

# The Audit Findings for Brighton and Hove City Council

Year ended 31 March 2023



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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

### Muneeb Aslam Khan

Assistant Manager

E Muneeb.a.khan@uk.gt.com

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit 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.

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 J Wells  
For Grant Thornton UK LLP  
Date: 26 September 2023

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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 2023 for the attention of 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 income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

Our audit work was undertaken during July-September. Our findings are summarised on pages 8 to 24. We have not identified in our audit work completed to date any adjustments to the financial statements which would result in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix B.

We are making progress on the 2022/23 audit, however the conclusion of it is subject to the completion of the triennial valuation work undertaken on the East Sussex Pension Fund (which impacts the Council's 2021/22 audit as well), along with additional work related to IFRIC-14 guidance which requires us to assess whether the requirements of the standard have been considered when the Council reports a net surplus for its Pension Liability. This is rare, but for the first time in over ten years, the funding of the East Sussex Pension Fund is in a net surplus position for 2022/23. There are also a number of areas where we are awaiting from information to respond to audit queries. Based on the work completed to date there are no matters of which we are aware that would require modification of our audit opinion on the financial statements or material changes to the financial statements, subject to the following outstanding matters:

- closing a small number of audit queries where responses have been returned by the Authority and the Audit Team are processing the responses to conclude;
- receipt of responses to a small number of audit queries which have been shared with the Pension Fund Administrator and the Pensions Actuary;
- receipt of responses to the audit queries from the Council Dwellings Valuer which have been pending since mid-August;
- resolving audit queries on differences in our test of accounting pertaining to revaluation reserve entries for land and building assets;
- receipt of pending responses to our ITGC queries which were raised as part of our planning procedures in accordance with the requirements of ISA(UK) 315 Revised and ongoing since our planning visit in March 2023;
- receipt of third-party confirmation from investments/borrowings counterparties, long term debtors which have been chased both by the Audit team and by the Authority Finance Team;
- obtaining assurances from the auditor of East Sussex Pension Fund as to the completeness and accuracy of data provided by the Pension Fund administrator;
- quality review of completed work by senior audit team members which could raise additional audit queries and challenge;
- review of the final set of financial statements; and
- receipt of management representation letter.

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

Our anticipated financial statements audit report opinion will be unmodified based on the work to date. Our work on the Council's value for money (VFM) arrangements is complete. The outcome of our VFM work is reported in our commentary in our Auditor's Annual Report (AAR).

# 1. Headlines

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## 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 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 completed our VFM work, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness with respect to the Council's arrangements to secure financial sustainability, and made a key recommendation against this. Improvement recommendations were made on governance and economy, efficiency and effectiveness in the use of resources.

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## 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

Barring the outstanding work as highlighted on page 3, 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.

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## Significant matters

As noted above there have been some delays in obtaining support for the ITGC work, obtaining support for our audit samples for the journals testing and responses from the managements expert to our pensions and council dwellings related queries which have slowed our progress on the audit. We will discuss these issues with your Chief Finance Officer in agreeing our final fee.

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# 1. Headlines

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## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

We would like to thank everyone at the Council for their support in working with us to ensure effective progress being made for completion of the 2021-22 audit work. Over the course of this period the audit team has worked constructively with the finance team to ensure any pending queries are appropriately resolved.

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## National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

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# 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

## Conclusion

We are making progress on the 2022/23 audit, however the conclusion of it is subject to the completion of the triennial valuation work which impacts the 2021/22 audit as well, accompanied by additional work related to IFRIC-14 guidance which requires us to assess whether the requirements of the standard have been considered when the council reports a Net surplus for its Pension Liability in the 2022/23 statements. Moreover, the completion of our audit of your financial statements is also subject to outstanding work on page 3 being resolved/completed

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

## 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.

Materiality level remain the same as reported in our audit plan in April 2023.

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

### Council Amount (£) Qualitative factors considered

Materiality for the financial statements	13,444,226	We have determined financial statement materiality based on a proportion of the gross expenditure of the council for the financial year.
Performance materiality	10,083,170	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	672,200	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 equivalent	1,000,000	Our assessment of what users would consider to be material with respect to cash.



## 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
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. Improve the financial results.</p>	<p>To address this risk, we:</p> <ul style="list-style-type: none"> <li>evaluated the design and implementation of management controls over journals;</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;</li> <li>gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness ;</li> </ul> <p>Our audit work at the time of writing has not identified any issues in respect of management override of controls.</p>



## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

#### Improper revenue recognition

Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Commentary

Having considered the risk factors set out in ISA240 and nature of the revenue streams at Brighton and Hove City Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- for revenue streams that are derived from council tax, business rates and grants, these are incomes which are based primarily on grants or are formula driven from the central government and taxpayers and therefore the opportunities to manipulate them are very limited;
- opportunities to manipulate revenue recognition are limited.

At the time of writing our audit work has not identified any issues so far in respect of revenue recognition.

#### Valuation of land and buildings (including investment properties)

The Council revalues operational land and building on a rolling five yearly basis and investment properties every year to ensure the carrying value in the financial statements is not materially different from the current value or the fair value at the financial statement date.

The valuation represents a significant estimate in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings and investment properties as a significant risk requiring special audit consideration.

We have further focussed our risk assessment to the valuation of land and buildings with large and/or unusual changes to their valuation approach. To identify such assets we made direct inquiries with the valuer to understand the source data that underpins their valuations, corroborated the source and reasonableness of the external data they rely upon for their key assumptions, and evaluated the completeness and accuracy of source data provided directly from the Council. We then completed analytical procedures on their valuation report, with reference to external market data, to identify those assets at greater risk of material misstatement.

For assets which are not revalued by the external valuer in year, work is carried out to gain assurance that the carrying value is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.

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 external valuer;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation;
- confirmed from the valuer the basis on which the valuation was carried out;
- tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Council's asset register;
- evaluated how management concluded that the carrying value of assets not revalued was not materially misstated;
- 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.

Our audit work at the time of writing has not identified any issues with 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

#### Valuation of pension fund net surplus

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

The pension fund net surplus is considered a significant estimate due to the size of the numbers involved (£138.3m in the Council'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 surplus as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net pension surplus.

### Commentary

To address this risk, we :

- Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net surplus is not materially misstated and evaluate the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the net surplus;
- 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;
- Confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- Are completing additional work related to IFRIC-14 guidance which requires us to assess whether the requirements of the standard have been considered when the council reports a Net surplus for its Pension Liability.

We are awaiting 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 nearing completion.

As detailed on page 3 we are also completing work on the data provided to the actuary and the assumptions used by the actuary in the triennial valuation at 31 March 2022 which impacts on our closure and signing of the 2021/22 statements and subsequently on the opening adjusted position of this balance sheet item in the comparables.

Our work at the time of writing has not found any issues.

## 2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
<p><b>Fraudulent expenditure recognition</b></p> <p>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition.</p>	<p>Significant risk has been rebutted which is primarily because we were satisfied that this did not present a significant risk of material misstatement in the 2022/23 accounts as:</p> <ul style="list-style-type: none"> <li>• the control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong;</li> <li>• we have not found significant issues, errors or fraud in expenditure recognition in the prior year audits;</li> <li>• our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.</li> </ul> <p>At the time of writing our audit work has not identified any issues so far in respect of expenditure recognition.</p>

## 2. Financial Statements - Observations in respect of other risks (continued)

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	Auditor view
<b>Accuracy and accounting for Private Finance Initiative (PFI) liability</b>	<p>You have assets financed through PFI schemes (Schools, Library and waste management services assets). PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information.</p> <p>We therefore identified the accuracy and presentation of your PFI schemes as a risk for the audit.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>• reviewed your PFI models and assumptions contained therein;</li> <li>• obtained an understanding of any changes to PFI contracts made since the prior year;</li> <li>• compared your PFI models to the prior year to identify any changes;</li> <li>• reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements; and</li> <li>• reviewed the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12.</li> </ul> <p>Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this estimate.</p>
<b>Grants Income Recognition and Presentation</b>	<p>The government has continued to provide a range of financial support packages to the Council and all local authorities during 2022/23. These included additional funding to support the cost of services or offset other income losses.</p> <p>The council has received a number of revenue grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the funds to be returned if the conditions are not met. These are held within short term creditors.</p> <p>The council has received a number of capital grants and external contributions which are used to fund capital investment.</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>• tested a large sample of grants to assess whether they had been recognised correctly;</li> <li>• whether the Council acts as the principal or agent which determines whether the Council recognises the grant at all;</li> <li>• completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income;</li> <li>• impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES;</li> <li>• management’s disclosure of the Council’s accounting treatment for grant income in both the financial statements and Narrative Report is sufficient.</li> </ul> <p>Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this estimate.</p>

## 2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations – £763.4m</p> <p>Investment Properties – 56.357m</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 has engaged several different valuers to complete the valuation of properties as at 31 March 2023 on a five yearly cyclical basis. 70% of total assets were revalued during 2022/23.</p> <p>The Council will produce an impairment statement and market review as part of their assessment of assets which may be impaired as at 31 March 2023 under the requirements of IAS 36.</p> <p>The Council also produced working papers showing the estimated movement for assets not valued in the financial year 2022/23 and those assets revalued at 1 April 2022 were not materially misstated as at 31 March 2023. Management assessed that these assets could be £7.4m greater than their carrying value in the balance sheet as at 31 March 2023, and considered the carrying value to be materially correct.</p> <p>The total year end valuation of land and buildings was £763.4m, a net increase of £31.1m from 2021/22 (£732.3m).</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>We are satisfied that the Council's expert is objective, competent and knowledgeable in their field of expertise;</li> <li>We have reviewed the completeness and accuracy of the underlying information used to determine the valuation. This included testing accuracy of floor areas plans provided to the valuer; querying yield percentages used by the valuer against 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;</li> <li>We have reviewed the impact of any changes to valuation method and incorporated this element in our sample selection;</li> <li>We have reviewed the consistency of valuations against our auditor's expert market trend report and adequacy of disclosure in the financial statements; and</li> <li>We engaged an auditor's expert to help assess the Council's valuation reports for OLB assets and used our expert to assess the method and assumptions used by the Council's expert in the valuation of OLB and investment property. We are awaiting final response from them after the receipt of which the responses will be assessed and any follow up queries for the management/management expert will be shared.</li> <li>We are still assessing management's assessment of those assets not revalued in the year. We will make our own assessment of the potential value of these assets as at 31 March 2023 comparing against management's assessment to conclude on whether the potential estimated movement on these assets was material.</li> </ul> <p>Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this estimate.</p>	<p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p>

### 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
Land and Buildings – Council Housing - £1,010m	The Council owns 11,818 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 £1,010m, a net increase of £54.2m from 2021/22 (£955m).	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> <li>assessment of management's expert, in particular the method applied to confirm that it aligned to DCLG Stock Valuation for Resource Accounting guidance;</li> <li>completeness and accuracy of the underlying information used to determine the estimate;</li> <li>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;</li> <li>where the professional valuer had applied a desktop indexation to groups of dwellings which had not been selected for beacon valuation, we 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.</li> </ul> <p>We were satisfied that the beacons methodology was applied correctly by the Council and its valuer. The valuation method had not changed from previous years.</p> <p>Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this estimate.</p>	Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.

### 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																							
<p><b>Net pension surplus – £138.3m</b></p> <p>IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.</p> <p>IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.</p>	<p>The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentation requirement of IAS 19 ‘Employee Benefits’.</p> <p>As at 31 March 2023 the Council has a net pension surplus of £138.3m (2021-22 Net Pension Liability £268.7m) comprising the Council’s share of the East Sussex Pension Fund assets and liabilities. The Council engaged an expert Barnett Waddingham 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 April 2023.. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return.</p> <p>Given the significant value of the net pension surplus, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> <li>We assessed management’s actuarial expert and concluded they are competent, capable and objective in producing the estimate;</li> <li>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;</li> <li>We are awaiting 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;</li> <li>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</li> <li>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</li> </ul>	<p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p>																							
<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>4.8%</td> <td>4.8%-4.85%</td> <td>Considered Reasonable</td> </tr> <tr> <td>Pension increase rate</td> <td>2.9%</td> <td>2.65%-2.95%</td> <td>Considered Reasonable</td> </tr> <tr> <td>Salary growth</td> <td>2.9%</td> <td>3.9%</td> <td>Challenged</td> </tr> <tr> <td>Life expectancy – Males currently aged 45/65</td> <td>Current: 21.1 Future: 22.2</td> <td>Current: 19.5-22.1 Future: 20.9-23.4</td> <td>Considered Reasonable</td> </tr> <tr> <td>Life expectancy – Females currently aged 45/65</td> <td>Current: 24.1 Future: 25.6</td> <td>Current: 22.9-24.5 Future: 24.3-25.9</td> <td>Considered Reasonable</td> </tr> </tbody> </table>				Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.8%	4.8%-4.85%	Considered Reasonable	Pension increase rate	2.9%	2.65%-2.95%	Considered Reasonable	Salary growth	2.9%	3.9%	Challenged	Life expectancy – Males currently aged 45/65	Current: 21.1 Future: 22.2	Current: 19.5-22.1 Future: 20.9-23.4	Considered Reasonable	Life expectancy – Females currently aged 45/65	Current: 24.1 Future: 25.6	Current: 22.9-24.5 Future: 24.3-25.9
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<ul style="list-style-type: none"> <li>In our review and testing of the methods and assumptions underlying the estimate we have particularly focussed on any changes year on year to assess and challenge whether this is reasonable.</li> </ul>																										

**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
		<ul style="list-style-type: none"> <li>We have asked the Council to request from its actuary and IFRIC 14 assessment in respect of the net pension asset. This assessment forms the entry for the financial statements. The response from the actuary has been requested and is awaited.</li> </ul> <p>As part of our procedures we have also assessed the below, however our work on them is still in progress as responses are awaited from the actuary with respect to audit queries:</p> <ul style="list-style-type: none"> <li>We have assessed the reasonableness of the Council's share of LGPS pension assets</li> <li>We assessed the reasonableness of increase/decrease in estimate.</li> <li>We reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this estimate.</p>	<p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p>

**Assessment**

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



## 2. Financial Statements: Other management judgements and estimates

Other judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £11.4m	<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 £11.4m, a net increase of £1m from 2021/22.</p>	<p>We are currently completing our work reviewing your estimate of MRP to conclude:</p> <ul style="list-style-type: none"> <li>• whether the MRP has been calculated in line with the statutory guidance;</li> <li>• whether the Council's policy on MRP complies with statutory guidance;</li> <li>• assess whether there are any changes to the Council's policy on MRP.</li> <li>• reasonableness of the increase in MRP charge.</li> </ul> <p>Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this estimate.</p>	<p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p>

### Assessment

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## 2. Financial Statements: Other management judgements and estimates

Other judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Expected Credit Loss - £11.7m	<p>The Council approved loans to the i360 as the principal lender for the development of the i360 attraction. The loan comprised debt and rolled up interest over the design and construction period.</p> <p>The attraction soon encountered financial difficulty, principally due to lower-than-expected visitor numbers and was unable to make payments under the loan agreement.</p> <p>The Council in line with the requirements of the Code and IFRS-9 applied the simplified approach to this long-term debtor and assessed a lifetime credit loss of £11.7m as at 31 March 2023. This is an increase of £2.4m from the prior year (2021-22 £9.2m)</p>	<p>As part of our independent work to gain assurance over the appropriate impairment loss being charged against an outstanding debtor, we are currently completing our work and reviewing the ECL estimate to conclude:</p> <ul style="list-style-type: none"> <li>• appropriateness of the underlying information used to determine the estimate;</li> <li>• reasonableness of increase in estimate;</li> <li>• adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Subject to satisfactory resolution of matters identified on page 3, our audit work has not identified any issues in respect of this estimate.</p>	<p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p>

















### Assessment

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





## 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

ITGC control area rating

IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Assessment
Civica	ITGC Design assessment					Subject to the clearance of items pending as identified on page 3, we have not identified any deficiency in the design effectiveness of the IT application.
NEC.	ITGC Design assessment					Subject to the clearance of items pending as identified on page 3, we have not identified any deficiency in the design effectiveness of the IT application.
iTrent	ITGC Design assessment					Subject to the clearance of items pending as identified on page 3, we have not identified any deficiency in the design effectiveness of the IT application.
Care first	ITGC Design assessment					Subject to the clearance of items pending as identified on page 3, we have not identified any deficiency in the design effectiveness of the IT application.

**Assessment**

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

## 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.

<b>Issue</b>	<b>Commentary</b>
<b>Matters in relation to fraud</b>	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.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A signed letter of representation will be requested ahead of the auditor's report being signed. We have not identified the need for any specific representations at the time of writing.
<b>Audit evidence and explanations</b>	All information and explanations requested from management have been provided so far, barring the satisfactory resolution of matters identified on page 3.

## 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. 15 of these requests remain outstanding at the date of issuing this report. We have chased these responses several times and continue to do so.
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



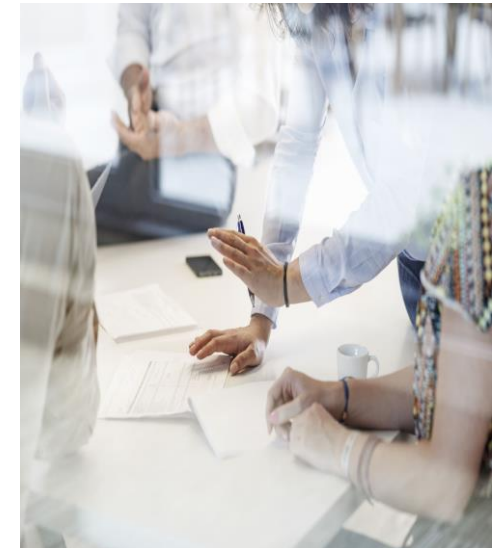
### Our responsibility

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"> <li>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</li> <li>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.</li> </ul> <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"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <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"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 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, 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> <p>No inconsistencies have been identified thus far, however subject to completion of the outstanding audit procedures detailed on page 3.</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"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>In our Auditor's Annual Report 2021/22 we highlighted two areas for improvement of the AGS. Management has provided their assessment of the progress made to address the recommendations in an appendix to our 2022/23 Annual Auditor Report. We are still assessing the draft AGS as part of our work.</p>



## 2. Financial Statements: other responsibilities under the Code

Issue	Commentary
<b>Specified procedures for Whole of Government Accounts</b>	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.  Note that work is not required as the Council does not exceed the threshold
Certification of the closure of the audit	We intend to issue the certificate at the time of issuing the opinion.



# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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 completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix I.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability	<ul style="list-style-type: none"> <li>Review of Council, Cabinet and committee reports</li> <li>Regular meetings with senior officers</li> <li>Interviews with other members and management</li> <li>Attendance at Audit Committee</li> <li>Considering the work of internal audit</li> <li>Reviewing reports from third parties including Ofsted</li> <li>Reviewing the Council's Annual Governance Statement and other publications</li> </ul>	<p>The Council finished 2022/23 with an overspend on the General Fund revenue budget of £3m. This was the first time in over a decade that it had produced an overspend. During the year, the Council instituted spending control measures to mitigate cost pressures, these proved effective and the final position was significantly below forecasts made earlier in the year. The overspend was funded by the working balance.</p> <p>The latest budget monitoring reports are showing a £14m forecast overspend on the General Fund revenue budget for 2023/24. A significant level of savings (23%) £2.947m of the £13.043m package is also reported to be at risk as per M2 budget monitoring reports. The Council instituted spending controls earlier in the year to mitigate the overspend position although the projections continue to be high. The 2023/24 financial forecast is worrying.</p> <p>The medium term position is of significant concern. In 2024/25, the budget gap is currently forecast to be £25m and over £70m for the cumulative period of the medium term financial plan. The Council is currently spending and forecasting to spend far beyond its means in the medium term. The current medium-term savings requirement is treble what the Council has been able to deliver in the past three years. Beyond 2023/24, the level of identification and development of savings schemes is rudimentary. The Council's only reserves available to fund revenue budget pressures is its working balance. The current working balance is £6m as per the July update to the Strategy, Finance &amp; City Regeneration Committee. Based on current projections, if the Council's 2023/24 forecast overspend were to materialise, the Council would fully deplete its reserves balance.</p>	<p>We consider that a significant weakness in arrangements for financial sustainability remains for 2022/23.</p> <p>We will continue to monitor the Council's progress over the next few months to address the 2023/24 forecast overspend and the 2024/25 and medium-term gap and assess if we should exercise our statutory powers such as, issuing a statutory recommendation under Section 24 of the Local Audit and Accountability Act 2014.</p> <p>We have made a Key Recommendation in the Auditor's Annual Report.</p>
		<p>The Council is aware of the financial challenge ahead and has responded by bringing forward the 2024/25 budget setting process and launching a multi-stranded approach to meeting the extraordinary ask. A step change in process has been instituted to put the Council in a financially sustainable position in the medium-term.</p>	

# 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 and consider that an objective reasonable and informed third party would take the same view. 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 F.

## 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 [Grant Thornton International Transparency report 2023](#).

# 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
<b>Audit related</b>			
Certification of Teachers Pension Return	£10,000 (Proposed Fee)	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 £10,000 (Proposed Fee) in comparison to the total fee for the audit of £189,539 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.  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	£32,400 (Proposed Fee)	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 £32,400 (Proposed Fee) in comparison to the total fee for the audit of £189,539 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.  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.

# 5. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the company or investments in the company held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, the Council, senior management or staff that would exceed the threshold set in the Ethical Standard

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

# Appendices

- A. Communication of audit matters to those charged with governance
- B. Audit Adjustments
- C. Fees and non-audit services
- D. Auditing developments
- E. Audit opinion

# A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

## Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# 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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
i360 Debtor Bad debt Provision adjustment	Nil	Dr Provisions £9,267 Cr Long term Debtors £9,267	Nil
In our provisions testing we identified that an adjustment of £9.2m for a bad debt provision has been made which has been included within the Provisions Financial statement line item.			
Provisions reported in the financial statements essentially deal with liabilities being recognised under IAS 37, whereas the £9.2m is an impairment of the long debtor balance since the Council considers that to be an impairment and should therefore be accounted for as a deduction from the long-term debtor balance.			
<b>Overall impact</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

## 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/issue/Omission	Auditor recommendations	Adjusted?
Various minor casting/disclosure amendments	We identified a number of casting and disclosure issues. The Council are working through these. As part of our final checks, we will verify all expected changes have been made.	TBC
	<b>Management response</b>	



## C. Fees and non-audit services

We confirm below our fees charged/proposed for the audit and provision of non-audit services. Note that the final fee is to be confirmed – we will propose a fee variance for the issues around delays to the audit which have been highlighted in this report

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£189,539	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£189,539</b>	<b>TBC</b>
<b>Non-audit fees for other services</b>		
<b>Audit Related Services</b>		
Certification of Housing Benefit Claim	£TBC	TBC
Teachers Pensions return certification	£10,000	TBC
<b>Total non-audit fees (excluding VAT)</b>	<b>TBC</b>	<b>TBC</b>

# Audit fees – detailed analysis

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

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

# D. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

# E. 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 2023, which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves 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 core financial statements, 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2022/23; 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 Chief Finance 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 Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 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 2022) 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.

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

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.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

#### 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. The Chief Finance Officer is responsible for the other information. 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.

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 themselves. 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 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, 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

# E. Audit opinion

Our audit opinion is included below.

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

- 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 and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities [set out on page 7 of the Draft Statement of Accounts], 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 Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

## 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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to [include relevant details for your audit, e.g. health and safety, employee matters, and data protection].

We enquired of management and the Audit & 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 management, internal audit and the Audit & 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 management's incentives and opportunities for

manipulation of the financial statements. This included the evaluation of the risk of management override of control. We determined that the principal risks were in relation to large and unusual manual journals posted at the end of the financial year or post year end as part of accounts closedown procedures and 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 management has in place to prevent and detect fraud,
- journal entry testing, with a focus on large and unusual manual journals posted at the end of the financial year or post year end as part of accounts closedown procedures
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment properties and defined benefit pensions liability valuation, and
- 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. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including potential of fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment properties and defined pensions liability valuation. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our 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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

# E. Audit opinion

Our audit opinion is included below.

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

## 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 2023.

We have nothing to report in respect of the above matter except on 26 September 2023 we identified a significant weakness in how the council plans and manages its resources to ensure it can continue to deliver its services. This was in relation to:

- The outturn report presented to June 2023 Strategy, Finance & City Regeneration Committee, the Council finished 2022/23 with a £3m overspend on the General Fund revenue [budget](#)
- As per the General Fund Budget Planning and Resource Update presented on 13 July 2023 to the Strategy, Finance & City Regeneration Committee, the Council’s working balance stands at £6m. The Council’s reserves and balances are well below the average for unitary and upper tier local authorities.

As per the recommendation highlighted in the annual report, Council should include in the MTFs a savings proposal RAG-rated tracker which shows the stage of development for all savings proposals. This would provide a more realistic understanding of the medium-term gap and how likely an overspend is to materialise in any given year. It can also demonstrate the recurrent nature of a failure to deliver a saving by showing that the failure to deliver a saving in one-year has a knock-on impact on the other years in the [MTFS](#)

### 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.

### 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 January 2023. 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 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023.

### 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 44 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:

Darren J Wells, Key Audit Partner

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

London

Date:



