The Audit Findings for Brighton and Hove City Council

Year ended 31 March 2024

24 September 2024 – UPDATE FOR COMMITTEE
AS AT 17 SEPTEMBER 2024

Private and Confidential

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24th September 2024

Dear Members of the Audit, Standards & General Purposes Committee

Audit Findings for Brighton and Hove City Council for the year ended 31 March 2024

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 and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Audit, Standards & General Purposes Committee.

8 As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

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

We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to drive audit quality by reference to the Audit Quality Framework. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at transparency-report-2023.pdf (grantthornton.co.uk).

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

Paul Cuttle

Director
For Grant Thornton UK LLP

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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.

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 2024 for the attention of those charged with governance.

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

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

Our audit work was completed in a hybrid manner during June to September 2024. Our findings are summarised in Section 2, as well as in Appendices B to D. We have identified 5 adjustments to the financial statements that have resulted in a £9.7m credit adjustment to the Council's Comprehensive Income and Expenditure Statement. These have no impact on the level of the Council's useable reserves.

Audit adjustments are detailed at Appendix E. We have also raised recommendations for management as a result of our audit work. These are set out at Appendix C. Our follow up of recommendations from the prior year's audit are detailed at Appendix D.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;

- Completion of audit manager and engagement lead reviews which could potentially raise further queries for the Council to respond to;
- Completion of land and buildings valuation testing, including a review of assets not revalued;
- Receipt of one investment confirmation;
- Review of the minimum revenue provision (MRP);
- Receipt of management representation letter;
- Review of the final set of financial statements; and
- Consideration of any post balance sheet events that arise prior to the sign off date

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

Our anticipated financial statements audit report opinion will be unqualified. We anticipate signing your accounts in October 2024 once sufficient work has been completed in the Value for Money work such that the Key Audit Partner and Audit Manager are able to review the key work and conclusions formed in that piece of work.. The VFM audit is currently in progress, and we will take our Auditor's Annual Report to the next meeting of the Audit, Standards & General Purposes Committee. More extensive work around the risks of significant weakness and financial sustainability is being carried out, which has required additional meetings with senior management and further work by our VFM audit team members.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are 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

Our work on the Council's value for money (VFM) arrangements will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). The VFM audit is currently in progress, and we will take our report to the Audit, Standards & General Purposes Committee in the near future. More extensive work around the risks of significant weaknesses and financial sustainability is being carried out, which has required additional meetings with senior management and further work by our VFM audit team members.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code, however we will not be able to certify the completion of the audit when we give our audit opinion as this is likely to occur before we finalise our Auditor's Annual Report for Value for Money. The Auditor's Annual Report must be finalised as a draft within 30 days of us giving our audit opinion on the financial statements. We will certify the completion of the audit on finalisation of the Auditor's Annual Report.

Significant matters

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

Newly Emerging Issue at September 2024

As at September, an emerging issue around pensions has been raised regarding the IFRIC 14 calculation of the asset ceiling and the impact of secondary contributions within the calculation, and whether these have been considered in the calculation in perpetuity or on a finite funding basis. We have discussed this with your finance team and we are carrying out further discussion and investigation with the Council's actuarial expert in order to understand whether this could indicate that the current calculation of the asset ceiling in the draft 23/24 financial statements (and potentially the calculation of the prior year asset ceiling) is misstated and by what amount. We will update members on this verbally at the Committee meeting.

1. Headlines

National context – level of borrowing

All Councils continue to operate in an increasingly challenging financial 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 in excess of their revenue budgets to finance these investment schemes. Additionally, we have also seen some authorities lending money to their subsidiary companies, which may not be in a position to repay those loans.

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. Borrowing levels have not been identified as a specific risk area for the Council. Financial sustainability, more generally, has however been identified as a risk of significant weakness for the VFM audit. The VFM audit is currently in progress, and we will take our report to the Audit, Standards & General Purposes Committee in the near future.

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 and will be discussed with the Audit, Standards & General Purposes Committee.

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 have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Standards & General Purposes Committee meeting on 24 September 2024. We plan to issue the opinion in October 2024 following our review of the VFM audit findings.

The outstanding items, referred to above, include:

- Completion of audit manager and engagement lead reviews;
- Completion of land and buildings valuation testing, including a review of assets not revalued;
- Receipt of one investment confirmation;
- Receipt of management representation letter;
- Review of the minimum revenue provision (MRP)
- Review of the final set of financial statements; and
- Consideration of any post balance sheet events that arise prior to the sign off date

Acknowledgements

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

2. Financial Statements

Our approach to materiality

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

We have revised our materiality, performance materiality and triviality figures, communicated in the Audit Plan at the Audit, Standards & General Purposes Committee in June 2024.

We have revised the materiality, performance materiality and triviality from that reported in the Audit Plan. This is due to the actual gross expenditure changing significantly from the 2022/23 gross expenditure, which was used at the planning stage to determine the materiality, performance materiality and triviality reported in the Audit Plan.

We set out, in this table, our determination of materiality for Brighton and Hove City Council.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	14,950,000	In determining materiality, we have considered the following 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. However, in recent years, government policies have reduced the funding available, increasing the financial pressures on the Council. - Control environment: the risk assessment 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	11,200,000	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 of adjustments or deficiencies identified.
Trivial matters	745,000	Triviality is set at 5% of the overall materiality
Materiality for Cash	5,600,000	Cash is sensitive and so we have opted for a lower level of materiality (50% of our performance materiality)

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.

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Risks identified in our Audit Plan	Commentary
ISA 240 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. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. In the Audit Plan, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. There have been no changes to our assessment as reported in the Audit Plan. To gain assurance over revenue, we: • Tested a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year. • Performed testing over post year-end receipts to assess completeness of revenue and receivables recognition. **Identified misstatements relating to revenue recognition have been detailed in Appendix D. We will conclude on our testing of revenue recognition following the senior management quality review as set out on page 4.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Fraudulent expenditure recognition	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). Having considered the risk factors relevant to the Council and the relevant expenditure streams, we determined that no separate risks relating to expenditure recognition were necessary, as the same rebuttal factors listed on page 9 relating to revenue recognition apply. Given that the Council is facing financial pressures that are ongoing over multiple years, the risk of fraudulent expenditure recognition is not relevant or significant. The Council's 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. We considered that any risk relating to expenditure recognition would likely relate to period-end journals and accruals which have been considered as part of the audit tests which we have tailored against the specific risks for this Council, and in our testing in relation to the significant risk of management override of controls set out below. In summary, we are satisfied that this did not present a significant risk of material misstatement in the 2023/24 accounts as: • We consider the control environment around expenditure recognition 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. There have been no changes to our assessment as reported in the Audit Plan. To gain assurance over expenditure, we: • Tested a sample of operating expenses to gain assurance over the accuracy and occurrence of expenditure recorded during the financial year. • Performed testing over post year-end transactions to assess completeness of expenditure recognition. • Discussed with management whether an equal pay provision should be recognised, following review of local media reports. We concluded insufficient information has been made available to the Council on the reported equal pay claim as at the date of the conclusion of our audit, and as such this does not meet the recognition criteria for a provision under IAS37. The Council includes a general contingent liability for legal cases, and we are satisfied based on the lack of detailed information that this is currently sufficient. **Identified misstatements relating to expenditure recognition have been detailed in Appendix D. We will conclude our testing of expenditure recognition following the senior management quality review, as set out on page 4.**
Management override of controls	Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement. There have been no changes to our assessment as reported in the Audit Plan. We undertook the following procedures: • Evaluated the design effectiveness of management controls over journals • Analysed the journals listing and determined the criteria for selecting high risk unusual journals • Identified and tested journals we considered to have the greatest risk of material misstatement or from our data analytics Journals that were identified to be unusual. We then tested these Journals for appropriateness and corroboration to evidence. • Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness **Our audit work has not identified any issues in respect of management override of controls, but this remains subject to completion of the senior management quality review as set out on page 4.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings and investment properties	The Council revalues 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 Authority'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 heritage assets and 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. We undertook the following procedures: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation experts. • Discussed with, and wrote to, the valuers to confirm the basis on which the valuation was carried out. • Engaged our own valuer expert to provide commentary on: the instruction process in comparison to requirements from CIPFA/IFRS/RICS (Royal Institute of Chartered Surveyors); and the valuation methodology and approach, resulting assumptions adopted and any other relevant points. • Challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding. • For Land and Buildings: Recalculated the valuations, testing key inputs including BCIS rates, floor areas, obsolescence and other assumptions used in both Depreciated Replacement Cost and Existing Use Valuations. We also considered the appropriateness of each method to determine the assets valuation. • For Council Dwellings: Reviewed and tested a number of assets back to market data for properties in that area and tested the appropriateness of the beacon applied. • For Investment Properties: Recalculated the valuations, testing key inputs including yields applied, rental information used, and all other key assumptions applied in the valuers' calculations behind the asset's valuation. • Tested revaluations made during the year to see if they have been input correctly to the Council's asset register. • Confirmed the material accuracy of the carrying value, from the current value, of assets not revalued at 31 March 2024 through an indexation exercise using market data. **Our valuations work is not yet finalised. At this stage, the most significant matter identified within our Property, Plant and Equipment (PPE) work relates to the material, adjusted impairment for several council dwelling assets. We also found several presentation and classification errors in the PPE notes, a capital payable which had been not accrued for and we have raised a control deficiency relating to the reporting of the Kingsway to the Sea project. Refer to detail of these findings in Appendix D.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the net pension fund liability/asset	The pension fund net liability, as reflected in the Council's balance sheet as the "net liability/asset on defined pension scheme", represents a significant estimate in the financial statements. 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. We therefore identified valuation of the Council's pension fund net liability/asset as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their conclusion of the net pension liability/asset. We undertook the following procedures: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability/asset is not materially misstated and evaluated 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 liability. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertook 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. • Obtained 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; • Completed 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. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). The source data used by the actuaries to produce the IAS 19 estimates is provided by administering Authority's and employers. We verified that this source data was accurate. **Our audit work has not identified any issues in respect of the net pension fund liability but remains subject to completion of the senior management quality review as set out on page 4.**

2. Financial Statements: new issues and risks

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 and a summary of any significant deficiencies identified during the year.

Issue	Commentary and Auditor View
Large Panel System (LPS) Council Dwellings	Eight Large Panel System blocks across Brighton & Hove City Council have had surveys undertaken that have indicated that major works are required for compliance regarding Health & Safety, Building Safety and Fire Safety. The Council have identified that there are a number of routes that they can take to ensure compliance and as a result are unable to quantify, with any accuracy, the future costs and timings that will result from this work. The Council is establishing a strategic group to plan the future works, and immediate safety measures. The measures implemented thus far include 24-hour security and the banning of combustible items. We identified that this new information would impact the valuation of the eight buildings at 31 March 2024, as well as for prior periods, representing an adjusting post balance sheet event. We engaged with management and the council's external valuer, who explained that in the absence of known costs or timeframes for the remediation works, it is very difficult to determine a revised valuation. The remediation works would likely be complex and require internal disturbance. The valuer and management agreed that this is likely to be a multi-year programme of work, with the scope of work still evolving. The valuer explained that the current measures of security, and banning of items within the buildings, adds to the picture of this being a significant matter, where costs and timeframes are currently not possible to accurately estimate. The valuer reached the conclusion that if asked to value these assets again, there would not be enough information available to provide a value other than nil. This constitutes both an adjusting post balance sheet event (an event that is indicative of conditions that existed at the balance sheet date and therefore would require adjustment in the accounts), and a prior-period adjustment (PPA) due to the panel systems being present in previous years. As such, management have agreed to impair these eight buildings to nil, with effect being from the prior-period presented in the financial statements, and with a "third" balance sheet being presented in line with IFRS/the Code. Given that works will be required in future periods to ensure that these assets are compliant with safety standards, we challenged management as to whether a provision should be disclosed in the accounts. We concluded that as the Council cannot quantify the present obligation with any accuracy, this does not meet the IAS 37 definition of a provision, and instead meets the criteria of a contingent liability. As such, management will disclose this in Note 19. We have reviewed the proposed wording of the contingent liability, and we are satisfied that it is reasonable, accurate and provides sufficient information to users of the accounts. As the situation develops, and the Council's plans and expected costs can be estimated more reliably, it is likely that we will revisit the valuation of these assets, and the assessment as to whether the criteria for a provision is met. **Refer to Appendix D for detail of the adjustments management are making with respect to this.**

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £761.4m Investment Property valuations - £49.8m	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, not specialised in nature, 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 2024 on a five yearly cyclical basis. 59% of total land and buildings, and investment properties, were revalued during 2023/24. The Council produce an impairment statement and market review as part of their assessment of assets which may be impaired as at 31 March 2024 under the requirements of IAS 36. The Council also produced working papers showing the estimated valuation movements for assets not valued at 31 March 2024 from the last date of valuation. Management assets that these assets could be £26m greater than their carrying value in the balance sheet as at 31 March 2024. The total year-end valuation of land and buildings was £761.4m, a net decrease of £2.1m from 2022/23. The total year-end valuation of investment properties was £56.4m, a net decrease of £6.6m from 2022/23.	We undertook the following procedures: • We are reviewing the completeness and accuracy of the underlying information used to determine the valuation. This included testing accuracy of floor areas to plans provided to the valuer and testing of obsolescence and build cost assumptions. 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, and any assumptions made in respect of local factors; • We are satisfied that the Council's expert is objective, competent and knowledgeable in their field of expertise; • We have reviewed the impact of any changes to the valuation method and incorporated this into our sample selection; • We have reviewed the consistency of valuations against our auditor's expert market trend report and adequacy of disclosure in the financial statements; • We engaged an auditor's expert to help assess the Council's valuation reports for land and building and investment property assets and used our expert to assess the method and assumptions. • We evaluated management's assessment of those assets not revalued in the year. We made our own assessment of the potential value of these assets at 31 March 2024. **Our audit work is ongoing on these estimates and so we cannot draw a conclusion at this stage.**	Our audit work is ongoing and so we cannot yet conclude on these estimates. **However, our assessment to date is that management's process is appropriate and key assumptions are neither optimistic or cautious.**

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] 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
Council Dwellings valuations - £1,056.7m.	The Council owns 12,309 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The year-end valuation of Council Dwellings was £1,056.7m, a net increase of £46.5m from 2022/23. The Council measures its dwellings at fair value, determined using the basis of existing use value for social housing, and is revalued on a cyclical approach using the Beacon methodology. The Council has appointed an external valuer to carry out this work.	We undertook the following procedures: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Discussed with, and wrote to, the valuer to confirm the basis on which the valuation was carried out. • Engaged our own valuer expert to provide commentary on: the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and the guidance regarding the valuation of council dwellings and social housing. • Reviewed and tested a number of assets back to market data for properties in that area. • Reviewed a sample of assets to test the appropriateness of the Beacon applied as well as undertaking existence testing of a sample of assets. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. **Our valuations work is not yet finalised. At this stage, the most significant matter identified within our work relates to a material, adjusted impairment for several council dwelling assets. Refer to detail of this finding in Appendix D.**	Our audit work is ongoing and so we cannot yet conclude on these estimates. **However our assessment to date is that management's process is appropriate and key assumptions are neither optimistic or cautious.**

Assessment

- [Red] 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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2. Financial Statements: key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management’s approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td> Net pension liability – £22.9m 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. 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. </td>
<td> The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentation requirement of IAS 19 Employee Benefits. The Council uses Barnett Waddingham to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in April 2023. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £9.5m net actuarial loss during 2023/24. The actuary determined a net asset of £213.4m. An asset ceiling of £236.3m was then applied, to determine a net liability of £22.9m. This is in-line with IFRIC 14 guidance. </td>
<td> We undertook the following procedures:

We assessed management’s actuarial expert and concluded that they are competent, capable and objective in producing the estimate;
We carried out analytical procedures to conclude whether the Council’s share of LGPS pension assets and liabilities were reasonable. We concluded that the Council’s share of assets and liabilities was analytically in-line with our expectations;
We are awaiting assurance from the auditor of East Sussex Pension Fund as to the controls over the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Pension Fund and the fund assets valuation in the Pension Fund financial statements;
We 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 the information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable;
The auditors’ expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management’s expert. As set out below, all assumptions were within the expected range or explained by management to a sufficient degree.

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>4.90%</td><td>4.80-4.95%</td><td>●</td></tr>
<tr><td>Pension increase rate</td><td>2.95%</td><td>2.85-3.00%</td><td>●</td></tr>
<tr><td>Salary growth</td><td>2.95%</td><td>3.95%</td><td>Challenged, and satisfied that this is reasonable</td></tr>
<tr><td>Life expectancy – Males currently aged 45/65</td><td>21.9/20.9 years</td><td>20.6 - 23.1 / 19.2 - 21.8 years</td><td>●</td></tr>
<tr><td>Life expectancy – Females currently aged 45/65</td><td>25.4/23.8 years</td><td>20.6 - 23.1 / 19.2 - 21.8 years</td><td>●</td></tr>
</table>
</td>
<td>No issues identified</td>
</tr>
</table>

Assessment

- ● [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Amber] 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
- ● [Green] We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £12.6m	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. The year end MRP charge was £12.6m, a net increase of £1.4m from 2022/23.	We are currently completing our work on reviewing your estimate of MRP to conclude: • whether the MRP has been calculated in line with the statutory guidance • whether the Council's policy on MRP complies with statutory guidance. • assess whether any changes to the Council's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council • reasonableness of the increase in MRP charge Following consultation MHCLG have clarified and updated the regulations and the statutory guidance for minimum revenue provision. Although these take full effect from April 2025 , the consultation highlighted that the intention was not to change policy, but to clearly set out in legislation the practices that authorities should already be following. This guidance clarifies that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted from the calculation unless exempted by statute.	Our audit work is ongoing and so we cannot yet conclude on these estimates. **However, our assessment to date is that management's process is appropriate and key assumptions are neither optimistic or cautious.**

23

Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] 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
Expected Credit Loss - £26.5m	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. The attraction soon encountered financial difficulty, principally due to lower-than-expected visitor numbers and was unable to make payments under the loan agreement. 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 £26.5m as at 31 March 2024. This is an increase of £14.8m from the prior year.	As part of our independent work to gain assurance over the appropriate impairment loss being charged against an outstanding debtor, we have reviewed the ECL estimate and concluded on: • The appropriateness of he underlying information used to determine the estimate; • The reasonableness of the increase in the estimate; • The adequacy of the disclosure of the estimate in the financial statements. We are satisfied that the ECL estimate has been valued to a materially accurate degree.	No issues identified

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Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] 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	●	●	●	●	We have not identified any deficiency in the design effectiveness of the IT application.
NEC (formerly Northgate)	ITGC design assessment	●	●	●	●	We have not identified any deficiency in the design effectiveness of the IT application.
iTrent	ITGC design assessment	●	●	●	●	We have not identified any deficiency in the design effectiveness of the IT application.
Carefirst	ITGC design assessment	●	●	●	●	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: Digital Audit

We have invested significantly in our digital tools and our audit approach is underpinned by a suite of tools, enabling us to capture and analyse the detailed data contained within the general ledger. This supports more efficient and effective testing, with a focus on higher risk areas and unusual transactions. The ability to obtain full ledger data quickly and effectively is key to the progress of audit work, as is documentation of the Council's methodology for mapping code structures to the financial statements and use of off-ledger adjustments. Difficulties and delays in obtaining data adversely impact on the scheduling and delivery of the audit and it is important that management engage with the audit teams to understand the requirements for data transfer, providing a clearly documented understanding of how financial statement entries are produced from underlying ledger and a timetable for doing so.

We requested several reports/documents from the Council to aid with this and these are summarised in the table below along with comments on delivery.

Document requested	Date requested	Date received	Comments
Closing trial balance for 2022/23	24th June 2024	13th June 2024	The Council delivered the core financial statement working papers ahead of time, with the information being clear and appropriately formatted. This supported efficient and effective testing.
Opening trial balance for 2023/24	24th June 2024	13th June 2024	
Closing trial balance for 2023/24	24th June 2024	13th June 2024	
All general ledger transactions during 2023/24	24th June 2024	13th June 2024	
Mapping between the trial balance and the financial statements for 2023/24	24th June 2024	13th June 2024	
Draft accounts for 2023/24	24th June 2024	13th June 2024	

2. Financial Statements: other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Standards & General Purposes Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to relevant Investments and borrowings held with third parties. This permission was granted, and the requests were sent out. All, but one, requests have been received. We are currently chasing the outstanding response and expect to receive this before the end of September.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review has identified several disclosure misstatements/discrepancies, which have been summarised in Appendix D. Management have agreed to amend all matters identified in the accounting policies, accounting estimates and financial statement disclosures.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements

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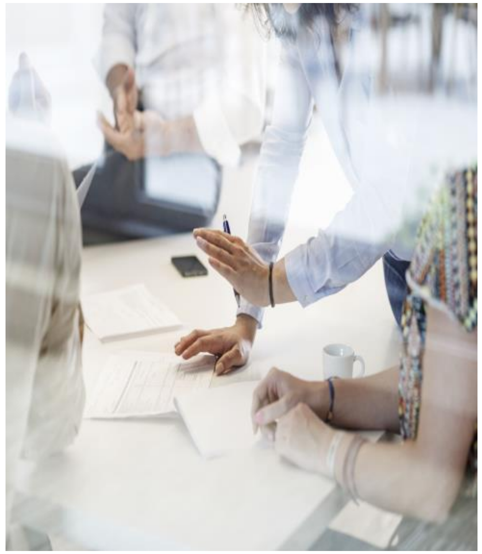
Our responsibility

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	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. 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: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. Given the financial challenges that the Council currently faces, and the significant weakness in arrangements identified within financial sustainability since the 2021/22 audit, we have carried out some enhanced procedures to gain assurance that there is no material uncertainty related to going concern. These procedures have included a more detailed review of cash flow projections, as well as sensitivity analysis and stress testing of assumptions made within the Medium-Term Financial Plan. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified thus far, however subject to completion of the outstanding audit procedures detailed on page 4. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on the first two matters. Regarding the VFM work, more extensive work around the risks of significant weaknesses and financial sustainability is being carried out, which has required additional meetings with senior management. The VFM work is in progress, and our detailed commentary will be set out in the separate Auditor's Annual Report, which will be presented at the Audit, Standards & General Purposes Committee in the near future.
Specified procedures for Whole of Government Accounts	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 certify the closure of the 2023/24 audit of Brighton and Hove City Council on completion and reporting of the Auditor's Annual Report for Value for Money arrangements at the Council.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2023/24

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

The VFM work is in progress, and our detailed commentary will be set out in the separate Auditor's Annual Report, which will be presented at the Audit, Standards & General Purposes Committee in the near future.

As part of our work, we are considering whether there were any significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

More extensive work around the risks of significant weaknesses and financial sustainability is being carried out, which has required additional meetings with senior management.

4. Independence considerations

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers). In this context, we disclose the following to you:

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 E.

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.

4. Independence considerations

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 Council or investments in the Council 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

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4. Independence considerations

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. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Standards & General Purposes Committee.

None of the services provided are subject to contingent fees.

Service	Fees	Threats identified	Safeguards
Non-audit related			
Certification of Housing Benefits	£34,283	Self-Interest (because this is a recurring fee) Self-review (because GT provides audit services) Management threat (if GT were to recommend a particular action or make a decision on behalf of management)	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 £34,283 in comparison to the total fee for the audit of £442,676 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. 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. The scope of this work does not include making decisions on behalf of management or recommending a particular course of action.
Certification of Teachers Pension Return	£12,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) Management threat (if GT were to recommend a particular action or make a decision on behalf of management)	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 £442,676 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. 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. The scope of this work does not include making decisions on behalf of management or recommending a particular course of action.
Homes England Compliance	£12,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services) Management threat (if GT were to recommend a particular action or make a decision on behalf of management)	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 £442,676 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. 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. The scope of this work does not include making decisions on behalf of management or recommending a particular course of action.

Appendices

A. Communication of audit matters to those charged with governance

B. Action plan – Audit of Financial Statements

C. Follow up of prior year recommendations

D. Audit Adjustments

E. Fees and non-audit services

F. Auditing developments

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. Action Plan – Audit of Financial Statements

We have identified 1 recommendation for the Council as a result of issues identified during the audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2024/25 audit. The matters reported here are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	Reporting of Kingsway to the Sea Capital Project We identified some weaknesses in management's accounting for, and reporting of, the Kingsway to the Sea capital programme. We noted several classification issues related to this programme. Firstly, capital expenditure was recorded to the Infrastructure asset class despite the assets not being operational. Whilst not material, these were still significant sums of money, thus creating a risk of material misclassification in future periods. Further, we identified one instance where an invoice for KttS works received in 2023/24 was not accrued for in the correct period. Multiple instances of misstatement under the same project has driven our control recommendation.	We would recommend that management review the process in which the reporting of events/transactions for significant capital programmes is carried out. We would recommend management corroborate the classification of all capital programme spend (where above a reasonable threshold) to asset class definitions as per the Code. We would also recommend management perform a review of all invoices received after year-end (up to a reasonable date, and above a reasonable threshold) to assure themselves that all significant accruals have been captured in the accounts. **Management response** There have been a number of contractual issues relating to the final stages of these works which have drawn the attention of management and reduced the capacity for oversight of other aspects of the contract. However, we will re-issue guidance to all capital scheme contract managers and remind them of the need to classify and code expenditure correctly and to alert Finance contacts where there is a backlog of analysis and review of expenditure. We will undertake a review of all 'non-trivial' capital expenditure (i.e. greater than £745,000) for construction projects to identify any other potential areas of misclassification or incorrect coding practice.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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C. Follow up of prior year recommendations

We identified the following issues in the audit of Brighton and Hove City Council's 2022/23 financial statements, which resulted in 7 recommendations being reported in our 2022/23 Audit Findings report. We are pleased to report that management have implemented the majority of our recommendations, and that the remaining recommendations are low risk.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Reclassification in the CIES Where there are reclassifications of amounts in the CIES, the accounts should disclose the amount of each item/class of items which are reclassified. In the prior-year, the Council had restated the prior-year so that both years were comparable, but we recommended that any changes in future years are fully disclosed in-line with the CIPFA Code.	There were reclassifications, which gave rise to significant variances in the CIES between 2023/24 and 2022/23. In the draft accounts, these were not explained, but management have agreed to include a disclosure to give further information. We are satisfied that management are now addressing these reclassifications with sufficient detail but would recommend management consider this ahead of producing the draft accounts.
✓	Expenditure and Funding Analysis There were discrepancies in the prior-year between the EFA note and the outturn report as per the Narrative Report. We recommended that the Council employs a consistency check between these figures for future periods.	No issues were noted on this in the 2023/24 accounts.
X	Capital Financing Requirement (CFR) Paragraph 90 of the Prudential Code states that there should be no difference when using the CIPFA balance sheet checker to determine the CFR. There was a £2.4m difference on this checker. We recommended that management reviews the balance sheet checker in future years to ensure it agrees to the CFR.	A historical issue remains within the Capital Financing Requirement, for the amount of £966k (see Appendix D).
✓	Critical Judgements and Assumptions Made We recommended management ensure the Critical Judgements and Assumptions note is compliant with the CIPFA Code.	No issues were noted on this in the 2023/24 accounts.
✓	Related Parties There were over disclosures in the Related Parties note in 2022/23 which we deemed "crowded out" the relevant information. We recommended that management streamline the Related Parties note.	No issues were noted on this in the 2023/24 accounts.
✓	Overpayment of a staff member We recommend that the Council ensures the changes in circumstances for employees go through the appropriate process, and that controls are implemented as designed.	No issues were noted on this in the 2023/24 accounts.
✓	Collection Fund Statement We recommended management ensure the Collection Fund statement note is compliant with the CIPFA Code section 3.4.2.31.	No issues were noted on this in the 2023/24 accounts.

Assessment

✓ Action completed   X Not yet addressed

D. 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 2024.

Detail	CIES £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000
Large Panel System Asset Impairment As documented in further detail on page 13, several council dwellings containing large panel systems, were deemed non-compliant with Health & Safety standards. We concluded that this information would impact the valuation of the eight buildings at 31 March 2024, as well as for prior periods, representing an adjusting post balance sheet event. We engaged with management and the council's external valuer, who explained that in the absence of known costs or timeframes for the remediation works, the best course of action was to revise the asset valuation to nil. As this is a prior-period adjustment, it will be required to be transacted in the prior-period opening PPE and reserves balances (at 1 April 2022) and so there is no impact on the CIES arising from the impairment for the 2023/24 or 2022/23 balances. The £29,006k impairment to PPE represents the carrying value of the assets at 1 April 2022. The £1,300k debit to revaluation reserve represents the balance of the reserve at 1 April 2022, and the £27,706k to the CAA reflects the balancing figure. The impact on the net assets on the Balance Sheet is, thus, a reduction of £29,006k.	Nil	Dr Revaluation Reserve **1,300** Dr Capital Adjustment Account **27,706** Cr PPE **29,006**	Nil	Nil
Overall impact	£nil	£nil	£nil	£nil

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D. 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 2024.

Detail	CIES £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000
Misclassification between 'Changes in the Fair Value of Investments Properties' and 'Economy, Environment and Community (EEC)' service line Two account codes, that should have been recorded to the 'Changes in the Fair Value of Investment Properties' were mistakenly mapped to the EEC service line	Dr EEC Income **1,991** Cr Changes in FV of IP **1,991**	Nil	Nil	Nil
Misclassification between 'Health & Adult Social Care' service line and 'Non-ring-fenced government grants' Three account codes, that should have been recorded to the 'Non-ring-fenced government grants' were mistakenly mapped to the HASC service line	Dr HASC Income **1,903** Cr Non-ring-fenced grants **1,903**	Nil	Nil	Nil
Misclassification between Fees, Charges and Other Service Income and Other Services Expenditure It was identified that several transactions (totalling £1,080k) recorded to Fees, Charges and Other Service Income should have been recorded to Other Services Expenditure.	Dr Fees, Charges & Other Service Income **1,080** Cr Other Services Expenditure **1,080**	Nil	Nil	Nil
Incorrect Accounting for Revaluation Movements of Land and Buildings We have noted that the revaluation movements charged to revaluation reserve and CIES do not reconcile with the fixed asset register.	Cr Gain on Revaluation **9,719**	Dr Revaluation Reserve **9,719**	**Cr 9,719**	**Dr 9,719**
Overall impact	**Cr £9,719**	**Dr £9,719**	**Cr £9,719**	**Dr £9,719**

D. Audit Adjustments

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	Adjusted?	Reason for not adjusting
Presentational errors within Note 10 We have identified several presentation errors within the PPE Note. These are: - Inconsistencies within the transactions in respect of the surplus/deficit on revaluation for Council Dwellings - Omission of the depreciation written out line from the Note, and associated reclassifications between other lines - Omission of the 'Assets reclassified within PPE' line, and associated reclassifications between other lines - Infrastructure assets, and associated NBV movements, should be presented separately from the PPE Note in-line with the temporary relief offered by the CIPFA Code	✓	Not applicable
Amendment of Accounting Policies – Capitalisation of Proceeds Management informed us, during our work in the disposals testing, that the policy regarding the "capitalisation of proceeds from sale of assets" had changed to a threshold of £20k (compared with £10k in the prior-year). Effectively, only proceeds > £20k for the sale of PPE and Investment Property are now taken to the capital receipts reserve.	✓	Not applicable
Exit Packages Bandings The distribution of the bandings in the exit packages were not compliant with the CIPFA Code. A band of £100k - £350k was presented. This should be presented in bands of £50k.	✓	Not applicable
Voluntary Aided Schools Employee Expenditure The CIPFA Code requires that material employee costs for voluntary aided schools is split out on the I&E by Nature note (Note 6). As such, management are disaggregating out £34,476k in Note 6 (PY: £32,331k).	✓	Not applicable
Several presentational/formatting adjustments We have carried out a consistency review of the financial statements. Several small errors have been noted which have been amended by management.	✓	Not applicable
Several amendments to the Senior Officer Remuneration note Amendments to the pension contributions and salary costs for several senior officers will be made to Note 21. These arose from clerical errors.	✓	Not applicable
Explanation for material movements in the CIES The material movements between the Families, Children and Learning and Health & Adult Social Care largely relate to Adult Learning Disability cost centres which were part of FCL for the whole of 2022/23 but then reclassified to HASC from 1 April 2023. Management will include a statement below the CIES to explain this.	✓	Not applicable

D. Audit Adjustments

Disclosure/issue/Omission	Adjusted?	Reason for not adjusting
Several amendments to the Estimation Uncertainty and Critical Judgements Note (Note 3) We have identified several disclosure errors within Note 3. These are: - Coast to Capital not meeting the criteria of a critical judgement - A reference to IFRS 10 when assessing the group relationship for Homes for the City of Brighton & Hove LLP (this is not the appropriate standard) - Investment properties not meeting the criteria of an area of estimation uncertainty - Insufficient information regarding the uncertainty between the Revaluation Reserve and Capital Adjustment Account	✓	Not applicable
Amendment of Accounting Policies – Pensions The accounting policy regarding the accounting of contributions to the pension scheme was not compliant with the CIPFA Code or the statutory adjustments. We understand that this was only in the narrative of the policy, and not actually how the pension adjustments were being recorded.	✓	Not applicable
Amendment of Accounting Policies – De minimis for PPE The accounting policy for capitalisation of land and buildings and vehicles, plant and equipment stated that a £20,000 de minimis was applied. This was not the case, and thus management agreed to remove the policy. Further, a de minimis for componentisation of assets of £10m was described in the accounting policies note, which was also not being adopted. Management will be removing this from the accounts.	✓	Not applicable
Contingent Liability – Large Panel System Council Dwellings Works associated with the large panel system council dwellings (see page 13) will be required in future periods. As the Council cannot quantify the obligation with any accuracy, they have decided to include a contingent liability for it in the accounts.	✓	Not applicable
Bad Debt Provision Disclosure The total bad debt provision as disclosed in Note 12 omitted elements of the i360 loan bad debt provision. The long-term bad debt provision was misstated by £15.188m which management have agreed to amend.	✓	Not applicable
Presentation of Financial Instruments Note Management returned to the former disclosure (as in the 2022/23 accounts) of not splitting out Cash and Cash Equivalents for 23/24 in the financial assets. Management confirmed they would revise this for the 2023/24 accounts and will split out cash from the ST investments.	✓	Not applicable
MiRS - Capital Financing Requirement There is a difference of £966k reported on 'capital financing requirement'. This is due to the historic adjustments on HRA Non-Current assets and application of capital grant.	X	Immaterial

D. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the final set of financial statements. The Audit, Standards & General Purposes Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	CIES £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000	Reason for not adjusting
Completed AuC Project not Transferred to Council Dwellings The Council have accumulated construction costs of £23,923k related to 3 blocks in Coldean Lane. In the preparation of the accounts, the Council have been informed that 2 out of the 3 blocks had been completed during the year. As a result, they have transferred 2/3 of the total construction costs incurred out of AuC to Council Dwellings. The related Council Dwellings were then revalued at their EUV-SH at year-end. The remaining 1/3 of the costs remained in AuC at year-end. However, further information after the preparation of the accounts came to light which confirms that the final block had also been completed during the year. As a result of this information, the £7,974k construction cost sitting at AuC at the end of the year is incorrect as the asset had become operational during the year. Additionally, the amount that was transferred to Council Dwellings would have been revalued to their EUV-SH at year-end. Based on Beacon values, we determined the valuation loss to be £3,559k.	Dr Loss on Revaluation 3,559	Dr PPE (Council Dwellings) 7,974 Cr PPE (AuC) 7,974 Cr PPE (Council Dwellings) 3,559	Dr 3,559	Cr 3,559	Immaterial
Misclassification of Kingsway to the Sea Capital Expenditure We identified a misclassification error within our additions testing, whereby additions to AuC were understated and Infrastructure assets were overstated by £6,341k. Further, due to capital spend being inappropriately allocated to Infrastructure in prior-periods, there is a further £1,388k that has been overstated in the Infrastructure class that should be in the AuC class. As such, the total misclassification is £7,729k (AuC understated, Infrastructure overstated).	Nil	Dr PPE (AuC) 7,729 Cr PPE (Infrastructure) 7,729	Nil	Nil	Immaterial
Completeness Expenditure: Omission of Capital Accrual Management failed to identify a capital accrual relating to the Kingsway to the Sea Project. An invoice, for the amount of £1,762k should have been accrued for in 2023/24, but was omitted.	Nil	Dr PPE (AuC) 1,762 Cr Payables 1,762	Nil	Nil	Immaterial

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D. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2023/24 audit which have not been made within the final set of financial statements. The Audit, Standards & General Purposes Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	CIES £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000	Reason for not adjusting
Large Panel System Asset Impairment – Gross Book Value Transactions Transactions recorded against the LPS assets (now fully impaired) in 2023/24 resulted in a decrease in their gross book value of £484k. Due to these assets now having been impaired to nil, via a prior-period adjustment, these transactions would need to be reversed. The reduction in the GBV of £484k was made up of: **Gross Book Value Adjustments:** - Additions of £1,924k - Revaluation gain of £167k - Revaluation loss to the CIES arising from adjustment of GBV of £1,474k - Revaluation loss to the Revaluation Reserve arising from adjustment of GBV of £1,101k We verified that the prior-year (2022/23) impact would be: - £1,766k net loss on the CIES - £116k gain in the Revaluation Reserve We are satisfied that the cumulative impact of these 2022/23 unadjusted misstatements is immaterial on the 2023/24 accounts.	Dr CIES (Additions impairment) 1,924 Dr CIES (Reversal of Reval gain) 167 Cr CIES (Reversal of Reval loss) 1,474	Cr PPE (Additions) 1,924 Cr PPE (Reval gain) 167 Dr PPE (Reval loss to CIES) 1,474 Dr PPE (Reval loss to RR) 1,101 Cr Revaluation Reserve 1,101	Dr 617	Cr 617	Immaterial
Large Panel System Asset Impairment – Accumulated Depreciation Transactions Reversing the transactions associated with depreciation recorded against the LPS assets in 2023/24 would have the following impact: **Adjustments for Accumulated Depreciation:** - Depreciation charge to CIES of £483k - Revaluation loss to the Revaluation Reserve arising from adjustment of AD of £367k - Revaluation loss to the CIES arising from adjustment of AD of £116k We verified that the prior-year (2022/23) impact would be: - £464k net loss on the CIES - £934k loss in the Revaluation Reserve We are satisfied that the cumulative impact of these 2022/23 unadjusted misstatements is immaterial on the 2023/24 accounts.	Cr CIES (Depreciation expense) 483 Dr CIES (Reversal of AD) 167	Dr PPE (Reversal of depreciation) 483 Cr PPE (Reversal of AD write back) 167 Dr Revaluation Reserve (Reversal of AD write back) 116 Cr PPE (Reversal of AD write back) 116	Cr 316	Dr 316	Immaterial
Overall impact	Dr £4,492k	Cr £4,492k	Dr £4,492k	Cr £4,492k	

D. Audit Adjustments

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Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2022/23 financial statements. Satisfied where this is considered alongside any adjusted misstatements from the current year that these could not be cumulatively material.

Detail	Comprehensive Income and Expenditure Statement £000	Balance Sheet £000	Impact on total net expenditure £000	Impact on general fund £000	Reason for not adjusting
Land and Buildings Not Revalued We estimated that for the portfolio of land and building assets which had not been revalued at 31 March 2023, there would be a net impact of £3.725m on the balance sheet if these were revalued at 31 March 2023.	**This is not an error that would carry forward into the 2023/24 financial statements. We have carried out an updated review of assets not revalued at 31 March 2024 and reported our conclusions in the previous tabs.** Management did not adjust in the prior-year due it being not material.				
Investment Properties In our review of the Investment Properties disclosures in the 2022/23 accounts, it was identified that £698k, which should have been classified within the changes to the fair value of investment properties (financing and investment income and expenditure) was in fact classified within cost of services	Dr Changes to the Fair Value of Investment Properties £698k Cr Cost of Services (£698k)	Nil	Nil	Nil	Not material
Overall impact	£nil	£nil	£nil	£nil	

E. Fees and non-audit services

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

Audit fees	Proposed fee
Scale fee	£418,126
Additional audit risk assessment and business process documentation related to ISA 315	£12,550
Use of external audit valuation expert	£7,000
Additional fee in respective of audit work on LPS asset valuations	£5,000
Total audit fees (excluding VAT)	**£442,676**

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Non-audit fees for other services	Proposed fee
Certification of Housing Benefits	£34,253
Teachers Pensions return certification	£12,500
Total non-audit fees (excluding VAT)	**£46,753**

The fees reconcile to the financial statements, after adjustment of the additional £5,000 charged for the LPS asset valuation issues, and an increase from £3,000 to £7,000 for our use of the external audit expert. Work has not yet been completed with our external valuation expert, and so the total is to be confirmed. We have included this as an audit adjustment in Appendix D.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

Grant Thornton

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