Brighton and Hove City Council Indicative Audit Plan

Year ending 31 March 2024

Brighton and Hove City Council

13 June 2024

Note this is an indicative audit plan subject to further update as our risk assessment processes and work are still being completed.

Contents

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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 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.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

As we have previously updated, the Government consulted in February 2024 on a proposal to introduce a series of statutory backstops to bring the local audit system back on track. The proposals also included a series of updates to the NAO's Code of Audit Practice. Our understanding was that the necessary regulations to enact the backstop legislation were due to be laid before Parliament prior to summer recess in July 2024. This would have enabled the legislative framework which would have enabled the 30 September 2024 backstop to be implemented.

The calling of a General Election on 5 July 2024 puts this timetable in considerable doubt The Government elected will have to both decide if it wants to implement the backstop solution and if so, determine the timetable by which it happens. We signed the Brighton and Hove City Council (the Council) audit on 28 March 2024 and thus you are not impacted by the backstop.

As at the end of May, we had signed 140 Local Government audits for 2022/23, representing 67% of our local government population. We envisage achieving a 75% sign off rate by the end of September. This compares with a sign off rate for other firms at the end of May of 7% (18 audits). If the backstop is extended to the end of the year – we envisage this figure moving to 80% completion.

Key matters

We had signed off 81% of our 2021/22 audits by the end of May. We envisage achieving an 85% sign off rate by the end of September. Other firms had signed off 48% of audits by the end of May 2024.

Audit year	Grant Thornton audits signed	Grant Thornton audits signed	Other firms
	Position as at end of May 2024 (%)	Forecast position end of Sep 2024 (%)	Position as at end of May 2024 (%
2022-23	67	75	7
2021-22	81	85	48
2020-21	92	92	81

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been discussed with your Chief Finance Officer.
- We offer a private meeting with the Chief Executive twice a year, and with the Chief Finance Officer quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit, Standards and General Purposes Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work. Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit, Standards and General Purposes Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit and Standards Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls – refer to page 9.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Brighton and Hove City Council ('the Council') for those charged with governance.

Respective responsibilities

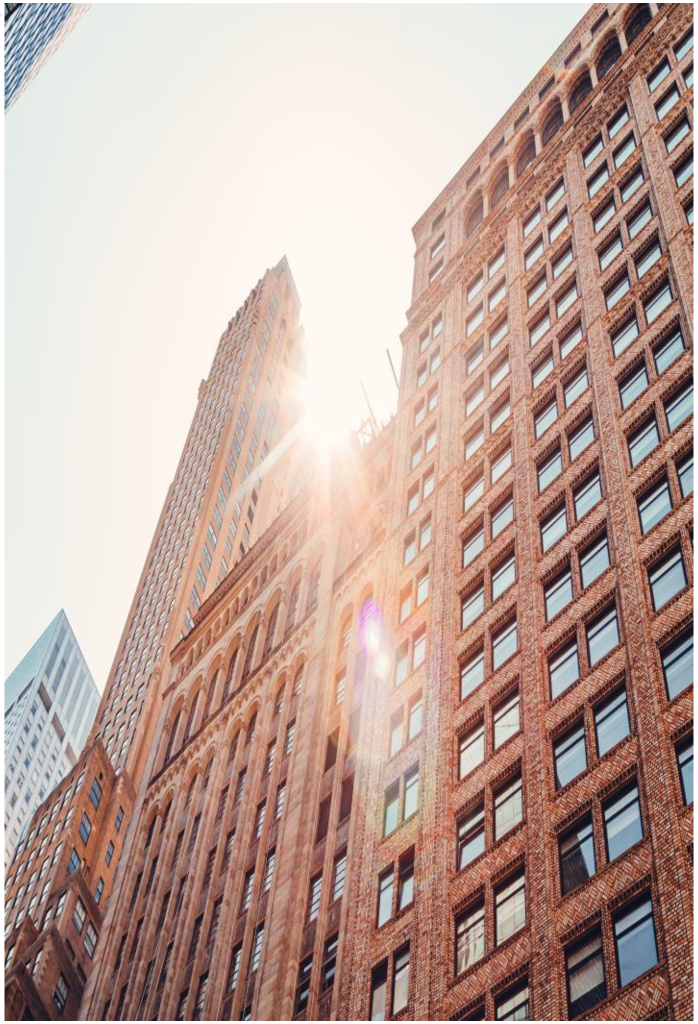
The National Audit Office ('the NAO') issues a document titled the Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. Any revisions to the Code which affect the audit will be communicated to you. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Standards and General Purposes Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit, Standards and General Purposes Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of land and buildings, including heritage assets and investment properties
- Valuation of the net pension liability/asset

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £13.6m (PY £13.44m) for the Council, which equates to 1.45% of your prior year gross operating costs. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.68m (PY £0.672m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Strategy to Secure Financial Sustainability

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our planning visit took place in February and March 2024, and our final visit will take place from July to September 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our proposed fee for the audit will be £433,676 (PY: £212,039), subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA240 fraudulent revenue recognition	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. We have considered all revenue streams of the Council and we have rebutted this risk for all revenue streams. For revenue streams that are derived from Council Tax, Business Rates and Grants we have rebutted this risk on the basis that they are primarily formula-based, determined by central government, and received from tax-payers. Opportunities to manipulate the recognition of these income streams is very limited. For other revenue streams, we have determined from our experience as your auditor for several years and our understanding of your processes around revenue recognition, that the risk of fraud arising from revenue recognition could be rebutted, because: - there is little incentive to manipulate revenue recognition; and - opportunities to manipulate revenue recognition are very limited.	Significant risk rebutted.

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'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraudulent expenditure recognition	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure). Having considered the risk factors relevant to the Council and the relevant expenditure streams, we determined that no separate risks relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply. Given the Council is facing financial pressures over multiple years, the risk of fraudulent expenditure recognition is not relevant or significant. Limited financial resources and the long-term nature of the financial challenges make it highly unlikely for there to be an incentive or opportunity to fraudulently recognise expenditure in any one particular year. In summary, we are satisfied that this did not present a significant risk of material misstatement in the 2023/24 accounts as: - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; - We have not found significant issues, errors or fraud in expenditure recognition in the recent, previous audits; - Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition. Furthermore, we considered that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which have been considered as part of the standard audit tests and our testing in relation to the significant risk of management override of controls as set out on page 9.	Significant risk rebutted.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	Under ISA 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journals; • Analyse the journals listing and determine the criteria for selecting high risk unusual journals; • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and investment properties	The Council revalue operational land and buildings 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 statements date. The Council's heritage asset values are determined from insurance rebuild cost valuations. The valuations represents significant estimates by management in the financial statements due to the size of the numbers involved and the sensitivity of these estimates to changes in key assumptions. We therefore identified valuation of land and buildings, including investment properties, as a significant risk requiring special audit consideration. For assets which are not revalued by the external valuer in year, management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.	To address this risk, we will: • Evaluate management's processes and assumptions for the calculations of the estimates, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation experts; • Write to the valuers to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Assess how management have challenged the valuations produced by the professional valuers to assure themselves that these represent the materially correct current value; • Test revaluations made during the year to see if they are input correctly into the Council's asset register; • Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • Engage 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.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability/asset	The Council's pension fund net liability/asset, as reflected in its balance sheet as the "net liability/asset on defined pension scheme", represents a significant estimate in the financial statements. Regulation 62 of the Local Government Pension Scheme (LGPS) requires pension fund administering authorities to obtain a full triennial actuarial valuation of their defined benefit pension scheme every three years. Brighton and Hove City Council's net liability/asset was valued by Barnett Waddingham LLP. The pension fund net liability/asset is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. Estimation of the net liability/asset depends on a number of complex assumptions such as the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. We therefore have identified valuation of the Council's net pension liability/asset 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 liability/asset.	To address this risk, we will: • Update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability/asset is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • Assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • Test 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; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

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.

Description	Planned audit procedures
Determination We have determined financial statement planning materiality based on a proportion of the gross expenditure of the Council for the previous financial year (2022/23). Materiality at the planning stage of our audit is £13.6m, which equates to 1.45% of your gross expenditure for the 2022/23 financial year.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; and – assist in evaluating the effect of known and likely misstatements in the financial statements.
Other factors An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified cash and cash equivalents as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £5.1m.
Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	We will reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Our approach to materiality

Description	Planned audit procedures
Other communications relating to materiality we will report to the Audit, Standards and General Purposes Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Standards and General Purposes Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit, Standards and General Purposes Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.68m (PY £0.672m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Standards and General Purposes Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

Planning Thresholds	Amount (£)	Qualitative factors considered
Materiality for the Council's financial statements	£13,600,000	In determining planning materiality, we have considered the following key factors: - Debt arrangements: the Council has a significant level of debt, but the majority of this is with PWLB and the CIPFA Prudential Code is followed with regard to managing the levels of debt. We are not aware of significant debt covenants or other factors that would indicate an enhanced risk. - Business environment: the Council operates in a generally stable, regulated environment, although in recent years government policies have reduced the funding available and this has increased the financial pressures on the Council. - Control environment – the audit of the 2022/23 financial statements did not identify any significant deficiencies in the control environment - Other sensitivities – there has been no change in key stakeholders, and no other sensitivities have been identified that would require materiality to be reduced.
Performance Materiality	£10,200,000	Planning performance materiality is based on 75% of the overall materiality. This is consistent with the approach adopted in the prior-year on the basis that there were not a significant number adjustments or deficiencies identified in the 2022/23.
Trivial matters	£680,000	Triviality is set at 5% of the overall materiality.
Materiality for cash and cash equivalents	£5,100,000	Cash is sensitive so we have opted for a lower level of materiality (50% of our performance materiality)

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Civica	Financial reporting	ITGC Design Assessment
NEC (formerly Northgate)	Council Tax, Business Rates, Benefits	ITGC Design Assessment
iTrent	Payroll	ITGC Design Assessment
Carefirst	Social Care Services	ITGC Design Assessment

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Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Strategy to Secure Financial Sustainability

The Council finished 2022/23 with an overspend that was funded by reserves and was forecasting in the first half of the 2023/24 financial year to overspend by £14m. The Council has a £6m reserve balance (excluding earmarked reserves) and the cumulative position in the medium term financial plan is for large deficits over the full course of that period. If these forecast large deficits materialise, then the Council would deplete its reserves balance. The medium term plans include savings requirements which are treble the savings that the Council has been able to deliver in the past few years.

We concluded there was a significant weakness in arrangements in the 2022/23 year and made a key recommendation. And we consider there to still be a risk of significant weakness in the arrangements to secure financial sustainability for the 2023/24 period.

We will update our knowledge and understanding of actions taken since the last VFM review, including those specifically related to the key recommendation made for 2022/23.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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.

Audit logistics and team

Planning and risk assessment

Audit & Standards Committee
25 June 2024
Audit Plan

Year end audit
July – September 2024

Audit, Standards and General Purposes Cor
TBC
Audit Findings Report
Auditor's Annual Report
Audit opinion

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Paul Cuttle, Key Audit Partner

Paul will be the main point of contact for the Chair, the Chief Executive and Members. Paul will share his knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with management and Audit, Standards and General Purposes Committee. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work focussing his time on the key risk areas to your audit.

Andy Conlan, Audit Manager

Andy will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Andy will attend Audit, Standards and General Purposes Committee, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all. Andy will work with Internal Audit to secure efficiencies and avoid duplication.

Sthembile Nyide and Oliver Moore, Audit In-charges

Sthembile and Oliver will lead the onsite team and will be the day-to-day contacts for the audit. They will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. They will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Brighton and Hove City Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £418,126.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Brighton and Hove City Council Audit – Scale Fee	£418,126
Additional audit risk assessment and business process documentation related to ISA315	12,550
Use of external audit valuation expert	3,000
Total audit fees (excluding VAT)	£433,676

External valuer

Our testing of land and buildings requires input from an external valuer and the cost of this is not covered by the PSAA scale fee. This work be a minimum of £3,000 but there is also a potential variable element which relates to any further work the audit is considered necessary on individual property valuations. This is normally relevant to any asset valuations that use yields within the valuation methodology.

IFRS 16

Local authorities will need to implement IFRS 16 Leases from 1 April 2024. The cost of this is not covered by the PSAA scale fee although we do not expect any work is required in relation to the 2023/24 audit although this will depend on the approach adopted by the Council.

Previous year

In 2022/23 the scale fee set by PSAA was £139,584. The actual fee charged for the audit was £212,039.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls will require updating, or overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning inquiries

As part of our planning risk assessment procedures, we have made inquiries to inform our risk assessment. These have been included as a separate paper to the Audit, Standards and General Purposes Committee. We would appreciate a prompt response to these inquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefits	34,253 (proposed fee being discussed with management)	Self-Interest	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 £34,253 (plus £1,500 day rate for any additional re-performance/other work necessary outside of the core agreed fee) in comparison to the total fee for the audit of £433,676 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.
Teachers Pensions return certification	12,500 (proposed fee being discussed with management)	Self-Interest	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 £12,500 in comparison to the total fee for the audit of £433,676 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.
Homes England Compliance	12,000 (proposed fee being discussed with management)	Self-Interest	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 £12,000 in comparison to the total fee for the audit of £433,676 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.

Communication of audit matters with 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 and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
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 matters in relation to going concern	•	•

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 Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with CFO (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the CFO to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit, Standards and General Purposes Committee (at next available Audit, Standards and General Purposes Committee meeting or in writing to Audit, Standards and General Purposes Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Audit, Standards and General Purposes Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

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