

The Audit Findings for Brighton and Hove City Council

²¹Year ended 31 March 2019

23 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Brighton and Hove City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>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:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and Council's income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and the Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 10. We have not identified any material adjustments to the financial statements which would result in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work in Appendix A.</p> <p>At the date of writing this report our work is substantially complete, subject to the following outstanding matters;</p> <ul style="list-style-type: none">- completing work around the actuarial estimate of the net pension liability, see pages 8-9;- obtaining a letter from the East Sussex Pension Fund auditor from which we take assurance over the systems and controls that take place at the Pension Fund and which could impact the pension liability;- receipt of an investment confirmation letter from Barclays and Toronto Dominion institutions;- completion of our work in agreeing the reasonableness of the Cash Flow statement and Movement in Reserves notes and disclosures;- finalising Manager and Engagement Lead review of completed sections of our file which could potentially raise additional audit queries;- receipt and review of management representation letter; and- review of the final set of financial statements. <p>The only outstanding work which could require a modification of audit opinion or a material change to the financial statements is the work on the net pension liability. 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.</p> <p>Subject to the point above, our anticipated audit report opinion will be unmodified.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Brighton and Hove City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 13 to 19.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• 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.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>At the date of writing this report, we have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

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 or change our audit plan, as communicated to you in March 2019

Conclusion

We have substantially completed our audit of your financial statements and subject to completion of the work on page 3 and outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 23 July 2019, as detailed in Appendix D.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for the Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	15,537,000	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	11,653,000	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	777,000	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance

Audit findings – Significant risks

Risks identified in our Audit Plan

1

The revenue cycle includes fraudulent transactions

We have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.

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

We have not deemed it appropriate to rebut this presumed risk for fees, charges and other service income as we do not have cumulative audit testing knowledge of these revenues being your new auditor, and the adoption of IFRS15 Revenue from Contracts with Customers could materially affect recognition of this income.

We therefore identified the occurrence and accuracy of these income streams and the existence of associated receivable balances as a significant risk of material misstatement.

2

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 Council 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.

Commentary

Auditor commentary

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

- evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice
- updated our understanding of your system for accounting for income and evaluated the design of the associated controls
- reviewed and sample tested income to supporting evidence
- evaluate and challenge significant estimates and the judgments made by management, including those around the adoption of the new IFRS15.

During our testing of income cut off we identified that recharges of repairs/maintenance/improvements to HRA properties recharged to leaseholders were not being correctly matched with the expenditure. This led to revenues being understated by £3,171k – it was agreed that as this amount is immaterial to the accounts this would not be adjusted in the statements (see unadjusted misstatements Appendix B).

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

Auditor commentary

We have:

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

Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of management override of controls.

Audit findings – Significant risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council 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 and the sensitivity of this estimate to changes in key assumptions.

Additionally, management need to ensure the carrying value in the Council 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.

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value
- tested revaluations made during the year to see if they had been input correctly into the Council'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.

During the year, £1,269 million of assets were revalued representing 78% of property, plant and equipment held on the balance sheet at current or fair value. The remaining £348 million of assets held at current value were revalued in earlier years. The Code of Practice allows a rolling programme of revaluation over a short period, but does place a requirement on management to consider and ensure that assets not revalued in year are not materially misstated.

Management prepared a paper to address whether assets had been impaired during the year, but did not specifically set out in detail their own assumptions and estimates of the potential movements in value for assets not revalued during the year. Although management do revalue all very high value assets the total of assets not revalued, and particularly the total value of school land and buildings, is a material amount and a relatively small movement in the value of this total could be material to the accounts.

In the absence of a detailed management working paper, we developed our own point estimate of the movement in values using information of possible variations provided by our own auditor's expert.

Audit findings – Significant risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment (continued)

Our own estimate of the possible total movement of these assets was above our performance materiality but below total materiality, at an estimate of £12,690k.

Through further discussions with the internal valuer we were able to agree that some of these point estimates may be at the upper end of potential value movements when local circumstances were taken into account (particularly for schools). Therefore, through this additional investigation we concluded that assets not revalued during the year are still materially correctly stated as at 31 March 2019.

We have recommended that management strengthen future working papers in this area to provide a detailed assessment that can be audited. During our discussions with the finance team and the estates team, we noted that the data used by the internal valuer for her assessment of assets is not consistent with the asset register making it difficult to rely on the internal valuer's conclusion for testing of the financial statements.

Subject to satisfactory resolution of matters identified on page 3, other audit work carried out around the assets revalued has not identified any issues.

Audit findings – Significant risks

Risks identified in our Audit Plan

Commentary

4 Valuation of pension fund net liability

The Council'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 (£314.4 million in the Council's balance sheet at the 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.

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

Auditor commentary

Our work included:

- documenting our understanding of the process and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluating the design of the associated controls;
- liaising with the auditors of East Sussex Pension Fund to evaluate the instructions and accuracy/completeness of information issued by the Pension Fund to their management expert (actuary – Hymans Robertson) for this estimate and the scope of the actuary's work;
- assessing the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;
- testing 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;
- undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional focussed audit procedures suggested within the report; and
- obtaining 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.

We report our findings of the assessment of the actuary and on our work around the financial assumptions used by the actuary on the key judgements and estimates page 9.

Our work on this risk is not yet complete at the date of writing this report. We have raised a number of audit queries with the actuary around the level of pension fund assets/liabilities and interest income and the reasonableness of the application of the roll forward assumptions by the actuary.

During the year two legal cases were heard impacting on pensions and their accounting. The McCloud case relates to the Court of Appeal ruling that there was age discrimination in certain public sector pension schemes where there were transitional protections given to scheme members. Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The GMP case relates to the High Court ruling that GMPs must be equalised between men and women and that past underpayments must be corrected. Your actuary assessed the impact of the GMP matter as immaterial in its year end reporting to the Council.

Management requested an estimate from the actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £5,312k, and an increase in service costs for the 2019/20 year of £1,041k. Management's view is that the impact of the ruling is not material and will be considered for future years' actuarial valuations. The accounts presented for members' approval do not include an adjustment for this matter.

Our view is that both cases give rise to a past service cost and liability within the scope of IAS 19 as the ruling creates a new obligation which should be accurately estimated and either included in the accounts if material, or disclosed clearly if immaterial. We were able to apply information provided by our auditor's consulting actuary to estimate the GMP potential liability to a reasonable degree of accuracy and concluded that it was immaterial. We have reviewed the analysis performed by the actuary, and consider the estimate to be reasonable and not material. We have included this as an uncertainty and an unadjusted error within Appendix B.

Significant findings – key judgements and estimates


	Summary of management's policy	Audit Comments	Assessment																								
<p>Net pension liability – £314.4m</p>	<p>You recognise and disclose your retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>Your net pension liability at 31 March 2019 is £314.4m (2018: 257.2m) comprising the East Sussex County Council Local Government pension scheme. You engage Hymans Robertson LLP to provide actuarial valuations of your assets and liabilities derived from (this scheme). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £57.2m net actuarial loss during 2018/19.</p>	<ul style="list-style-type: none"> management's actuarial expert was clearly competent, capable and objective; we have used the work and report of a consulting actuary (as auditor's expert) to consider whether the actuarial method of calculating the estimate, including the roll forward approach, is reasonable. we carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable; the information used by the actuary was complete and accurate; the auditors' expert has also assessed the assumptions made by your actuary providing the auditor with indicative ranges for assumptions. Where the actuary has applied a different assumption for the Council estimate we have challenged the reasoning behind this: <table border="1" data-bbox="704 621 1833 1049"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>Auditor's expert range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4-2.5%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4-2.5%</td> <td>●</td> </tr> <tr> <td>RPI</td> <td>3.4%</td> <td>3.4-3.5%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 65 / 45</td> <td>22.1/23.8</td> <td>21.5-22.8/ 23.7-24.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 65 / 45</td> <td>24.4/26.3</td> <td>24.1-25.1/ 26.2-26.9</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> the disclosure of the estimate in the financial statements was considered adequate; as stated above on page 8 we still have some outstanding audit queries in this area (particularly about the reasonableness of the Council's share of assets and liabilities, and the application of the roll forward approach) which we need to resolve before we can conclude on this issue. 	Assumption	Actuary Value	Auditor's expert range	Assessment	Discount rate	2.4%	2.4-2.5%	●	Pension increase rate	2.5%	2.4-2.5%	●	RPI	3.4%	3.4-3.5%	●	Life expectancy – Males currently aged 65 / 45	22.1/23.8	21.5-22.8/ 23.7-24.4	●	Life expectancy – Females currently aged 65 / 45	24.4/26.3	24.1-25.1/ 26.2-26.9	●	<p>●</p>
Assumption	Actuary Value	Auditor's expert range	Assessment																								
Discount rate	2.4%	2.4-2.5%	●																								
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Assessment





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

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Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Going concern	Your accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.	<p>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).</p> <p>We have subjected the 2019/20 budget and Medium Term Financial Strategy (MTFS) to 2023/24 to detailed scrutiny, and reviewed the planned savings proposals for 2019/20 and 2023/24 in our consideration of the appropriateness of management’s use of the going concern assumption.</p> <p>In 2019/20 you need to make savings of £12.3m. We have carried out work on your financial sustainability (see value for money work) and concluded your financial planning is robust and your current reserves position provides an appropriate level of flexibility.</p> <p>We have not identified any material uncertainty in relation to your ability to continue as a going concern.</p>	
Other	The Code of Local Authority Accounting gives a recommended order for the presentation of the main statements : Comprehensive income and expenditure statement; movement in reserves statement; balance sheet and cashflow statement followed by notes to the accounts.	<p>The Council starts its accounts with the Expenditure and Funding analysis which is a note to the accounts and is not a primary statement. We have recommended that the Council considers the presentation order as part of its preparations for next year.</p> <p>The accounting policies are set out on pages 126 onwards of the accounts after many of the detailed notes to which they relate. Typically, accounting policies are positioned as an early note to the accounts to set the context of the detail that follows.</p>	
PFI scheme supporting	In our testing of the PFI accounting disclosures we reviewed and tested the PFI models to gain assurance that the accounting entries being generated by the accounting models were fairly stated. We noted that for one of the PFI schemes the full accounting model could not be located and we had to rely on the affordability model as an alternative. We concluded that this was a reasonable alternative to gain assurance over the material correctness of the accounting entries but we would expect the Council to hold a full accounting audit trail for its PFI schemes.	We have made a recommendation to address this in Appendix A.	

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
-  We consider management’s process and key assumptions to be reasonable

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
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with management and Audit Committee. We have not been made aware of any significant incidents in the period and no issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any such incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A letter of representation has been requested.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests in respect of your bank, investments and loans balances. This permission was granted for all institutions and the requests were sent. All of these requests were returned with positive confirmation, with the exception of confirmations requested in respect of investments held with Barclays and Toronto Dominion. We are continuing to chase these confirmations requests with assistance from your officers and in the meanwhile will undertake alternative procedures to verify whether these balances are materially fairly stated as at 31 March 2019.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in your financial statements. We identified a number of immaterial disclosure adjustments which are set out later within this report.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> Except for the outstanding items noted on page 3, all information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
<p>1 Other information</p>	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with your audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>The narrative report is balanced and largely covers the expected content as per the Code of Practice. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We are still completing our work in this area, but to date we have nothing to report on these matters.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<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 expenditure we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is not yet completed, but will be carried out in August 2019.</p>
<p>4 Certification of the closure of the audit</p>	<p>We intend to certify the closure of the 2018/19 audit of Brighton and Hove City Council in the audit opinion, as detailed in Appendix D.</p>

Value for Money

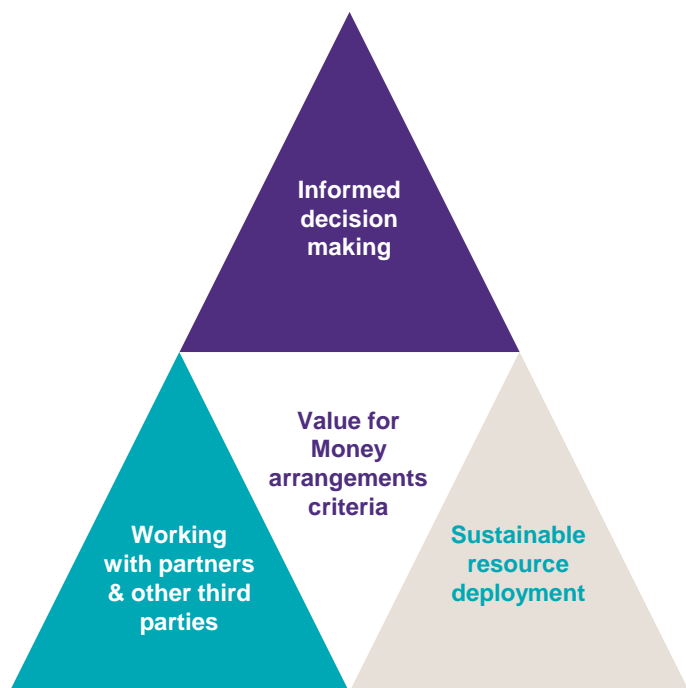
Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in February 2019 and identified three significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 12 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness. We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were work we have undertaken against the three areas we highlighted to you in our Audit Plan:

- Medium term financial sustainability
- Health and Social Care Integration
- Governance and Decision Making processes for key capital regeneration schemes

We have set out more detail including the conclusions we drew from this work on the next few pages.

Overall conclusion

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

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Medium term financial sustainability</p> <p>The Council has a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Financial resilience of the Council will depend on its ability to balance its budget without use of reserves.</p> <p>At month 9 of 2018-19, the forecast risk position to General fund budget outturn for 2018/19 was a small £0.4m overspend. Of the £12.7m savings target for 2018/19, £10.5m was on track, but £3.4m was not expected to be delivered in year.</p> <p>The Council expected to set a balanced budget for 2019/20. This included a budget gap of £14.2m which is expected to be met by planned savings. However as noted above, achievement of savings plans is inherently uncertain and risk and this could put overall budget achievement in doubt. There is currently no reasonable estimate that can be made for the impact of the 2020/21 Fair Funding Review and potential changes to Business Rate retention.</p> <p>For these reasons we cited medium term financial sustainability as a risk that the Council could fail to achieve Economy, Efficiency, and Effectiveness in use of its resources in 2018/19 and beyond.</p>	<p>Financial performance 2018/19</p> <p>In the 2018/19, the Council budgeted for net general fund expenditure of £208.8m. The council achieved an outturn position underspend of £0.111m on its General Fund services in the year. This has enabled the release of the financial risk safety net of £1.500m held for 2018/19 which was being held as a reserve. This result was reached with the achievement of £11m in efficiency savings against the original savings target of £12.4m.</p> <p>The council, like most others, has experienced a significant increase in pressure on demand led budgets, child agency/in-house placements, community care and temporary accommodation, and there was a £3.5m overspend in these areas which was compensated for by underspends in Families, Children & Learning, Economy, Environment & Culture, Neighbourhood, Communities & Housing and back office areas. This continues your track record of delivering outturn results to budget or surplus positions. Our discussion with management and review of the final outturn report as issued to the Policy, Resources and Growth Committee indicates that overspends are largely structural local market issues indicating a permanent increase in costs or demand which will likely continue in coming years.</p> <p>The Council will have to make sure that structural demand pressures in Children’s and Adult Social Care manifesting as budget overspends, are adequately factored into the MTFS in future years as recurrent increases in costs, mitigated through service transformation.</p> <p>Financial planning (MTFS) 2019/20 to 2023/24</p> <p>For the 2019/20 year the Council has set a balanced budget, with a gross budget of £761.6m and a net revenue expenditure broadly flat at £207.4m, and a contribution from reserves of £3.8m. Key changes to the budget year on year include:</p> <ul style="list-style-type: none"> - £5.8m of inflationary pressures - £15.1m of pressures in demand led budgets, including £9.1m in Health and Adult Social Care and £3.6m - These particular pressures on the budget will require the Council to make £12.3m of efficiency savings in order to continue to deliver services at the current level. 	<p>Auditor view</p> <p>Through the work completed and our findings as documented adjacent we have concluded that Brighton and Hove City Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

Key findings (continued)

Significant risk	Findings	Conclusion
<p data-bbox="58 292 93 328">1</p> <p data-bbox="120 285 451 342">Medium term financial sustainability (continued)</p>	<p data-bbox="576 285 1612 485">Your Medium Term Financial Strategy (MTFS) is the key financial planning document which sets out the financial implications of your corporate strategy over 5 years for the purposes of decision making and for you to provide assurance that you have a sustainable position in place to deliver service priorities and other investments in the local area. We have met with key members of your finance team to discuss and review the method for building the MTFS and in particular the robustness and realism underlying key assumptions, the savings plans which are included and any areas where significant new/increased areas of revenue have been included.</p> <p data-bbox="576 499 1612 785">The MTFS, much like the 2019/20 budget, starts from a baseline of the previous year budget adjusted for what is known in terms of cost and income variations from the actual outturn to set an "adjusted base" position. There is then an iterative process of layering on inflationary assumptions including staff pay increases, known and assumed increases in services pressures, reductions in grants and other revenues, any strategic driven spending commitments and plans which would drive revenue increases. Once this is complete, for this Council as we would expect from our experience across the Local Government sector, this leaves a Budget Gap between the expected expenditure required to maintain services and investment, and the resources expected to be available. For 2019/20 this Budget Gap has been closed by identified savings plans which management view as being achievable.</p> <p data-bbox="576 799 1612 942">At the time of our audit, there were Budget Gaps totalling £28.8m predicted over the period 2020/21 to 2023/24 (from the February Budget Council report) which will need to be addressed via savings and revenue generation schemes in those year's budgets. Though the Council has a strong previous track record of achieving ambitious savings plans, this still represents a steep challenge.</p> <p data-bbox="576 956 1135 992">Fiscal Indicators and Reserves Levels</p> <p data-bbox="576 1006 1612 1063">Each year your management assess the level of reserves that they believe it is prudent for the Council to hold. Management base this on these following factors:</p> <ul data-bbox="576 1078 1612 1282" style="list-style-type: none"> <li data-bbox="576 1078 1612 1135">(i) the complexity and degree of uncertainty associated with planned economy and efficiency measures and/or service changes and the likelihood of achieving them in full; <li data-bbox="576 1149 1612 1206">(ii) considerations of the level of available internal and external funds in the event of a major emergency; <li data-bbox="576 1220 1612 1282">(iii) risks of rising demand, increasing costs and/or falling income due to economic conditions or potential legislative changes; 	<p data-bbox="1612 285 1736 314">See above</p>

Key findings (continued)

	Significant risk	Findings	Conclusion
1	Medium term financial sustainability (continued)	<p>(iv) The risk of major legal challenges, both current and in the future;</p> <p>(v) Risks in the financial inter-relationship between NHS partners and the council;</p> <p>(vi) The need to retain a general contingency to provide against unforeseen circumstances that may arise; and</p> <p>(vii) The need to retain reserves for general day-to-day cash flow needs.</p> <p>We discussed the level of reserves and these considerations with management. Taking into account the above factors, your management have reached the conclusion that an amount representing approximately 4 weeks of council tax revenue, or £9m, as a working balance is appropriate. At the 31 March 2019 the Council had a total general fund (including earmarked reserves separate from the working balance) of £57.1m and increase of £8.4m on the previous year.</p> <p>Your current level of general reserves (including earmarked reserves but excluding reserves relating to schools) is at 20% of your net cost of services for 2018/19. We compared your proportion of reserves and level of reserves to a set of other similar sized Councils. Your total general fund and non-schools earmarked general fund reserves was £52.9m. Other councils of similar sizes ranged from holding as little as £19m, with an average of £106m held, and the proportion of these reserves against net cost of services ranged upwards from 6% with an average of 42%. This demonstrates clearly that there is no “correct” level of reserves to hold and it very much depends on local circumstances, risk analysis and risk appetite. We were satisfied that the considerations and assumptions that management have in place to monitor reserves levels at what they consider to be a safe level are reasonable and detailed. The review of the adequacy of reserves is presented to the Policy, Resources and Growth Committee alongside the MTFS each year.</p> <p>Our view was that management have given reasonable consideration as to whether the reserves sufficient cushion to weather the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls. The financial outlook for local government is at its most uncertain for a generation. It is vital members recognise that the current level of reserves provides a buffer for the uncertainties ahead and do not represent an easy way to resolve immediate budget pressures</p> <p>On the basis of this work, we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.</p>	See above

Key findings (continued)

2

Significant risk

Health and Social Care Integration

To improve health and social care outcomes for the local community and to reduce spiralling costs, particularly relating to social care, it is imperative that the Council continues to maximise integration with local Trusts, CCGs and other partners.

Failure to secure maximum value from partnership working with the NHS could impact negatively on social care and public health services, leading to worse health outcomes for your residents and also increased current and future costs. There is a risk that the Council fails to achieve Economy, Efficiency, and Effectiveness in working with partners across organisational boundaries. This is currently a red rated risk in the Council's strategic risk register.

In our first year as your auditor, we needed to develop an understanding of your arrangements and plans. We reviewed documentation and spoke to officers to understand your significant NHS collaboration initiatives, including but not limited to your role in the Surrey and Sussex Sustainability and Transformation Plan, Better Care Board, and Health and Social Care Integration Board and future plans for closer integration.

Findings

The work we have completed around this risk included but was not limited to:

- Meeting with key officers to discuss the current status of integration plans;
 - Review of the minutes of key meetings discussing progress of plans
- Prior to the 2018/19 financial year the Council and co-terminus Clinical Commissioning Group already had an established record of joint working including:
- delivering more effective frontline services e.g. hospital discharge team teams and the piloting of Home First where you work together on a shared pathway to support timely discharge from hospital beds where patients are medically stable;
 - successful management of S75 agreements e.g. the Better Care Fund where you have pooled funding and shared performance metrics to deliver a range of services that support system wide outcomes;
 - a number of services already jointly commissioned e.g. Carers;
 - joint working and contract monitoring across key services including mental health, learning disability, children and young people as well as older people.

The key groups which are currently meeting to progress collaboration and integration are the Health and Wellbeing Board (HWB) and the Health and Social Care Integration Board (HSCIB) (jointly chaired by the Council Chief Executive and focussed on the integration aspect).

The purpose of the HWB is to provide system leadership to the health and local authority functions relating to health & wellbeing in Brighton & Hove, and is responsible for the co-ordinated delivery of services across adult social care, public health, and health and wellbeing of children and young peoples' services.

The purpose of the HSCIB is to manage the successful integration of the CCG's responsibilities for its locally commissioned services and funds for the delivery of primary care with the Council's governance, management, operational and budgetary systems as part of the Brighton and Hove Caring Together programme.

We reviewed the minutes of these meetings and confirmed the shared discussion of health system problems and that these issues and improvements to pathways that may help alleviate were being discussed as wholly shared issues between the

Conclusion

Auditor view

Through the work completed and our findings as documented adjacent we have concluded that Brighton and Hove City Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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Key findings (continued)

	Significant risk	Findings	Conclusion
<p>2 Health and Social Care Integration (continued)</p>	<p>Council and it's health sector partners. Current arrangements include sharing of data across organisations to better understand the relationships and impacts of each organisation rather than each working in a silo, and integration taking the form of joint commissioning and delivery of services.</p> <p>We reviewed the plans between partners as the recommended approach has moved towards wider Integrated Care Systems (ICS) across Sussex and how the strategy to establish this structure is being established. The Council is in the fortunate position to currently have a co-terminus CCG making localised financial planning more straightforward, but one of the key challenges is an NHS provider system which is very financially challenged and largely in deficit, therefore making real investment in structural or pathway change difficult.</p> <p>Going forward the Brighton and Hove network along with wider East Sussex partners are drawing up plans over the summer to develop a longer-term Health & Social Care programme for East Sussex which encapsulates the requirements of the emerging Primary Care Networks (PCNs) and Integrated Care System (ICS). Plans are being designed to increase productivity and use available funding more efficiently by managing people in the community, responding more quickly to people in crisis in their own homes, and facilitating a speedier discharge from hospital.</p> <p>The Council and the CCG have also established a joint local Health and Wellbeing Strategy 2019-2030 to set out the more local vision/strategy for the City.</p> <p>On the basis of this work, our view was that at a time of particular challenge in terms of increasing demand and rapid change in the overall national strategy to address this, we were satisfied the Council has in place adequate arrangements to develop effective collaboration with local partners to address this challenge. It is continuing area of development for the Council and its partners, which is common to the wider national picture, and we will maintain updates with your management around this area going into the 2019/20 audit.</p> <p>We have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.</p>	<p>Auditor view (see above)</p>	

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Key findings (continued)

Significant risk	Findings	Conclusion
<p>3 Governance and Decision Making processes for key capital regeneration schemes</p> <p>Brighton and Hove City Council has several ambitious capital regeneration projects which are in varying stages of planning and development, including the Waterfront Project and the King Alfred redevelopment. These are complex developments involving significant levels of additional borrowing, a complex set of stakeholders and a relatively high level of risk. There is a risk that the Council fails to achieve Economy, Efficiency and Effectiveness in informed decision making.</p> <p>In our first year, we need to develop an understanding of your governance arrangements to manage risk and delivery. We will review the governance arrangements and decision making processes that the Council has in place around entering into capital investment plans and how the Council continues to reassess the public and financial benefits as the plans evolve.</p>	<p>The Council is progressing with several major capital investment plans which are all at different stages of development, alongside ongoing estates regeneration plans. We met with key officers in order to build and document our understanding of the different governance and decision making processes which are in place for different types of schemes. We discussed how the cost of the scheme and perceived value for money (including social value) is set out for a scheme to allow decisions to be made on whether to approve the investment in planning the scheme and then the full implementation. We also discussed how the ongoing value for money and ongoing affordability of schemes is monitored at key milestones/decision points.</p> <p>We obtained key documents setting out the different groups/meeting/key officers who would need to approve schemes of different types and levels of financial cost, and we reviewed the terms of reference and minutes of key groups including the Corporate Investment Board (CIB: the officer led group that has day to day oversight of projects) and Strategic Delivery Board (SDB: the member led group that has ultimate oversight) to confirm the discussion of projects at these groups.</p> <p>Through our discussions with management and our review of key documents we were able to take assurance that the Council has put in place proper governance arrangements and decision making processes for considering the value for money before entering into significant capital investment schemes and for then reassessing this as plans evolve.</p> <p>Based on our work we have found no evidence that the Council does not have proper arrangements and therefore the risk is mitigated.</p>	<p>Auditor view</p> <p>Through the work completed and our findings as documented adjacent we have concluded that Brighton and Hove City Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.




Details of fees charged are detailed in Appendix C.

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. We have engaged with the Council to perform certification work for the housing benefit subsidy claim for the 2018/19 period. The agreed fee for this work is £17k.

Action plan


We have identified 4 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	 <p data-bbox="317 325 837 344">Write off of unrecoverable receivables control</p> <p data-bbox="317 362 1183 472">In the Receivables walkthrough, we documented our understanding of and walked through the receivables write off process. The write off process per the control environment should occur quarterly but we were made aware that the write off process had only occurred twice during the year.</p>	<p>We would recommend that the receivables write off process is undertaken quarterly as per the Council's documented control processes, to ensure that old/unrecoverable receivables are correctly written off and not retained as receivable assets per the accounts.</p> <p data-bbox="1245 448 1504 466">Management response</p> <ul data-bbox="1245 489 1359 508" style="list-style-type: none"> • Agreed
2	 <p data-bbox="317 532 727 551">Assurance over assets not revalued</p> <p data-bbox="317 569 1230 733">We noted in our PPE valuation work we noted that management had not specifically set out in detail their own assumptions and estimates of the potential movements in value for assets not revalued during the year. Although management do revalue all very high value assets the total of assets not revalued, and particularly the total value of school land and buildings, is a material amount and a relatively small movement in the value of this total could be material to the accounts.</p> <p data-bbox="317 752 1230 831">In the absence of a detailed management working paper, we developed our own point estimate of the movement in values using information of possible variations provided by our own auditor's expert.</p>	<p>We would recommend that management strengthen future working papers in this area to provide a detailed assessment that can be audited. During our discussions with the finance team and the estates team, we noted that the data used by the internal valuer for her assessment of assets is not consistent with the asset register making it difficult to rely on the internal valuer's conclusion for testing of the financial statements.</p> <p data-bbox="1245 738 1504 756">Management response</p> <ul data-bbox="1245 779 1359 798" style="list-style-type: none"> • Agreed
3	 <p data-bbox="317 896 689 915">Order of the financial statements</p> <p data-bbox="317 933 1203 1041">The Code of Local Authority Accounting gives a recommended order for the presentation of the main statements : Comprehensive income and expenditure statement; movement in reserves statement; balance sheet and cashflow statement followed by notes to the accounts.</p> <p data-bbox="317 1059 1210 1109">The Council starts its accounts with the Expenditure and Funding analysis which is a note to the accounts and is not a primary statement..</p> <p data-bbox="317 1128 1172 1235">The accounting policies are set out on pages 126 onwards of the accounts after many of the detailed notes to which they relate. Typically, accounting policies are positioned as an early note to the accounts to set the context of the detail that follows.</p>	<p>We would recommend that the Council considers the presentation order as part of its preparations for next year.</p> <p data-bbox="1245 963 1504 982">Management response</p> <ul data-bbox="1245 1005 1469 1023" style="list-style-type: none"> • Agree to consider

Controls




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

Action plan

Assessment	Issue and risk	Recommendations
4 	<p>PFI Accounting Model</p> <p>In our testing of the PFI accounting disclosures we reviewed and tested the PFI models to gain assurance that the accounting entries being generated by the accounting models were fairly stated. We noted that for one of the PFI schemes the full accounting model could not be located and we had to rely on the affordability model as an alternative. We concluded that this was a reasonable alternative to gain assurance over the material correctness of the accounting entries but we would expect the Council to hold a full accounting audit trail for its PFI schemes.</p>	<p>We would recommend that the Council reviews the documentation and audit trail available for PFI schemes to assure itself that these are complete.</p> <p>Management response</p> <ul style="list-style-type: none"> • Agreed

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Controls

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

Audit Adjustments

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

Impact of adjusted misstatements

There were no adjusted misstatements for the year ending 31 March 2019.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Joint Arrangements	The Orbis pooled budget arrangement should be included as an individually significant disclosed pooled budget arrangement in the accounts alongside others such as Better Care Fund.	✓
Collection Fund note	The Council Tax Base calculation setting out the calculation of the 2018/19 tax base Band D Equivalent dwellings should be fully populated with the relevant figures.	✓
Finance Lease note	Note 15 the Gross Investment Finance Leases (Lessor) section was not casting correctly and should be updated.	✓
Audit fee disclosure	The audit fee note did not include the agreed fee for certification work on the housing benefit subsidy claim for the 2018/19 period	✓
Creditor classification in brought forward balances	In the brought forward balances the accumulated absences provision of £3.675m had been restated as a short term creditor. We agreed that the most appropriate classification for this balance for the 2018/19 accounts was as a short term creditor accrual and that is the year end treatment per the accounts, but our view was that it was more appropriate and clearer to reclassify this during the year rather than restate the brought forward balance. This would more accurately reflect the revised management judgment on the classification of the balance during the year. This was adjusted in the final accounts, and we agree that the 2018/19 year end classification of this balance is correct as per IFRS and the Code.	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>1 Potential impact of the McCloud judgement The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £5,312k, and an increase in service costs for the 2019/20 year of £1,041k.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>	5,312	(5,312)	5,312	<p>The figures provided by the actuary are an estimate, and not a formal actuarial valuation.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material.</p> <p>This issue will be considered as part of the next actuarial valuation exercise in 2019/20.</p>
<p>2 HRA Income During our testing of income cut off we identified that recharges of repairs/maintenance/improvements to HRA properties recharged to leaseholders were not being correctly matched with the expenditure. This led to revenues being understated.</p>	(3,171)	3,171	(3,171)	The difference is not material
Overall impact	£2,141	£(2,141)	£2,141	

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	122,084	TBC
Total audit fees (excluding VAT)	£122,084	TBC

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	17
• Certification of the housing benefit subsidy claim for the 2018/19 period	
	£17

Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Brighton and Hove City Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Housing Revenue Account Income and Expenditure Statement, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not

comply with the 'Delivering Good Governance in Local Government: Framework (2016)' 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 matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Executive Director Finance and Resource's and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director Finance and Resource's. The Executive Director Finance and Resource's 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director Finance and Resource's 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 Executive Director Finance and Resource's 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.

Audit opinion (continued)

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Brighton and Hove City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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 in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature

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

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Date



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