

# Updated Audit Findings for Brighton and Hove City Council

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<sup>13</sup>Year ended 31 March 2019

17 September 2019



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## Update on the issues reported to the 23 July meeting

We have now completed all outstanding audit work which was reported to you in our Audit Findings Report at the 23 July 2019 meeting. At that meeting we reported that the only outstanding audit issue which could require a modification of audit opinion or a material change to the financial statements was the work on the net pension liability.

Our work on the net pension liability included analytical testing of the reasonableness of the Council's share of assets and liabilities, and the actuarial application of the roll forward approach in estimating the value of the net pension liability. Our analytics suggested there could be a material error in the actuary's estimate of the Council's share of assets. At the time we reported to the Committee in July, we were awaiting a response from the Council's actuary to our enquiries.

In order to provide an actuarial estimate quickly for inclusion in the financial statements the actuary uses an estimated return on pension fund assets as at the financial year end. The actuary estimated a 10.6% return. The actual year end return on assets was 7.3%. As our audit work implied, this resulted in a material error for the draft accounts presented to the Committee.

Your finance team requested that the actuary produce an updated actuarial estimate to include the actual year end return on pension fund assets. The revised actuary report also included the additional liability for the impact of the McCloud ruling as reported in our previous audit findings report.

These two issues meant the estimate of the net pension fund liability increased by £39.4m, which increases the Council's Cost of Services by £4.9m, and increases Other Comprehensive Income and Expenditure by £34.4m. Note due to adjustments between the accounting and funding basis under regulations this does not impact on the closing General Fund balance. As this was material to the audit we agreed with management that this should be adjusted in the financial statements. This adjustment is shown on the following page.

The adjustment also impacts on the Movement in Reserves Statement, Adjustments between the Accounting Basis and Funding Basis under Regulations, the Expenditure and Funding Analysis, the Housing Revenue Accounts Income and Expenditure Statement, the Cash Flow Statement, the Narrative Report and Notes 3/6/17/23 to the accounts where the adjustment has feed-through impact. We have checked that the adjustment has been accurately reflected in these Statements and Notes to the accounts.

Therefore, the unaudited financial statements showed a Deficit on the Provision of Services of £35.8m and Total Comprehensive Income and Expenditure of £44m. After the audit, the a Deficit on the Provision of Services was adjusted to £40.8m and Total Comprehensive Income and Expenditure was adjusted to £83.4m.

We have no further issues to report. Our audit is now complete, and we are satisfied that the accounts which are presented to you for re-approval are materially fairly stated. Our audit report opinion will be unmodified.

# Audit Adjustment – Net Pension Liability

## Impact of adjusted misstatements

The table below provides details of the adjustment identified during the 2018/19 audit which has 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:

### Adjustment for the impact of the McCloud judgement and the update of the return on pension fund assets on the estimate of the net pension liability

	Balance Sheet line impact	Accounts Presented on the 23 <sup>rd</sup> of July (£'000)	Impact of the adjustment (£'000)	Final audited accounts (£'000)
1.	Other Long Term Liabilities	(358,785)	(39,414)	(398,199)
2.	Unusable Reserves (Including Pensions Reserve)	(1,373,637)	39,414	(1,334,223)
	<b>Comprehensive Income and Expenditure Statement (CIES) line impact</b>			
1.	Cost of Services	264,225	4,907	269,132
2.	Net interest on the net defined benefit pension liability	7,196	66	7,262
3.	Remeasurements of the net defined benefit liability	30,840	34,441	65,281
4.	Total Comprehensive Income and Expenditure	44,014	39,414	83,428



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