

The Audit Findings for Brighton and Hove City Council

Year ended 31 March 2021

Brighton and Hove City Council
28 September 2021



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Your key Grant Thornton team members are:

Darren Wells

Key Audit Partner

E Darren.J.Wells@uk.gt.com

Andy Conlan

Senior Manager

E Andy.N.Conlan@uk.gt.com

Phoebe Yeung

Assistant Manager

E Phoebe.Yeung@uk.gt.com

Thomas Pattison

In-Charge

E Thomas.Pattison@uk.gt.com

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

**Name : Darren Wells
For Grant Thornton UK LLP
Date : 28 September 2021**

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

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Brighton and Hove City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed remotely during July to September. Our findings are summarised on pages 5-22. We have not identified any adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

At the time of drafting this report, in the second week of September, there is good progress with the audit but work is ongoing with a planned sign off of the auditor's report by the end of September subject to clearance of all audit queries and completion/review of the audit file. The main work outstanding which could potentially delay sign off is the clearance of challenge/queries raised by our auditor's expert valuer on the valuation method and assumptions for land and buildings. There are currently no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, subject to the clearance of the following work and outstanding matters;

- Completion of our work around the valuation of land and buildings, including following up challenge/queries arising from our involvement of our auditor's valuation expert, sample testing of the valuation methodology as applied, and some challenge of your valuation experts on assumptions applied to the valuations. The response from the auditor's expert valuer was received in the week commencing 6th September 2021 so these are still being processed at the date of drafting this report. The challenge/queries raised have increased significantly in volume this year, and are of a very technical nature so we anticipate these could require a significant amount of correspondence to resolve and close;
- Completion and manager review of our assessment of the potential value of those assets not revalued at 31 March 2021 comparing against management's assessment to conclude on whether the movement could be material;
- Receipt and testing of outstanding sample evidence/documentation in relation to the testing areas summarised on page 6;
- Clearance of queries and challenge related to the pension liability estimate including some queries with the actuary relating to the reasonableness of the assumptions adopted;
- obtaining assurances from the auditor of East Sussex Pension Fund as to the completeness and accuracy of data provided by the Pension Fund administrator;
- Completion and review of our work around the Council's estimate of the Minimum Revenue Provision;
- Closing a number of queries around how the PFI models were updated in year, and the reasonableness of these updates;
- Closing down and finalising all accounts queries raised from our "hot review" of the draft statement of accounts (this includes some challenge over the treatment of a historic material leasing arrangement);
- Manager and Engagement Lead final review of completed audit work which could raise additional audit queries and challenge;
- receipt of management representation letter; and
- review of a final set of updated financial statements.

Completion of these audit procedures could result in the identification of errors or adjustments in the financial statements which could be material, though we currently have not identified any such adjustments. We will update the Committee on progress and any further findings when presenting the report on the 28 September 2021.

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to issue our Auditor's Annual Report by the end of December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have so far in our work not identified a risk of significant weakness in the arrangements.

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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2021, completion of WGA procedures 2020/21 and following the closure of the 2019/20 audit.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you on 29 June 2021.

Conclusion

As stated on page 3 we have made good progress on completion of the audit to the date of drafting this report, and subject to outstanding work and audit queries being resolved, we anticipate issuing an unqualified audit opinion by the end of September 2021, as detailed in Appendix D. These outstanding items are set out on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our audit plan presented to the Audit and Standards Committee in June 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year in delivering the audit entirely remotely without any on site working at the Council. This way of working makes delivering an audit much more challenging and time consuming. We had to use alternative methods such as video calling and screen sharing to review audit evidence and resolve audit queries and it requires additional processes to verify the completeness and accuracy of information provided by the Council. Although the working arrangements do mean audit processes take longer the two teams have worked closely and collaboratively to ensure progress, working towards the aim of signing the auditor's report by 30 September 2021.

Signed:

Darren Wells, Key Audit Partner

2. Financial Statements –sample testing progress

The Audit Findings Report is produced and shared while the audit remains on-going . At the time of preparing this report on the 15th September the following work is still being completed by the team. We will provide a verbal update on the progress of these at the Audit and Standards Committee meeting on 28th September.

Work stream	Outstanding	Total Sample	Percentage Complete
Fees, charges and other service income	1	60	98%
Unrecorded liabilities	1	49	98%
Revenue cut off	1	34	97%
Short Term Debtors	10	22	55%
Short Term Creditors	11	21	48%
Cash & cash equivalents – Trust Funds	2	5	60%
PPE revaluations – Other Land and Buildings	16	31	50%

2. Financial Statements



Our approach to materiality

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

We have revised the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

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

Council Amount (£) Qualitative factors considered

Materiality for the financial statements	£13.3m	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	£9.9m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to “aggregation risk”.
Trivial matters	£0.66m	We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance
Materiality for cash and cash equivalents	£0.5m	Our assessment of what users would consider to be material with respect to cash.
Materiality for senior officer remuneration disclosures	£0.05m	Our assessment of what users would consider to be material with respect to senior officer remuneration disclosures.



2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals ;
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.

Our audit work has not identified any further issues in respect of management override of controls, though note this work is still subject to Manager and Director review.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered all revenue streams of the Council and we have rebutted this risk for all revenue streams.

For revenue streams that are derived from Council Tax, Business Rates and Grants we have rebutted this risk on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.

For other revenue streams, we have determined from our experience as your auditor from the previous 2 years, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited;
- the culture and ethical frameworks of local authorities, including Brighton and Hove City Council, mean that all forms of fraud are seen as unacceptable.

Fraudulent expenditure recognition

We also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We considered each material expenditure area, and the control environment for accounting recognition.

We were satisfied that this did not present a significant risk of material misstatement in the 2020/21 accounts as:

- The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong;
- We have not found significant issues, errors or fraud in expenditure recognition in the prior 2 years audits;
- Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.

Commentary

There were no changes to our assessment reported in the audit plan. We carried out the following audit procedures:

- 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 evaluated 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 issues so far in respect of revenue recognition.

There were no changes to our assessment reported in the audit plan. We carried out the following audit procedures:

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

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

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Land and Buildings

The Authority revalues its land and buildings on a five-yearly rolling basis to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date. This valuation is carried out by the Council's internal valuers, professional valuers and independent property managing consultants contracted by the Council. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (approximately £1.7 billion at the 31 March 2021 balance sheet date) and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

For the significant risk, we have:

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

On all material areas of land and buildings which were revalued during the year we have reviewed and challenged the valuations method, and key assumptions and inputs into the valuation estimate. We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section.

Our audit work so far has not identified any issues in respect of valuation of land and buildings. However this work is still in progress and outstanding items are included on page 3.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£416.3m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

We focused the significant risk to assumptions used by the actuary. A new actuary Barnett Waddingham was engaged to produce the estimate in the 2020/21 year, and therefore this increases the risk of misstatement, as they could apply potentially different assumptions.

For the significant risk, we have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their new management expert (the actuary Barnett Waddingham) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We have also:

- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.

There are a small number of audit queries outstanding from this work, and we still need to obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The work to provide these assurances is not yet complete.

Our audit work so far has not identified any issues in respect of valuation of the pension fund net liability.

2. Financial Statements – Other audit risks

Risks identified in our Audit Plan

Commentary

Accounting for grant revenues and expenditure correctly

The Council (similar to all other local authorities) has been the recipient of significant increased grant revenues in 2020/21 relating to Covid-19. Some of these grants relate to the Council, and others are grants which should be passed onto other entities, businesses and individuals.

The Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on that decision how the grant income and amounts paid out should be accounted for.

For this other audit risk, we have:

- discussed with management and understand the different types of material grants received during 2020/21 and what the conditions are in the grant agreements;
- understood the conditions for payment out to other entities, businesses and individuals;
- reviewed managements judgements as to whether the Council should be acting as agent or principal for accounting purposes under IFRS and the CIPFA Code, and concluded on whether this conclusion was reasonable; and
- tested material grant revenues and payments outwards to see whether the Council has accounted for these correctly.

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

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £885m	The Council owns 11,695 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 £912m, a net decrease of £27m from 2019/20 (£885m).	<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.</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.</p> <p>As at the date of this report, and as described on page 3, we are still completing our sample testing of the valuation of selected beacons to conclude that their revaluations is in line with our expectations, and our work in challenging the reasonableness of the judgements/assumptions applied by the Council's valuer in respect of the valuation.</p>	Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.

Assessment

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

2. Financial Statements – key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Buildings – Other - £692.5m</p> <p>Investment Properties - £66.2m</p>	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. Investment properties are measured at fair value. The Council engaged several different valuers to complete the valuation of properties, some at 1 April 2020 and some at 31 March 2021 on a five yearly cyclical basis. 62% of OLB assets or £432m were revalued during 2019/20.</p> <p>The Council produced an impairment statement and market review, where no material impairments were noted in 2020/21.</p> <p>The Council also produced working papers showing the estimated movement for assets not valued in 2020/21 and those assets revalued at 1 April 2020 were not materially misstated as at 31 March 2021. Management assessed that these assets could be £8.2m greater than their carrying value in the balance sheet as at 31 March 2021.</p> <p>The total year end valuation of Other Land and Buildings was £692.6m, a net decrease of £36.7m from 2019/20 (£729.3m).</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 £431m of OLB assets revalued in 2020/21. 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 2020/21 and RICS –Valuations Global Standards. We noted no changes to the valuation method or departures from the RICS code for all valuers.</p> <p>We reviewed the completeness and accuracy of the underlying information used to determine the estimate. This included: testing the accuracy of floor plans areas provided to the valuers; querying yield percentage rates used by the valuer by requesting comparable market evidence; recalculating the capitalisation of rental income in fair value valuations to ensure accuracy; using transactional data to review for reasonableness of valuer estimate. For investment properties we reviewed the completeness and accuracy of rental income information, and the reasonableness of yield percentages applied in calculating the fair value. We have also assessed the appropriateness of the valuation method, the type of inspection performed, the assumptions made in respect of obsolescence and any assumptions made in respect of local factors.</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 and investment properties, 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 2020/21 and assets valued at 1 April 2020, we make our own assessment of the potential value of these assets as at 31 March 2021 comparing against management's assessment to conclude on whether the potential estimated movement on these assets was 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>	<p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p>

Assessment

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

2. Financial Statements – key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<p>Net pension liability – £416.3m</p>	<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 net pension liability at 31 March 2021 is £416.3m (2019/20 £273m) comprising the Council's share of the East Sussex Pension Fund assets and liabilities. The Council has engaged a new actuarial valuation expert for the 2020/21 year; Barnett Waddingham (previously Hymans Robertson) to provide actuarial valuations estimate of the Council's asset and liabilities derived from this scheme. A full valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £67.8m net actuarial loss during 2020/21 (2019/20: £70.6m loss).</p>	<ul style="list-style-type: none"> We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate; We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations; We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verify the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable; The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable: <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%</td> <td>1.95-2.05%</td> <td></td> </tr> <tr> <td>Pension increase rate</td> <td>2.85%</td> <td>2.8-2.85%</td> <td></td> </tr> <tr> <td>Salary growth</td> <td>2.85%</td> <td>3.85%</td> <td>Work ongoing</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>21.9/21.1 years</td> <td>Aged 45 21.9-24.4 Aged 65 20.5-23.1</td> <td></td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25/23.7 years</td> <td>Aged 45 24.8-26.4 Aged 65 23.3-25</td> <td></td> </tr> </tbody> </table> <ul style="list-style-type: none"> We have reviewed the particular local judgements by the actuary/management around salary growth and life expectancy. We are challenging this with the actuary to obtain corroboratory evidence/explanation as to the reasonableness of the assumption adopted. We have contacted the auditor of the pension fund accounts to obtain assurances over the completeness and accuracy of information which has been provided to the actuary for determining the estimate. We have also carried out testing back to support held by the Council. In our review and testing of the methods and assumptions underlying the estimate we have particularly focussed on any changes year on year where the expert has changed to assess and challenge whether this is reasonable. We assessed the reasonableness of the Council's share of LGPS pension assets. We assessed the reasonableness of increase/decrease in estimate. We reviewed the adequacy of disclosure of estimate in the financial statements. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2%	1.95-2.05%		Pension increase rate	2.85%	2.8-2.85%		Salary growth	2.85%	3.85%	Work ongoing	Life expectancy – Males currently aged 45 / 65	21.9/21.1 years	Aged 45 21.9-24.4 Aged 65 20.5-23.1		Life expectancy – Females currently aged 45 / 65	25/23.7 years	Aged 45 24.8-26.4 Aged 65 23.3-25		<p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2%	1.95-2.05%																									
Pension increase rate	2.85%	2.8-2.85%																									
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Assessment

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

2. Financial Statements – key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £527.2m	<p>The government has provided a range of new financial support packages to the council and all local authorities during the Covid-19 pandemic. These included additional funding to support the cost of services or offset other income losses, and also grant packages to be paid out to support local businesses/tax-payers.</p> <p>The Council needed to consider the nature and terms of each of the various Covid-19 measures in order to determine the appropriate accounting treatment, including whether there was income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year.</p> <p>In doing so, management have considered the requirements of section 2.3 of the Code of Practice on Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as a principle or agent, in accordance with IFRS15.</p> <p>The three main considerations made by management in forming their assessment were:</p> <ul style="list-style-type: none"> • Where funding is to be transferred to third parties, whether the Council was acting as a principle or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet; • Whether there were any conditions outstanding at the year-end, and therefore whether the grant should be recognised as income or a receipt in advance; • Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or to taxation and non-specific grant income within the CIES. 	<ul style="list-style-type: none"> • We are satisfied that management have effectively evaluated whether the Council is acting as the principle or agent for each relevant support scheme, which has determined whether any income is recognised. • Schemes for which the Council has recognised income include the Business Rates Relief S31 Grant (£42m), Covid-19 SFC Compensation Grant (£14.1m), Covid-19 Business Support Grant (£13m), Covid-19 Local Authority Support Grant (£15.4m), Covid Local Tax Income Losses Grant (£3.5m), Covid-19 Emergency Support Rough Sleepers Grant (£2.4m), Covid-19 Hardship Fund Grant (£2.4m). We are satisfied from review that this treatment is consistent with the nature and terms of the relevant schemes. • We have evaluated the completeness and accuracy of underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this was appropriate. • We have considered management's assessment for grants received, whether the grant is specific or non-specific (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate. • Management's disclosure of the Council's accounting treatment for grant income in both the financial statements and Narrative Report is sufficient. 	

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £7.3m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £7.3m, a net decrease of £2m from 2019/20.</p>	<p>We are currently completing our work reviewing your estimate of MRP to conclude:</p> <ul style="list-style-type: none"> whether the MRP has been calculated in line with the statutory guidance; whether the Council's policy on MRP complies with statutory guidance; Assess whether any changes to the authority's policy on MRP has been discussed and agreed with those charged with governance and has been approved by full council; The reasonableness of the increase/decrease in MRP charge. <p>Our work is in progress and will be subject to technical review by the Manager and Director which will be completed during September as recorded on page 3.</p>	Currently no issues highlighted, but subject to management technical review.

Assessment

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

2. Financial Statements - other communication requirements

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

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

2. Financial Statements - other communication requirements



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

2. Financial Statements - other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<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 are materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix D.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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.</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>We intend to delay the certification of the closure of the 2020/21 audit of the Council in the audit report, as detailed in Appendix D, due to incomplete VFM work and WGA procedures.</p>

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. To date we have not identified any such significant risks in the arrangements.

5. 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 C.

Transparency

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

5. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £187,084 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	18,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £18,000 in comparison to the total fee for the audit of £187,084 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Other			
Homes England Compliance Audit Checklist 2021/22	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £187,084 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2019/20 financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings report.

We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<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.</p> <p>We recommended that management should ensure that checks are put in place around the updating of PFI models in line with PFI accounting concepts.</p>	As recommended, PFI model checks were carried out before finalising the PFI accounting entries for 2020/21.
✓	<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>We recommended that 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>As per the recommendation, the 2020/21 financial instruments disclosure note was supported by a robust, comprehensive and detailed working paper.</p> <p>There were no material adjustments to the prior year (2019/20) financial instrument disclosures in 2020/21.</p>
✓	<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 recommended that a further internal check or reconciliation is performed between the valuation reports and fixed asset register prior to posting the revaluation journals.</p>	As recommended, additional checks were put into place to review the valuation reports and fixed asset register before posting the revaluation journals.

Assessment

- ✓ Action completed
- X Not yet addressed

A. Follow up of prior year recommendations (continued)

Assessment	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<ul style="list-style-type: none"> ✓ Action completed ✗ Not yet addressed 	✓	<p>Leases disclosures - future minimum lease payments under operating leases</p> <p>We carried out testing on the leases future minimum lease payments disclosure. This testing identified an error would result in the disclosure of future minimum lease payments being reduced by £3,770k. The error occurred where Logotech PPE and leases system were picking up the incorrect element under minimum lease payments within the excel report used to populate the disclosure.</p> <p>We recommended that management should ensure the system for compiling the disclosures of future minimum lease payments is reviewed and updated to ensure that the disclosure is accurate and in line with the underlying lease agreements.</p>	<p>As recommended, additional checks were put into place to review and update the relevant information to ensure the disclosure is accurate.</p>

B. 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

We have not identified any adjusted misstatements in the work carried out to date.

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 amendment or omission	Auditor recommendations	Adjusted?
Comprehensive Income and Expenditure Statement (CIES) Presentation	<p>The Code requirement is that the amount to be accounted for in the CIES is the council's share of the accrued income (Code 2.8.2.2.) on the CIES the Share of NNDR surplus/deficit and the locally retained element of NNDR income was shown as separate lines which was not in line with the code. We recommended that the 2 lines should be presented as 1 line of accrued income.</p> <p>Management response Agreed and the CIES has been updated.</p>	TBC on review of updated statements
Balance Sheet references	<p>The Code stipulates that any material Balance Sheet assets or liabilities should be referenced to a Note in the accounts with a further breakdown. We recommended that some of the balances were further referenced through to Notes to the accounts.</p> <p>Management response Agreed and the Balance Sheet and Notes have been updated.</p>	TBC on review of updated statements
Capital grant receipts in advance balance	<p>The Code section 2.3.4.1. requires a breakdown of this balance be included in the accounts; this was omitted from the draft accounts. We recommended a further breakdown was included in the Notes to the accounts.</p> <p>Management response Agreed and a further breakdown has been included in the accounts.</p>	TBC on review of updated statements
Critical Judgements and sources of estimation uncertainty	<p>The Code and IFRS requires that Critical Judgements in the accounts include some quantitative analysis to allow users to understand the potential impact on the accounts. And only judgements and sources of estimation uncertainty which could have a material impact on the accounts should be included.</p> <p>We picked up in our review of the accounts that there were some immaterial judgements/sources of estimation uncertainty (e.g. Depreciation and Business Rates) included, and not all the material points included a quantitative analysis.</p> <p>Management response Agreed – immaterial judgements/sources of estimation uncertainty have been removed from the accounts, and the material points have been expanded to include quantitative analysis.</p>	TBC on review of updated statements

B. Audit Adjustments (continued)

Misclassification and disclosure changes (continued)

Disclosure amendment or omission	Auditor recommendations	Adjusted?
Critical judgement – non-adjusting post-balance sheet events	<p>Two schools were transferring to become academies after the Balance Sheet date. As the values of the school assets for one of the schools was material and it was likely to complete legal procedures in 2021/22 we recommended that this should be disclosed as a non-adjusting post balance sheet event.</p> <p>Management response</p> <p>Agreed and Note 4 Events after the reporting period amended to reflect this potential non-adjusting post balance sheet event.</p>	TBC on review of updated statements
Assumptions made about the Future and Other Major Sources of Estimation Uncertainty	<p>The draft accounts included a disclosure of a material uncertainty relating to the valuation of land and buildings. Our review of the valuation reports and discussion with the professional valuers highlighted that there was no longer a material uncertainty for the 2020/21 financial year. We recommended that this should not be included in these assumptions.</p> <p>Management response</p> <p>Agreed and the reference to a material uncertainty was removed.</p>	TBC on review of updated statements
Expenditure and funding analysis note	<p>Our review of this Note showed that it was not following the IFRS8 5-column recommended approach.</p> <p>Management response</p> <p>Agreed and the Note has been updated to conform to the IFRS8 5-column recommended approach.</p>	TBC on review of updated statements
Note 12 – Financial Instruments	<p>In our review of the Financial Instruments note we noted that some material categories were not broken down further in accordance with IFRS/the Code. We recommended that further breakdowns were included in the Note for material categories.</p> <p>Management response</p> <p>Agreed and the Note has been updated to include further breakdowns.</p>	TBC on review of updated statements
Note 27 Agency Services	<p>In our review of this note we observed that there was not adequate disclosure of material arrangements during the year where the Council acted as agent for receiving and paying out grant funding to businesses and tax-payers. (see page 16 for further information about these arrangements).</p> <p>Management response</p> <p>Agreed and the Note has been updated to include disclosure of these arrangements and financial amounts.</p>	TBC on review of updated statements
Note 21 Officers Remuneration	<p>In our testing of officers' remuneration we noted that some payments which were made to officers on a consultancy basis were excluded from the disclosure.</p> <p>Management response</p> <p>Agreed and Note 21 has been update to include £140k of additional payments made on a consultancy basis, and to add further commentary to the Note to explain the amounts disclosed.</p>	TBC on review of updated statements

B. Audit Adjustments (continued)

Misclassification and disclosure changes (continued)

Disclosure amendment or omission	Auditor recommendations	Adjusted?
Note 20 Related Parties	<p>In our review of this Note we highlighted that there were some entity relationships disclosed where it was not clear whether the entity was considered to be a related party under IFRS and the reasons for this. We recommended that additional clarification commentary was added to this Note to make it clear what the relationships were with the other entities and whether the Council consider them to be related parties.</p> <p>Management response Agreed and Note 20 commentary has been updated.</p>	TBC on review of updated statements
Depreciation write out classification in PPE Note	<p>Depreciation write out has been included within the revaluation losses and gains row in the PPE note. Our view was that per the Code the correct presentation was to split these amounts out and include a separate row for depreciation write out.</p> <p>Management response Agreed and the PPE Note was revised to present the depreciation written out on a separate line.</p>	TBC on review of updated statements
Narrative Report	<p>The CIPFA Code states that the Narrative Report should contain sufficient information to allow the user to assess financial sustainability of the organisation and its impact on service provision, including cash flows during the year and the factors that may affect future cash flows. On review of the draft Narrative Report, our view was that there was not sufficient information about cash flows during the year, and the factors that may affect future cash flows.</p> <p>Management response Agreed and the Narrative Report was updated to include this information.</p>	TBC on review of updated statements
Audit fee	<p>The fee payable to the auditor disclosed in the accounts in Note 26 was not in line with the proposed fee as per the Audit Plan and as detailed on page 34 to this report. Our expectation is that the fee disclosed in the accounts should agree to the proposed fee.</p> <p>Management response Agreed and the Note 26 disclosure wording was amended to disclose the proposed additional fee.</p>	TBC on review of updated statements
Various minor casting amendments	<p>We identified a small number of minor casting and disclosure issues.</p> <p>Management response Agreed and these were amended in the accounts.</p>	TBC on review of updated statements
Immaterial prior year comparative corrections (picked up and corrected by your finance team)	<p>Note that a small number of immaterial amendments were made to prior year comparatives where classification issues/errors had been picked up by your finance team. These included:</p> <ul style="list-style-type: none"> - An adjustment correcting the disclosure of the movement in allowance for bad debts in the Housing Revenue Accounts (£682k) - Correction of the prior year Capital Financing Requirement; reduction of £873k of long term debt included in error. <p>We reviewed these and we were satisfied they were reasonable.</p>	Yes

B. Audit Adjustments (continued)



Impact of unadjusted misstatements

We have not identified any unadjusted misstatements in the work carried out to date.

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 2019/20 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 Deferred Income	Nil	DR Debtors 1,766 CR Creditors 1,766	Nil	The difference is not material
An amount was found in our testing of debtors which should have been recorded as a creditor given the nature of the balance.				
PPE valuation input into FAR	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
We identified four input errors in the FAR which led to an understatement of the valuation of PPE in the accounts by £3,307k.				
Other Revenues	DR Other service expenditure £933k CR Other Revenues £933k	Nil	Nil	The difference is not material
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.				
Overall impact	(1,207)	1,207	(1,207)	

C. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

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

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Teachers Pension Return	5,000	TBC
Certification of Housing Benefit Claim	18,000	TBC
Other		
Homes England Compliance Audit Checklist 2021/22	5,000	TBC
Total non-audit fees (excluding VAT)	£33,000	£TBC

See the next slide for an analysis of the audit fee.

The fees reconcile to the financial statements as follows:

Fee disclosed in the financial statements:

£144,000 (excluding amounts relating to grant claims and returns)

Reconciling amounts:

Proposed increase to agreed 2019/20 fee: £43,000

Reconciling to the total fee £187,000 above.

Audit fees 2020-21 – detailed analysis

Scale fee published by PSAA	£122,084
<i>Ongoing increases to scale fee first identified and proposed in 2019/20</i>	
Raising the bar/regulatory factors	£8,000
Enhanced audit procedures for Property, Plant and Equipment	£10,000
Enhanced audit procedures for Pensions	£4,000
<i>New issues for 2020/21</i>	
Increase in respect of additional work on Value for Money under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
<i>Proposed increase to agreed 2019/20 fee</i>	£43,000
Total audit fees (excluding VAT)	£187,084

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D. Audit opinion

Our audit opinion is included below. 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 on financial statements

We have audited the financial statements of Brighton and Hove City Council (the 'Authority') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement, the Notes to the Housing Revenue Account Statement and the Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 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 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Appointed Section 151 Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Appointed Section 151 Chief Financial 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 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Appointed Section 151 Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Appointed Section 151 Chief Financial Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Appointed Section 151 Chief Financial Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Appointed Section 151 Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

D. Audit opinion (continued)

- 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 Appointed Section 151 Chief Financial Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Appointed Section 151 Chief Financial Officer. The Appointed Section 151 Chief Financial 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Appointed Section 151 Chief Financial 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 Appointed Section 151 Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), the Local Government Finance Act 2012 and the Local Government Act 2003.
- We enquired of senior officers and the Audit and Standards Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

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

D. Audit opinion (continued)

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

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

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

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

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

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

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

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

We cannot formally conclude the audit and issue an audit certificate for Brighton and Hove City Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

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:

Name Darren Wells, Key Audit Partner

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

London

Date:

E. Audit letter in respect of delayed VFM work

Commercial in confidence



Our ref: BHCC 2020/21 VFM

The Audit and Standards Committee
Brighton and Hove City Council
3rd Floor, Bartholomew House,
Bartholomew Square,
Brighton
BN1 1JE

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG
T +44 (0)20 7383 5100
F +44 (0)20 7184 4301

15 September 2021

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

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 29 December 2021.

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

Yours faithfully

Darren Wells
Director

