reasonable basis.</p> <p>In our sample testing of OLB assets, which is ongoing at the date of issuing this report, we have so far not identified any significant discrepancies in the valuers' calculations, in the source data or in the accounting treatment of the revaluation.</p> <p>To gain further assurance on the movement of assets not revalued in 2019/20 and assets valued at 1 April 2019, we made our own assessment of the potential value of these assets as at 31 March 2020 comparing against management's assessment and concluded that the potential estimated movement on these assets was not material.</p> <p>Subject to satisfactory resolution of matters identified on page 3, we are satisfied that the key estimates and judgements underlying the revaluation estimate for other land and buildings is reasonable.</p>	

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability – £273m	<p>The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of uncertainty around land and building valuations caused by Covid-19. The Council are including disclosures on this issue in Note 3 to the accounts.</p> <p>The net pension liability at 31 March 2020 is £273.0m (2019: £353.8m) comprising the East Sussex County Council Local Government pension scheme. You engage Hymans Robertson LLP to provide actuarial valuations of your assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £119.2m net actuarial gain during 2019/20 (2018/20: £65.3m loss).</p>	<ul style="list-style-type: none"> We assessed management's actuarial expert and concluded that the clearly competent, capable and objective in producing the estimate; We engage an auditor's actuary expert to prescribe further work to challenge the reasonableness of the estimation method used and testing of the information provided to the actuary for completeness and accuracy. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable. We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. Through these procedures we concluded that the Council's share of assets and liabilities was analytically in line with our expectations. The auditors' expert has provided our team with an indicative ranges for assumptions by which we have challenge the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable: <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8-2.0%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>1.9%</td> <td>1.90-2.90%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>21.6/ 22.5</td> <td>20.5-22.2/ 21.6-23.3</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.3/ 23.9</td> <td>24.6-26.3/ 22.9-24.6</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> We have concluded that the disclosure of the estimate in the financial statements was adequate; We agree that it is reasonable to communicate the material uncertainty around the valuation of the net liability, along with sensitivity analysis. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	●	Pension increase rate	1.9%	1.8-2.0%	●	Salary growth	1.9%	1.90-2.90%	●	Life expectancy – Males currently aged 45 / 65	21.6/ 22.5	20.5-22.2/ 21.6-23.3	●	Life expectancy – Females currently aged 45 / 65	25.3/ 23.9	24.6-26.3/ 22.9-24.6	●	
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Pension increase rate	1.9%	1.8-2.0%	●																								
Salary growth	1.9%	1.90-2.90%	●																								
Life expectancy – Males currently aged 45 / 65	21.6/ 22.5	20.5-22.2/ 21.6-23.3	●																								
Life expectancy – Females currently aged 45 / 65	25.3/ 23.9	24.6-26.3/ 22.9-24.6	●																								

Assessment

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

Significant findings – going concern

Our responsibility

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

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic. Financially, the impact of this is being felt in increasing levels of expenditure and in some revenue generating parts of the Council seeing significant falls in income levels. This is expected given what we know about the key ways Covid-19 is impacting local government: support is being given to local businesses and residents, costs of providing accommodation to the vulnerable and homeless have increased, other health and social care costs have increased as these services become more complicated to deliver and Brighton's parking and attractions which generate fee income have seen many less visitors due to national restrictions on movement.

This has led to a forecast overspend against the budget set in February 2020. We have analysed performance against the budget in more detail in our Value for Money work on pages 18-25 below. At Month 5, the anticipated overspend on the General Fund revenue budget is £7.853m. In the July 2020 update to the Medium Term Financial Strategy (MTFS) a budget gap of £17.3m has been forecast as a moderate level view scenario. The worst case scenario estimated by the Authority could be a budget gap of £33.85m. Management therefore anticipates that it may take a number of years before the Council's can fund its gross service expenditure without the use of its reserves. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit.

Going concern commentary

Management's assessment process

- Detailed budget setting and budget review/approval governance processes are undertaken in February 2020;
- This includes consideration of the adequacy of reserves and the setting of a working balance level considered appropriate;
- Subsequent to the start of the Covid-19 pandemic, at Month 5 the 2020/21 budget has been reforecast to incorporate known impacts, and the MTFS was updated in July to reflect the uncertainty around COVID-19 impact and the level of funding that would be made available from government in the forthcoming funding settlement;
- The Council's cash flow forecast is prepared annually in advance as part of budgetary preparations, and is then maintained on a live basis and reviewed regularly to ensure liquidity to meet obligations as they fall due;
- Balance sheet positions, including the cash position, is forecast over the MTFS for further management assurance over liquidity, taking into account capital investment plans and planned use of reserves, and forecasts investment balances and borrowing needs for planning purposes;

Auditor commentary

Management have prepared the accounts on the going concern basis based on their assessment processes as documented adjacent. The use of the going concern basis is disclosed in Note 1 Accounting Policies. In Note 4 Events After the Reporting Period the Council has considered the financial impacts of lockdown which started on the 26 March 2020 as a non-adjusting event with conditions arising after the reporting date. The Council has also disclosed its conclusion that these events do not indicate that the Council would be unable to continue as a going concern. Further information provided in the Narrative Report discloses the forward looking view of the areas of additional costs and reduced revenue due to Covid-19.

We have reviewed management's process to assess the use of the going concern basis. We reviewed the 2020/21 budget and the reforecast MTFS, including the key assumptions, to confirm that they are reasonable in line with our knowledge of the Council and the sector.

We documented the cash-flow forecasting process, particularly given that there could be a potential cash flow impact from reduced certainty over revenues and grant income during 2020/21 and subsequent years. The Chief Finance Officer and Deputy Chief Finance Officer are both involved in reviewing key forecasting documents before they are reported to the Policy and Resources Committee for scrutiny, discussion and approval.

We were satisfied through our review of these processes that management have in place adequate processes to continually assess the use of the going concern basis, and adequate financial governance and risk scenario planning processes to anticipate and mitigate events which might present a risk to going concern.

We have not identified any material uncertainty over the going concern basis adopted, subject to completion of our review of the items on page 3 (review of cash flow forecasts and budgetary documents).

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with management and the Audit and Standards Committee. We have not been made aware of any significant or material incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any such incidences from our audit work.
Written representations	<ul style="list-style-type: none"> A signed letter of representation has been requested.
Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests in respect of your bank, investments and loans balances. This permission was granted for all institutions and the requests were sent. All of these requests were returned with positive confirmation, with the exception of confirmations requested in respect of the bank accounts balances and a small number of investments balances. We are continuing to chase these confirmations requests with assistance from your officers and in the meantime will undertake alternative procedures to verify whether these balances are materially fairly stated as at 31 March 2020.
Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in your financial statements. We identified a number of disclosure adjustments which are set out later within this report.
Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> Except for the outstanding items noted on page 3, all information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>The section of the Narrative Report referring to the impact of Covid-19 was drafted at April 2020 and had not been updated for subsequent updates to the budget and the Medium Term Financial Strategy. This was discussed with the Finance Team and the Statement was updated. No other inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; • If we have applied any of our statutory powers or duties. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that full guidance from the NAO on the required procedures has yet to be issued.</p> <p>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed and the work is planned to be completed subsequent to the accounts audit and signing of the financial statements. This would mean we cannot issue our completion certificate until this work has been finished.</p>
Certification of the closure of the audit	<p>For the reasons stated above, we are unable to certify the closure of the 2019/20 audit in the audit report.</p> <p>We are also considering matters brought to our attention by local residents.</p> <p>We will issue the completion certificate once we have considered the above point and completed the WGA work.</p>

Value for Money - Introduction

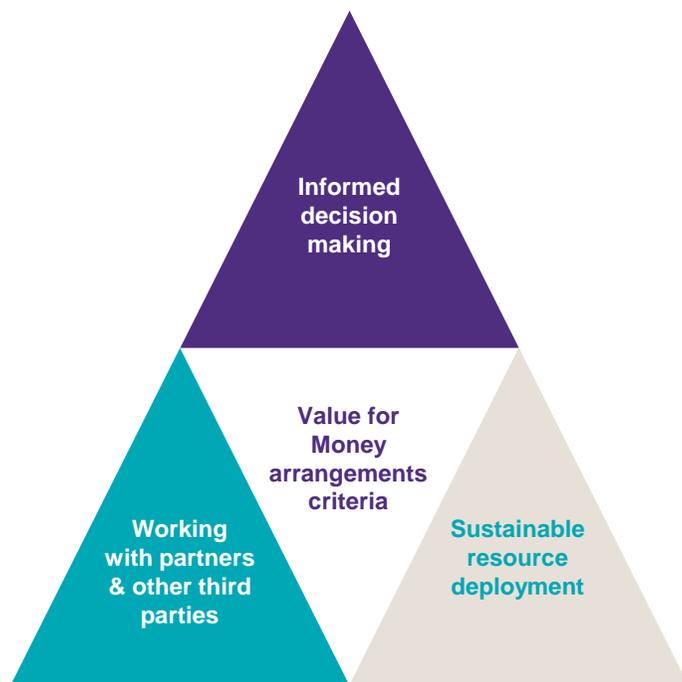
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan at the 10 March 2020 meeting of the Audit and Standards Committee.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work. In our plan Addendum which was issued on the 23 July 2020 subsequent to the impacts of the Covid-19 pandemic we reported that we had updated our Vfm risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new Vfm risks in relation to Covid-19. We were satisfied that our work addressing the Medium Term Financial Sustainability risk would allow us to address the ways that Covid-19 has impacted on the Authority's medium term financial sustainability, how management are forecasting the impacts on future income and expenditure, and the arrangements that have been put in place by management to respond to these impacts

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found on page 25.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money – Introduction (continued)

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements, which was as follows:



Medium term financial sustainability

The Council has a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Financial resilience of the Council will depend on its ability to balance its budget without use of reserves.

At month 9 of 2019-20, the forecast risk position to General fund budget outturn for the year is a £3.4m overspend. The authority has a £0.8m one-off financial risk safety net contingency fund to mitigate this forecast risk, and there are temporary spending and vacancy controls in place to improve the position. It is uncertain at this point whether the authority will manage to breakeven over the remainder of the year. Of the £12.2m savings target for 2019-20, £11.2m is on track, but £1m may not be delivered in year.

The Authority has set a balanced budget for the 2020-21 year, with priority areas of expenditure being sustainability/environmental improvements through carbon reduction, improving access to affordable housing along with reducing homelessness, and building and sharing community wealth. The budget allocates a total of more than £900m, and includes an increase of the council's element of council tax of 3.99% (including a 1.99% adult social care precept element) to allow income to be sustained at a level which supports the Councils Corporate Plan ambitions.

The budget includes a budget gap which the Authority is addressing with savings proposals of £9.7m. Achievement of savings plans is inherently uncertain and risk and this could put overall budget achievement in doubt. With the recent changes to the overall majority in central government, this is likely to lead to ongoing uncertainty in local government funding, and therefore there is currently no reasonable estimate that can be made for the impact of the ongoing Fair Funding Review and potential changes to Business Rate (continued on next page)

retention leading to ongoing medium term budgetary uncertainty going forwards.

Local Government reserves levels are under increased scrutiny with the high level of uncertainty over funding levels. The authority plans to maintain reserves at a level of General Fund working balance at £9m, representing about 3 weeks of Council Tax revenues.

There is a risk that the Council fails to achieve Economy, Efficiency, and Effectiveness in use of its resources in 2019-20 and beyond as a result of financial pressures.

To address this risk we will

review your Medium Term Financial Plan, including the robustness of assumptions, savings plans and revenue generating schemes;

discuss your plans and outcomes with management, as well as reviewing how finances were reported to Councillors;

we will assess how management have assessed the adequacy of reserves levels in the context of risk and future plans;

we will review the savings plans going forward, assessing savings achievements so far and challenging the robustness of underlying plans for savings totals identified in medium term financial planning documents.

We have set out more detail on the risk we identified, the results and conclusions of the work we performed, and the recommendations we have made on pages 20-25.

Value for Money - Summary

Overview

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. Although the Council had an overspend of £2.821m in 2019/20, it was able to offset this through a number of mitigations, without further depleting general fund reserves.

The Council has a strong track record of delivering savings plans. Over the last eight years, over £142m of savings have been achieved to enable cost and demand increases to be funded, alongside managing reductions in central government funding. In 2019/20, the Council achieved 92% of its ambitious savings target of £12.236m.

The financial position for 2020/21 and the medium term is challenging, in particular due to the COVID-19 pandemic, which is presenting all councils with unprecedented pressures.

For Brighton & Hove, this is manifesting in reduced visitor numbers, commercial activity and increased demand-led services requirements. As at Month 5, the Council was forecasting a £7.853m net budget overspend (taking into account the most recent government COVID-19 funding support). Together with a forecast deficit on the Collection Fund of £11.818m, this indicates a total in year overspend of £19.671m, however the Council has additional flexibility over Collection Fund element meaning that it does not directly impact on the current year position.

The Executive Leadership Team is currently reviewing options to manage the in-year position and the Council has agreed a 'financial smoothing' strategy, whereby the overspend will be temporarily met from reserve balances, which will be replaced in future years.

In July 2020 the Council undertook scenario analysis to better understand the implications of COVID-19 and the subsequent economic downturn. The revised medium term projections for the moderate case project a budget gap of £17.3m in 2021/22 building to £43.161m by 2023/24. These deficits will ultimately need to be closed through further savings or additional government support.

VfM Conclusion 2019/20 – Financial Sustainability

The Council has implemented adequate financial governance arrangements including the timely monitoring of progress against budgets and the impact of COVID-19. We note the use of scenario analysis to manage uncertainty, alongside the ongoing consideration of adequacy of reserves and detailed foreword planning to bridge budget gaps. This will be invaluable in navigating the financial pressures arising from the COVID-19 pandemic over the medium term.

The Council successfully delivered a balanced budget in 2019/20 and is on track to manage the projected £7.853m budget overspend in 2020/21 through the use of reserves under the financial smoothing approach.

The Council faces a significant financial challenge in setting a balanced budget for 2021/22 and is in the process of developing a viable mitigation plan. The government's intentions in regard to further financial support as part of the 2021/22 funding settlement are not yet clear and therefore the current focus is on actions that can be taken to address funding pressures within the Council's existing resources.

It will be important that Council members and officers agree a financially sustainable financial plan for 2021/22 recognising that, without significant further support from government, this could require difficult decisions to be made around future service priorities.

Value for Money – 2019/20 and the financial impact of COVID-19

Financial performance 2019/20

The outturn for the Council in 2019/20 was an overspend of £2.821m. The most significant overspend (£4.701m) was in Health & Adult Social Care, which reflects increasing demands from client needs (e.g. additional care home placements and home care packages for Older People). This overspend was somewhat offset by underspends elsewhere in the budget, including £1.047m in Families, Children & Learning and £1.574m in Economy, Environment & Culture. The separate Housing Revenue Account (HRA) produced a small underspend of £0.679m.

The net overspend for 2019/20 has been offset without drawing on the general fund through a number of mitigations, including releasing the risk provision (£0.770m), a collection fund surplus (£0.947m), modernisation refinancing (£0.719m) and a one-off waste PFI surplus (£0.385m).

Of the £12.236m savings target, the Council achieved £11.288m with £0.948m (8%) unachieved. The area of greatest challenge was again in Health & Adult Social Care where £0.633m (15%) of the total approved savings of £4.354m was not achieved.

There was a capital programme underspend of £0.447m (0.5%) against a budget of £95.805m, which indicates an effective capital budgeting process is in place.

We note £300k of costs in relation to COVID-19 were recognised in 2019/20, which have been mitigated by a release of part of the government funding received. Approximately 47% of this additional cost falls within the Health & Adult Social Care directorate.

Despite an overspend at directorate level, the Council has been able to utilise underspends elsewhere in the budget, risk provisions and other one off measures to successfully protect the general fund working balance.

We note that the Health and Adult Social Care directorate incurred a significant £4.7m overspend on the 2019/20 budget, primarily relating to the cost of community care placements together with an element of greater than anticipated demand. The directorate has acknowledged that there is work to do in reducing residential care placements and reviewing policies and procedures around the framework rates as part of the Better Lives, Stronger Communities programme.

Progress against 2020/21 budget and impact of COVID-19

In February 2020, a balanced budget for 2020/21 was approved, which included ambitious savings targets. At M5, an overspend of £7.853m on the General Fund revenue budget is anticipated. This reflects a marked improvement on the forecast deficit in previous months, primarily due to the significant government support received as part of tranche 3 and the income support scheme.

In addition to this, there is a forecast net Collection Fund deficit of £11.818m, in 2020/21 bringing the total forecast deficit in year to £19.671m. Note that there are additional flexibilities that means the accumulated collection fund deficit can be addressed over a number of years, reducing the immediate impact on 2020/21 to the £7.853m described above.

Within this position, the most significant net overspend forecast (£10.760m) is in Health & Adult Social Care, which relates to increasing demands from client needs, supporting more people to be discharged from hospital, maintaining a resilient local provider market and supporting vulnerable clients during the COVID-19 pandemic.

While we recognise that COVID-19 has had a significant adverse impact on financial performance within Health and Adult Social Care, it is clear that there were pre-existing pressures that the Council has identified and is in the process of addressing. As this area forms one of the largest elements of the Council budget, it will need to be a key component of the strategy to secure financial sustainability to the Council in the medium to long term.

The second most significant overspend forecast (£9.274m) is in Economy, Environment & Culture, which relates to revenues from parking, museums and venues and for the Council's commercial property portfolio, all of which are dependent on visitor numbers and commercial activity. However, we also note that the Council started to see an improvement in parking and tourism related income over the summer period.

We note that at Month 5, £3.827m of the total savings planned in 2020/21 (£10.291m) were rated at risk by the Council. Most of this (£3.097m) is due to pressures arising from COVID-19. The most significant savings at risk are in Economy, Environment & Culture (£2.029m) and in Families, Children & Learning (£1.056m). No savings were planned in Health & Adult Social Care in 2020/21.

Of the £161.729m capital programme spend budget for 2020/21, an underspend of £2.417m (1.5%) is forecast, which relates entirely to the Housing Revenue Account.

Value for Money – Mitigation of COVID-19 financial impact

Plans to mitigate the impact of COVID-19 in 2020/21

The Council had set aside a £0.750m risk provision to mitigate risks identified at the time of setting the original budget. This has now been fully released to manage the in year overspend, and the Council has developed a plan to manage the in year pressure through other means.

On 29 May 2020, a Policy & Resources (Recovery) Sub-Committee, was set up to help steer the Council and the city through the recovery phase of the COVID-19 outbreak. This covered financial, operational and strategic matters.

In July 2020 the Council presented detailed scenario planning to look at the potential range of financial outcomes outturns for 2020/21. This included the development of 'worst case', 'moderate view' and 'optimistic view' making assumptions around economic recovery and further funding receivable from government. The Council officers' best estimate of the position for 2020/21 at that point was a deficit outturn of £27.503m under the 'moderate view' scenario (including the collection fund deficit in year). This fell within a range of potential outcomes of between £17.003m (Optimistic View) and £39.073m (Worst Case).

The current projected outturn of £19.671m at month 5 (based on the revised Moderate View case including the collection fund deficit) reflects an improved outlook, primarily due to additional one off benefit from the government's income support scheme being greater than anticipated. As part of its General Fund planning update, the Executive Leadership Team reviewed all options available to it to manage the in-year position including:

- Use of Furlough as far as practicably possible for income-funded services;
- Use of normal vacancy management processes (with exceptions for essential and statutory service areas) across services;
- Curtailment of non-essential spend and continuing to look for economies and contract savings;
- Ensuring that Supplier Relief payments only provide for financial sustainability where services are not being delivered in full or at all;
- Continuing to look for opportunities to manage demands and pressures in partnership with other agencies, particularly the Clinical Commissioning Group;
- Pausing new Capital Schemes funded by borrowing.

The Council considered two options to manage the position in 2020/21:

- **Emergency Budget:** Take a prudential view and set an Emergency Budget including emergency reductions in non-statutory expenditure and services alongside all other available mitigation measures. This could include some use of reserves or the working balance with a plan for their replenishment over future years.
- **Financial Smoothing:** Use available mitigations, including one off measures as far as possible to manage the projected overspend in 2020/21 and then using reserves to manage any remaining shortfall, on the basis that these would need to be build back up in future years of the MTFS.

On 8 October, the Council resolved to follow the financial smoothing option, in the context of the improved outlook for 2020/21.

The July Budget Planning and Resources Update indicated that a maximum of £39.073m of reserves were technically available to support financial smoothing, reflecting the requirement under the worst case scenario. Total available reserves include the working balance of the general fund of £9m and Earmarked Reserves £41m. However, the paper points out that the majority of earmarked reserves and working balance that make up this amount were put in place to manage previously identified financial risks and commitments. Therefore this approach would require a plan for replenishment of these reserves over the following years. It also highlights the level of financial risk the Council would be exposed to would increase in proportion to the level of reserves deployed for financial smoothing and would reduce the Council's ability to respond to further financial shocks. We note that under the worst case scenario, this could become unsustainable.

In our view, the adoption of financial smoothing to manage the forecast overspend in 2020/21 is a valid mitigation strategy in the light of the improved outlook at month 5. However, it will mean a significant reduction in the reserves available to manage the significant financial pressures forecast from 2021/22 onwards. We recommend that the use of reserves to manage the in year deficit be reduced as far as possible through additional savings and other mitigating actions, in order to protect reserve balances so they can remain available to manage risk in future years.

Value for Money – Medium term financial outlook

Medium Term Financial Strategy (MTFS)

In February 2020, the MTFS to 2024/25 projected a balanced budget for 2020/21 and a budget gap and savings requirement of between £7m and £9m in all future years of the plan, building to £30.800m.

In July 2020, the MTFS was updated to reflect the uncertainty around COVID-19 impact and the level of funding that would be made available from government in the forthcoming funding settlement. The 'moderate view' MTFS outturn from 2021//22 to 2023/24 provides the current budget planning framework. Within this position the predicted budget gap (savings target) would build to £43.161m over the period, with in year gaps accumulating as follows:

- 2021/22: £17.300m
- 2022/23: £14.667m
- 2023/24: £11.194m

The 'moderate view' MTFS outturn from 2021//22 to 2023/24 includes the following key assumptions:

- Further government support received in the 2021/22 funding settlement estimated to be £11m (Adult social care, troubled families and COVID-19).
- Sales, fees and charges income assumed to return to pre-COVID budgeted levels from 2021/22 onwards.
- Maximum 1.99% Council Tax increases.
- Repayment of reserves used to manage the 2020/21 overspend, over a 10 year period, starting in 2022/23
- Pay awards averaging 2.20% (non-pay and income budgets inflating at 1%).
- Continued investment in priority services and Corporate Plan priorities.

In our view, these assumptions provide a reasonable basis for planning the 2021/22 budget at this point in time, but we note the reliance on the assumptions around the funding settlement and the recovery of sales fees and charges which carry a significant degree of uncertainty. We agree with the Council's assessment that any adverse variance to these assumptions, worse than expected performance on local taxation levels or higher than expected demand and/or cost inflation for social care would push the Council towards or in excess of the current projected worst case scenario for 2021/22 (currently a £33.850m deficit).

Progress on planning for the 2021/22 budget

The Council has taken a proactive approach to assessing the impact of COVID-19 into the medium term, which is an important step in the planning process for seeking balanced budgets and sustainable financial management.

The Council is currently developing a programme of savings and income initiatives to close the projected £17.3m funding gap in readiness for setting the 2021/22 budget. The current level of uncertainty will persist until the funding settlement is announced by government (expected in November/ December 2020), and the Council's approach is reasonable in this context.

We have discussed progress on the saving plans with the Council's strategic director team, and are satisfied that progress has been made and significant proposals are being developed.

Should the 2020/21 outturn fall in line with current projections, there may be scope for further financial smoothing through the use of reserves. However, in our view this will be limited due to the modest level of available reserves, the need to manage existing financial risks and the financial pressure that arises from future re-building of reserves. We therefore expect that that the bulk of any funding gap for 2021/22 would need to be met by savings, with some contribution from income generation.

The Council will need to continue to review its financial assumptions and forecast outturn and be fully prepared to take further mitigating action if necessary. Should the financial outlook worsen over the next few months the Council will need to be in a position to consider further measures it could take to set a balanced budget for 2021/22, beyond the current planning to mitigate a £17.3m deficit.

Value for Money – Medium term financial outlook

Financial governance – reserves

The Council closely monitors the adequacy of reserves, and this is carried through into the mitigation strategies developed to manage in year costs pressures and the MTFS. The adequacy of reserves are taken to Full Council annually along with the Medium Term Financial Strategy. In February 2020, it was agreed that the (minimum) working balance of £9.000m (representing approximately 3½ weeks of council tax revenue) on the working balance within the general fund reserve is retained for the next 5 years.

The current level of reserve balances has been based on the robustness of estimates information and the Corporate Risk Register, as well as other strategic, operational and financial risks. This will be reviewed in due course, in the light of the impact of COVID-19, however reserve levels have been a key consideration within the Council's 2020/21 budget mitigation strategy and revised MTFS.

Financial governance – monitoring budgets

The Council maintains a monthly Targeted Budget Management (TBM) process to monitor financial performance, including a Financial Dashboard Summary, a Revenue Budget RAG Rating, variance against budget from month to month, revenue budget performance, progress against savings targets and income collection performance monitoring.

Individual directorates are responsible for monitoring and reporting on performance against budgets. For example weekly meetings are held between the Director of Economy, Environment & Culture and the assistant directors and budget managers, to review prior month and prepare current month monitoring and reporting.

The Council operates a Business Partnering model, which is considered by the director team to be operating well. The Council is part of 'Orbis', which is a shared services partnership between Brighton and Hove City Council, East Sussex County Council, and Surrey County Council. The services includes Finance services such as advice and training to support the effective use of public funds. Our discussions with Directorate leads suggest that they feel well supported in keeping control of budgets and monitoring progress. There is a culture of accountability.

The Council is in the process of performing a skills audit of the 200+ budget managers and are designing a training programme to address skills gaps identified and to improve consistency and competence across the directorates. The Council currently operates a risk-based approach so that higher risk budgets get very intensive support.

Value for Money - Recommendations

Recommendations identified from 2019/20 Vfm review

The following recommendations have been identified and will be monitored in future value for money reviews.

	Recommendation
1	While we recognise that COVID-19 has had a significant adverse impact on financial performance within Health and Adult Social Care, it is clear that there were pre-existing pressures that the Council has identified and is in the process of addressing. As this area forms one of the largest elements of the Council budget, it will need to be a key component of the strategy to secure financial sustainability to the Council in the medium to long term.
2	In our view, the adoption of financial smoothing to manage the forecast overspend in 2020/21 is a valid mitigation strategy in the light of the improved outlook at month 5. However, it will mean a significant reduction in the reserves available to manage the significant financial pressures forecast from 2021/22 onwards. We recommend that the use of reserves to manage the in year deficit be reduced as far as possible through additional savings and other mitigating actions, in order to protect reserve balances so they can remain available to manage risk in future years.
3	The Council will need to continue to review its financial assumptions and forecast outturn and be fully prepared to take further mitigating action if necessary. Should the financial outlook worsen over the next few months the Council will need to be in a position to consider further measures it could take to set a balanced budget for 2021/22, beyond the current planning to mitigate a £17.3m deficit.
4	It will be important that Council members and officers agree a financially sustainable financial plan for 2021/22 recognising that, without significant further support from government, this could require difficult decisions to be made around future service priorities.

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Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	
Certification of Teachers Pension Return	3,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of these recurring fees taken on their own is not considered a significant threat to independence as the fee for these pieces of work is £23,000 in comparison to the total fee for the audit of £146,584 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	17,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	

Action plan

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 Medium	<p>PFI Accounting Model</p> <p>We carried out testing on the PFI models in order to gain assurance over the updating of the models during the year to produce materially correct accounting notes.</p> <p>We identified an error in disclosures where the PFI models had not been correctly updated in line with PFI accounting concepts to produce the correct disclosures of future liabilities. The finance team agreed this was an error, but as it was not material they have not adjusted the accounts disclosure for this amount. See Appendix C for full details of the error.</p>	<p>Management should ensure that checks are put in place around the updating of PFI models in line with PFI accounting concepts.</p> <p>Management response</p> <p>Agreed.</p>
202  Medium	<p>Financial Instruments – prior year error corrections</p> <p>The finance team have picked up 2 material prior period errors in the presentation and disclosure of the Financial Instruments note. The finance team made corrections for these errors in the comparatives for the 2019/20 accounts.</p> <p>The audit team have found it difficult to understand changes made to prior year figures and to check these to clear working papers.</p>	<p>Where the Authority does need to make material prior period corrections to Notes or primary statements, these should be supported by robust working papers and be counter-reviewed by another member of the finance team to check the accuracy and the trail from the prior year disclosure to the corrected amounts</p> <p>Management response</p> <p>Agreed.</p>
 Medium	<p>Input of PPE valuation entries into the Fixed Asset Register</p> <p>In our testing of revaluations made during the year and the accuracy of the input of these into the asset register we identified four input errors. These understated the valuation of land and buildings by £3,351k. As this amount was below our performance materiality this was not adjusted in the accounts</p>	<p>We recommend that a further internal check or reconciliation is performed between the valuation reports and fixed asset register prior to posting the revaluation journals</p> <p>Management response</p> <p>Agreed.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in 4 recommendations being reported in our 2018/19 Audit Findings report. *We have followed up on the implementation of our recommendations and the actions taken by management are as follows:*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Write off of unrecoverable receivables control</p> <p>In the Receivables walkthrough, we documented our understanding of and walked through the receivables write off process. The write off process per the control environment should occur quarterly but we were made aware that the write off process had only occurred twice during the year.</p>	<p>We recommended in 2018/19 that the receivables write off process is undertaken quarterly as per the Council's documented control processes, to ensure that old/unrecoverable receivables are correctly written off and not retained as receivable assets per the accounts.</p> <p>We have confirmed that the receivables write off process has been undertaken quarterly during the 2019/20 period.</p>
✓	<p>Assurance over assets not revalued</p> <p>We noted in our PPE valuation work we noted that management had not specifically set out in detail their own assumptions and estimates of the potential movements in value for assets not revalued during the year. Although management do revalue all very high value assets the total of assets not revalued, and particularly the total value of school land and buildings, is a material amount and a relatively small movement in the value of this total could be material to the accounts.</p> <p>In the absence of a detailed management working paper , we developed our own point estimate of the movement in values using information of possible variations provided by our own auditor's expert.</p>	<p>We recommended in 2018/19 that management strengthen future working papers in this area to provide a detailed assessment that can be audited.</p> <p>Management have produced a more detailed assessment of their assumptions and estimates relating to the potential movements in value for assets not revalued during 2019/20. The working papers in this area were much easier for the audit team to understand and interpret this year.</p>
X	<p>Order of the financial statements</p> <p>The Code of Local Authority Accounting gives a recommended order for the presentation of the main statements : Comprehensive income and expenditure statement; movement in reserves statement; balance sheet and cashflow statement followed by notes to the accounts.</p> <p>The Council starts its accounts with the Expenditure and Funding analysis which is a note to the accounts and is not a primary statement..</p> <p>The accounting policies are set out after many of the detailed notes to which they relate. Typically, accounting policies are positioned as an early note to the accounts to set the context of the detail that follows.</p>	<p>We recommended that the Council considers the presentation order as part of its preparations for 2019-20.</p> <p>This action was not taken, and we observed a similar issue in the 2019-20 draft accounts. The Authority team have agreed to reposition the Expenditure and Funding Analysis as a Note to the accounts and not a primary statement.</p> <p>We have included this as a disclosure change made during the audit in Appendix C.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>PFI Accounting Model</p> <p>In our testing of the PFI accounting disclosures we reviewed and tested the PFI models to gain assurance that the accounting entries being generated by the accounting models were fairly stated. We noted that for one of the PFI schemes the full accounting model could not be located and we had to rely on the affordability model as an alternative. We concluded that this was a reasonable alternative to gain assurance over the material correctness of the accounting entries but we would expect the Council to hold a full accounting audit trail for its PFI schemes.</p>	<p>We recommended in 2018/19 that the Council reviews the documentation and audit trail available for PFI schemes to assure itself that these are complete.</p> <p>We were not satisfied that this action had been taken during 2019/20, as again there was not a very full audit trail for the PFI accounting models, and we have taken this forward as a control recommendation for the 2019/20 period.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

There were no adjusted misstatements for the year ending 31 March 2020.

Misclassification and disclosure changes

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

Disclosure change/ omission	Detail	Auditor recommendations	Adjusted?
Positioning of the Expenditure and Funding Analysis (EFA)	The Code of Local Authority Accounting gives a recommended order for the presentation of the main statements : Comprehensive income and expenditure statement; movement in reserves statement; balance sheet and cashflow statement followed by notes to the accounts. The EFA should be presented clearly as a Note to the statements rather than a main statement.	We recommended that the EFA was repositioned in the accounts as a Note to the financial statements to more clearly communicate the relative importance of this analysis as against the main statements. Management response This was amended in the accounts.	✓
PPE land and buildings material uncertainty	The professional valuer has declared in their valuation report a material uncertainty over land and building valuations due to uncertainties in the property market caused by the Covid-19 pandemic. This material uncertainty is in line with national RICs guidance and has been declared by most professional valuers nationwide for valuations produced at 31/03/2020. The material uncertainty was not disclosed in the Authority's draft accounts Note 3 Critical Judgements and Assumptions Made.	We recommended that Note 3 was updated to include the disclosure of the material uncertainty declared by the professional valuer, and in line with Code guidance to include some information as to the sensitivity of the estimate, so users of the accounts could further understand the level of uncertainty. Management response This was amended in the accounts.	✓
Other minor changes to disclosure wording content	We made some other minor recommendations for changes/updates to disclosures in the accounts. These included updating the Impact of Covid-19 information in the Narrative Report and removal of Contingent Liability disclosures for Covid-19 and the i360 where our view was they did not meet the definition of contingent liabilities.	Management response This was amended in the accounts.	✓

Audit adjustments (continued)

Misclassification and disclosure changes (continued)

Disclosure change/omission	Detail	Auditor recommendations	Adjusted?
Note 11 - Financial Instruments disclosures	<p>The authority made 2 material corrections of prior period errors in this note to the accounts, and expanded disclosure of reason for the error and the line by line impact have been expanded as follows:</p> <ol style="list-style-type: none"> <li data-bbox="306 462 1065 768">1. In the classifications of financial assets there was a restatement of the 2018/19 debtors figure from £39.850m down to £23.827m due to a balance of £16.023m impairment allowances being incorrectly classed as a non-financial asset when should have been included within the debtors figure. The non-financial assets balance has been increased from £8.723m to £24.746m by the corresponding amount. The impairment allowance was also incorrectly classed as a non-financial asset in the 2017/18 balances, if adjusted for the debtors figure would have decreased by £12.962m to £23.001m and the non-financial assets figure increased to up to £37.333m; and <li data-bbox="306 782 1065 896">2. The Maturity of Financial Assets 2018/19 figures were restated to provide a more accurate analysis of the maturity profile of the financial assets and to incorporate the corrections to balances that have been categorised as financial assets as per the above item. <p>When the auditor requested working papers to support the second correction, the draft note was revised further by a material amount and further working papers to support this correction were requested.</p> <p>As at the date of issue of this report we had not obtained a sufficient audit trail working paper to gain full assurance that the second correction was materially correct.</p> <p>Note – these are disclosure issues only for categories of financial instruments and would not impact the main Balance Sheet financial statements.</p>	<p>We have made a recommendation to improve working papers around Financial Instruments as this was an area of the audit where it was difficult for the audit team to understand how the disclosure was composed from GL information.</p> <p>Our audit queries have led to material changes to the amounts presented in the Note. As at the date of the issue of the report we are resolving audit queries we have made to officers regarding these prior period errors. This work could lead to further changes to the disclosure.</p> <p>Management response</p> <p>The above material change in the Maturity of Financial Assets note was amended.</p>	✓

Audit adjustments (continued)

Misclassification and disclosure changes – unadjusted

The table below provides details of misclassification and disclosure changes identified during the audit which have not been amended in the final set of financial statements.

Disclosure change/omission	Detail	Auditor recommendations	Adjusted?
Note 17 PFI – Payments Due under PFI Arrangements	<p>We carried out testing on the PFI models to gain assurance over the updating of the models during the year to produce materially correct accounting notes.</p> <p>We identified some errors in disclosures where the Schools PFI model underlying workings had not been correctly updated to produce the disclosures of future liabilities. This has resulted in a £2.7m understatement of future payments in Note 17 against the schools PFI contract.</p>	<p>We have made a recommendation that management should ensure that checks are put in place around the updating of PFI models in line with PFI accounting concepts.</p> <p>See Appendix A above for the management response.</p>	X
	<p>Note – This is a disclosure issue only for disclosing future PFI payment commitments and would not impact the main Balance Sheet financial statement.</p>		

Audit adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
HRA Deferred Income An amount was found in our testing of debtors which should have been recorded as a creditor given the nature of the balance.	Nil	DR Debtors 1,766 CR Creditors 1,766	Nil	The difference is not material
PPE valuation input into FAR We identified four input errors in the FAR which led to an understatement of the valuation of PPE in the accounts by £3,307k.	CR Valuation gains/losses (1,207)	DR Land and buildings PPE 3,307 DR Movement in Reserves 1,207 CR Capital adjustment account 1,207 CR Revaluation Reserve 2,098	(1,207)	The difference is not material
Other Revenues We identified items in our sample testing of revenues which should have been classified as expenditure. We were able to extrapolate our error to estimate the overall potential impact of the error and demonstrate this would not be material, so this has been recorded as an extrapolated unadjusted misstatement.	DR Other service expenditure £933k CR Other Revenues £933k	Nil	Nil	The difference is not material
Overall impact	(1,207)	1,207	(1,207)	

Audit adjustments (continued)

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
HRA Income During our 2018/19 testing of income cut off we identified that recharges of repairs/maintenance/improvements to HRA properties recharged to leaseholders were not being correctly matched with the expenditure. This led to revenues being understated for 2018/19 and overstated for 2019/20.	3,171	(3,171)	3,171	The difference is not material
Overall impact	£3,171	(£3,171)	£3,171	

We are satisfied that the combined impact of prior year unadjusted misstatements and in year unadjusted misstatements is cumulatively below our performance materiality threshold and therefore we are satisfied these would not need to be adjusted in the 2019/20.

Fees

We confirm below our fees charged for the audit and **provision of non-audit services**:

Audit fees	Proposed fee	Final fee
Council Audit	146,584	TBC
Total audit fees (excluding VAT)	£146,584	TBC

There is additional work which was necessary to be carried out during the audit and Value for Money work due to the added complexities of the impact of Covid-19. We are still completing this work and the extent of this fee will be discussed and proposed to the Chief Finance Officer.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing capital receipts grant 2019/20	2,500	TBC
Certification of Teachers Pension Return 2019/20	3,500	TBC
Certification of Housing Benefit Claim 2019/20	17,000	TBC
Total non- audit fees (excluding VAT)	23,000	TBC

We have not yet completed the work for these other services. We do not expect the final fees to differ from the proposed fees based on our estimate of the amount and complexity of the work involved.

Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Brighton and Hove City Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Housing Revenue Account Income and Expenditure Statement, the Cash Flow Statement, the Collection Fund Statement, and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Comprehensive Income and Expenditure Statement (CIES), Notes to the Movement in Reserves Statement (MiRs), Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Acting Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Acting Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Acting Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Acting Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in note 3 to the financial statements, the outbreak of Covid-19 means the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's pooled property investment valuation reports. Our opinion is not modified in respect of this matter.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Acting Chief Finance Officer. The Acting Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Acting Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Acting Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]



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