Grant Thornton

The Audit Plan for Brighton and Hove City Council

Year ending 31 March 2025

22 April 2025

Contents

01 Key developments impacting our audit approach

Local Government Reorganisation

External factors

English Devolution White Paper

On 16 December 2024 , the Secretary of State for Housing, Communities and Local Government, Angela Rayner, Presented to Parliament the English Devolution White Paper.

The White Paper sets out the direction of travel for the devolution of power across England. Devolution is seen by the government as being fundamental in achieving the change the public expect and deserve. The government's aim is for devolution to promote growth, a joined-up delivery of public services, and politics being done with communities, not to them. England is one of the most centralised countries in the developed world. The goal is universal coverage of strategic authorities in England.

Strategic authorities will be a combination of pre-existing Combined Authorities and Mayoral Strategic Authorities (MSAs). They will be funded through an integrated settlement which can be used by the Authority across housing, regeneration, local growth, local transport, retrofit, skills and employment support. This removes the complexity of numerous grants, conditions and reporting requirements, simplifying it into a single mutually agreed outcomes framework monitored over a supply review period. In combination with this Mayors will be given more control over the devolution of transport, skills & employment support, housing and planning, environment and climate change, supporting business and research, reforming and joining up public services.

The government plans to facilitate a programme of local government reorganisation for 2-tier areas across England. It will also facilitate the reorganisation of unitary councils where there is evidence of failure, or where their size and/or boundaries are a hinderance to local decision making. This will be done in a phased approach and for most will mean creating councils serving a population of 500 000 or more. Along with devolution government wants to reset its relationship with local government, end micro-management and enable local governments through multi-year settlements.

The next steps are:

- A widening and deepening of devolution, expanding on the 2 new Mayors and 6 non-mayoral devolutions already noted in the white paper, with a priority programme for those with plans ready for action;
- An invitation from all remaining 2-tier areas and unitary councils where appropriate, to submit proposals for local reorganisation;
- And re-committing to the English Devolution Bill by putting the devolution framework into statute and moving to a systematic approach that ensures local leaders have the powers they need.

Devolution and Mayoral Authority

On 5 February 2025, the government accepted Sussex onto the priority devolution programme following an Expression of Interest from Brighton and Hove City Council along with East and West Sussex County Council to join the government's devolution programme following their respective cabinet meetings on 9 January 2025.

The Authority is currently responding to the Government Consultation on being part of the Devolution Priority Programme.

Local Government Reorganisation

Jim McMahon, Minister for Local Government and English Devolution, wrote to two-tier authorities in February 2025 to set out a timetable for reorganisation proposals to be submitted. At the 20 March 2025 Cabinet meeting, councillors agreed on an interim plan, outlining the proposed way forward for Brighton & Hove City Council in Sussex. The plan was submitted to the government on 21 March 2025. A Full Business Case will need to be submitted to Central Government by 26 September 2025 and a decision is expected to be made by Spring 2026.

We will be meeting regularly with senior management to discuss these matters and to fully understand the proposals.

Local Audit Reform

External factors

Proposals for an overhaul of the local audit system

On 18 December 2024, the Minister of State for Local Government and English Devolution, Jim McMahon OBE, wrote to local authority leaders and local audit firms to announce the launch of a strategy to overhaul the local audit system in England. The proposals were also laid in Parliament via a Written Ministerial Statement.

The government's strategy paper sets out its intention to streamline and simplify the local audit system, bringing as many audit functions as possible into one place and also offering insights drawn from audits. A new Local Audit Office will be established, with responsibilities for:

- Coordinating the system – including leading the local audit system and championing auditors' statutory reporting powers;
- Contract management, procurement, commissioning and appointment of auditors to all eligible bodies;
- Setting the Code of Audit Practice;
- Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies;
- Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors.

The Minister also advised that, building on the recommendations of Redmond, Kingman and others, the government will ensure the core underpinnings of the local audit system are fit for purpose. The strategy therefore includes a range of other measures, including:

- setting out the vision and key principles for the local audit system;
- committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users;
- enhancing capacity and capability in the sector;
- strengthening relationships at all levels between local bodies and auditors to aid early warning system; and
- increased focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

Our Response

Grant Thornton welcomes the proposals, which we believe are much needed, and are essential to restore trust and credibility to the sector. For our part, we are proud to have signed 83% of our 2022/23 local government audit opinions without having to apply the local authority backstop. This compares with an average of less than 30% sign off for other firms in the market.

We have also signed 83% of our 2023/24 Audits, by the backstop date with the residual audits being unable to signed due to external factors. We will work with the Ministry of Housing, Communities and Local Government (MHCLG), with existing sector leaders and with the Local Audit Office as it is established to support a smooth transition to the new arrangements.

Key developments impacting our audit approach

National Position

Local governments face many challenges, the pandemic along with the cost of living crisis has left local governments with economic, social, and health challenges to address:

Staffing: A key challenge facing councils in maintaining service sustainability is the growing difficulties in relation to workforce recruitment and retention. Councils struggle to attract and retain qualified staff, especially younger talent. Many councils have outdated recruitment processes and are heavily reliant on agency staff.

Climate change: As the impacts of climate change become increasingly evident, local government plays a pivotal role in mitigating and adapting to these changes. The UK's targets for achieving net zero carbon emissions and local authority pledges must align into cohesive policies with common goals. This includes ongoing local economy investment in renewable energy, promoting sustainable transportation and implementing measures to enhance resilience against extreme weather events.

Housing crisis: The shortage of affordable housing continues to be an issue. There aren't enough social rented homes to meet demand and it's difficult to find land for new housing developments. New requirements around net zero and other environmental considerations make it more complex to get planning permission. Local authorities therefore face the challenge of providing adequate housing while balancing environmental sustainability and statutory planning requirements.

Funding : Local governments face many challenges in securing funding, including declining grant income, slow tax revenue growth, and rising demand for services. These challenges can make it difficult for local government to balance their budgets, assess their revenue base, enforce taxes, and prevent tax evasion. Social care costs, maintaining aging infrastructure, SEND and homelessness are driving up council spending and cuts to discretionary services impact local communities. Strained budgets are making it challenging to fund essential services, infrastructure projects and the ongoing stream of section 114 notices will not come as a surprise this year.

Digital Transformation : The fast pace of technological advancement poses both opportunities and challenges for local government. The adoption of digital tools and platforms is crucial for improving service delivery, enhancing communication and streamlining administrative processes. However, many communities still lack access or ability to navigate essential technology which creates a digital divide. Local government needs to ensure inclusivity in its digital strategies, addressing disparities and ensuring all residents can benefit from the opportunities technology offers.

Cybersecurity: Local government needs to protect against malware and ransomware attacks. They also need to navigate central government policy shifts and constraints. With increased reliance on digital platforms, they become more vulnerable to cyber threats. Safeguarding sensitive data and ensuring the integrity of critical systems are paramount and local authorities must invest in robust cybersecurity measures, employee training and contingency plans to protect themselves.

Our Response

Building and maintaining public trust is arguably the cornerstone of effective governance. Local government must prioritise transparency, open communication and meaningful public engagement to foster positivity within communities.

Despite councils' best efforts, financial pressures are affecting the scale, range and quality of council services provided to local residents. The clearest evidence of this is that councils' service spending is increasingly focused on adult and children's social care, SEND and homelessness. Ultimately spending is increasingly concentrated on fewer people, so councils are less able to support local and national agendas on key issues such as housing, economic growth, and climate change

Sound strategic financial management, collaboration with other levels of government and exploring alternative funding sources are vital for local authorities to overcome financial constraints and deliver quality services.

Our value for money audit work continues to identify significant weaknesses in all criteria of the Code of Audit Practice. This shows that local authorities are facing increasing pressure to provide services while managing change and reducing costs. We understand that the environment in which our audited bodies operate is dynamic and challenging and this understanding allows us to have insightful conversations and adapt our approach to delivering our audit work accordingly.

We know the difficulties and challenges faced within our Local Authority bodies and know there is a focus on improving quality and reducing costs. We will work with you as you strive to deliver these aims.

Key developments impacting our audit approach

Local Context	Our Response
• In the 2024/25 year at Month 9 in the year-to-date the Council is reporting a £3.3m forecast outturn overspend, including a risk to total under-delivery of £4.7m out of a large and challenging total savings and efficiency programme of £23.6m for the year. • The General Fund Revenue Budget 2025/26 together with the Medium Term Financial Strategy (MTFS) for the 4 year period 2025/26 to 2028/29. This identifies a shortfall of over £16m for the 2025/26 year and of almost £61m over the period of the MTFS. The Council has set out savings proposals to close that shortfall in the 2025/26 year and plans for future transformation/efficiency savings proposals to close some of the gap over the MTFS period while also acknowledging that non-statutory council services may need to be reduced. This demonstrates the ongoing scale of the financial challenge still facing the Council. • Further to this, the council will be involved in discussions after the publishing of the English Devolution White Paper, considering the likely impact on the Council.	• A risk factor has been scoped into our VFM work in relation to the financial sustainability of the council, alongside risk factors under the 2 other core VFM criteria. See pages 29-23 for further details of our risk assessment in this area.
New accounting standards and reporting developments • Local authorities will need to implement IFRS 16 Leases from 1 April 2024. The main difference from IAS 17 will be that leases previously assessed as operating leases by lessees will need to be accounted for on balance sheet as a liability and associated right of use asset. More information can be found on the next slide. • The FRC issued revisions to ISA (UK) 600 'Audits of group financial statements (including the work of component auditors)'. The revised standard includes new and revised requirements that better aligns the standard with recently revised standards such as ISQM 1, ISA 220 (Revised) and ISA 315 (Revised 2019). The new and revised requirements strengthen the auditor's responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditor, and documentation. The changes are to keep the standard fit for purpose in a wide range of circumstances and the developing environment.	• As part of our planning procedures, we will be completing a detailed review of the authority's implementation of IFRS 16. This will be followed by interim testing where we plan to begin testing the opening balances for this. More information can be found on the following slides. • Each year we review the Council's relationships with other entities, joint ventures and subsidiaries to consider whether the Council's judgement that group accounts are not required (due to being immaterial) continues to be reasonable. We therefore anticipate that the revision to ISA (UK) 600 will not significantly impact the accounts or audit.

Key developments impacting our audit approach

Our commitments

- As a firm, we are absolutely committed to audit quality and financial reporting in local government. Our proposed work and fee, as set out further in this Audit Plan, has been agreed with the Interim s151 Chief Finance Officer.
- To ensure close work with audited bodies and an efficient audit process, our preference as a firm is either for our UK based staff to work on site with you and your staff or to develop a hybrid approach of on-site and remote working. We have agreed that we will carry out our risk assessment work remotely where this requires less extensive contact with your finance team, but during the fieldwork we would prefer to spend regular days working on site with your finance team, and we will discuss this to reach an agreement on the regularity.
- We would like to offer a formal meeting with the Chief Executive twice a year, and with Interim s151 Chief Finance Officer quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to offer to meet informally with the Chair of your Audit, Standards and General Purposes Committee, to brief them on the status and progress of the audit work to date.
- Our Value for Money work will continue to consider the arrangements in place for you to secure economy, efficiency and effectiveness in the use of your resources.
- We will continue to provide you and your Audit, Standards and General Purposes Committee with sector updates providing our insight on issues from a range of sources via our Audit, Standards and General Purposes Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.
- The statutory deadline for submission of audited financial statements for 2024/25 is 31 March 2026, but we are aiming to complete our audit by the end of September 2025 and to sign the auditor's report before the end of December 2025. The deadlines are coming forwards in future years to 31 January 2027 for the 2025/26 accounts and then to 30 November for all subsequent years. These deadlines will be a challenge for both the audit team and the finance team – We are planning to have audit team resources available from mid-June to start the audit earlier to support the earlier completion, and we are in discussion with your finance team on whether there are audit working papers or sample testing populations which could be provided earlier to allow for work to start in the second half of June where in previous years the audit started from the 1 July. The Council has not formally agreed to a June start for the audit. This could mean that work could overrun the end of September and it will be challenging for the firm to resource the audit beyond this date. Our view is that an earlier start will be necessary to achieve a November completion date in future years.

IFRS 16 Leases

Summary

IFRS 16 Leases is now mandatory for all Local Government (LG) bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Introduction

IFRS 16 updates the definition of a lease to:

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

This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

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

There are however the following exceptions:

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

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating). However, if an LG body is an intermediary lessor, there is a change in that the judgement, as to whether the lease out is an operating or finance lease, is made with reference to the right of use asset rather than the underlying asset. The principles of IFRS 16 will also apply to the accounting for PFI assets and liabilities.

Systems and processes

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

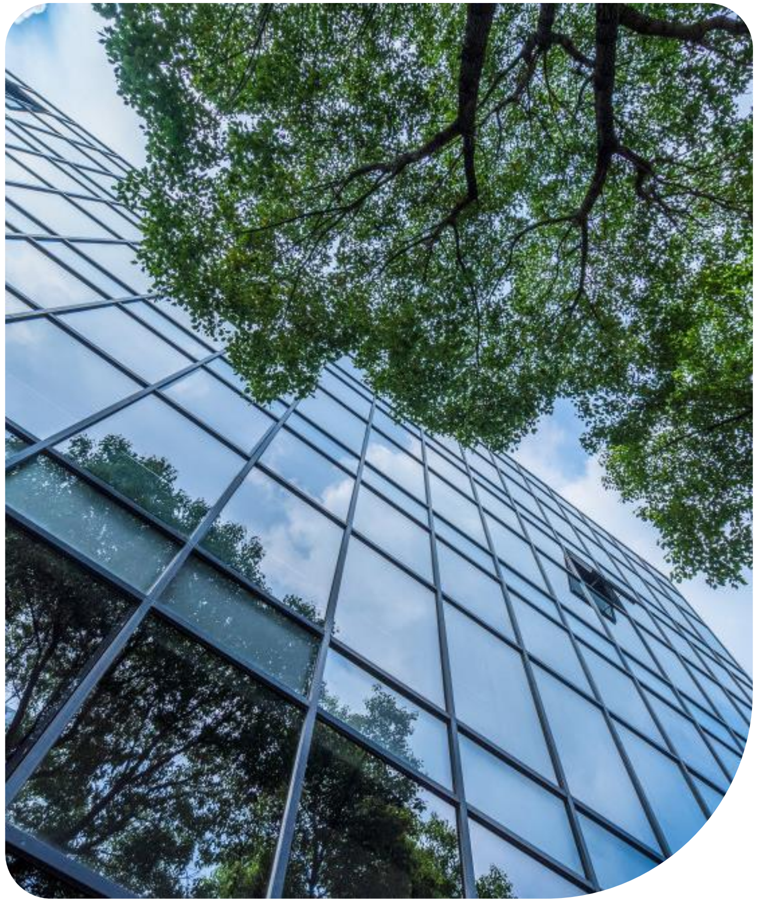
- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance
- accounting for what were operating leases
- identification of peppercorn rentals and recognising these as leases under IFRS 16 as appropriate

Planning enquiries

As part of our planning risk assessment procedures, we are discussing the authorities work and approach around IFRS 16. During our interim audit testing we will aim to complete as much work as possible surrounding the changes to financial reporting for IFRS 16 as well as begin sample testing for the opening balances.

02 Introduction and Headlines

Introduction and headlines



Purpose

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

Respective responsibilities

- The National Audit Office ('the NAO') has issued the Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to these documents.

Scope of our Audit

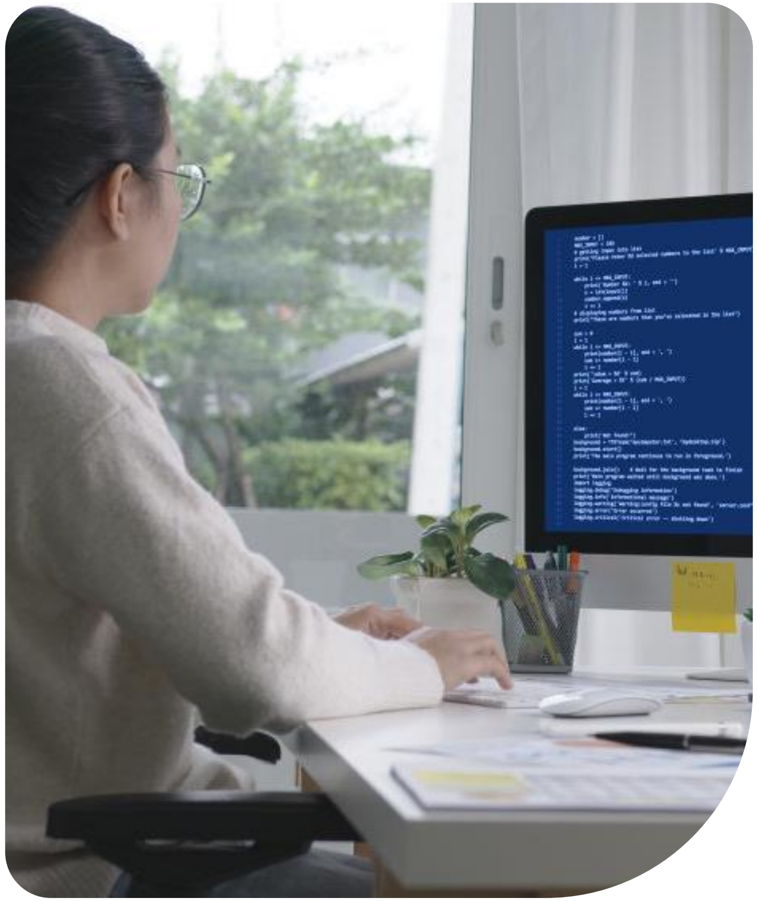
The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the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

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

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

Introduction and headlines (continued)

26



Significant risks

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

- Management override of control
- Valuation of Land and Buildings
- Valuation of the pension fund net asset/liability

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

Materiality

We have determined planning materiality to be £19.5m (PY £13.6m) for the Council, which equates to 1.9% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors, this has not identified any additional risks. Clearly trivial has been set at £0.98m (PY £0.68m).

Value for Money arrangements

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

- Financial Sustainability
- Governance
- Improving Economy, Efficiency and Effectiveness

See information on page 30-32 for further details of this risk .

Audit logistics

Our planning and interim visit have taken place in March 2025 and our final visit will take place in June to September 2025 (see pate 8 for further discussion around the challenges of the statutory deadline and the audit fieldwork dates). Our key deliverables are this Audit Plan, our Audit Findings Report, our Auditor’s Report and Auditor’s Annual Report.

Our proposed fee for the audit is £450,108, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input. This fee does not include costs payable by Grant Thornton to an external valuation expert that are rechargeable to the Council. The fees for IFRS16 implementation work will also be calculated following completion of the work and will be subject to PSAA approval.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2024) 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

03 Identified risks

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
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.	We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.	We will: • evaluate the design and implementation effectiveness of management relevant controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

"In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (UK)." (ISA (UK) 315).

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550).

Management should expect engagement teams to challenge them in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified (continued)

Significant risk	Risk relates to	Audit team's assessment	Planned audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue	We have considered all revenue streams of the Council and we have rebutted this significant risk for all revenue streams. For revenue streams that are derived from Council Tax, Business Rates and Grants, we have rebutted this risk on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited. For other revenue streams, we have determined from our experience as auditor from the previous years, and through our documentation of your business processes around revenue recognition that the risk of fraud arising from recognition could be rebutted, because: - there is little incentive to manipulate revenue recognition; and - opportunities to manipulate revenue recognition are very limited.	Where the risk has been rebutted, we do not consider this to be a significant risk for the Council and standard audit procedures will be carried out. We will keep this rebuttal under review throughout the audit to ensure this judgement remains appropriate.
The expenditure cycle includes fraudulent transactions	Practice Note 10 (PN10) states that as most public bodies are net spending bodies, then the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.	We have considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this does not present a significant risk of material misstatement or fraud in the 2024/25 accounts as: - The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be in line with our expectations for an Authority of this size and complexity of operations; - We have not found significant issues, material errors or fraud in expenditure recognition in the prior years audits; - Our view is that, similar to revenues, there is little incentive to manipulate expenditure recognition. Given the Council is facing financial pressures over multiple years, the risk of fraudulent expenditure recognition is not relevant or significant. Limited financial resources and the long-term nature of the financial challenges make it highly unlikely for there to be an incentive or opportunity to fraudulently recognise expenditure in any one particular year. Furthermore, we considered that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which have been considered as part of the standard audit tests and our testing in relation to the significant risk of management override of controls as set out on page 14.	Where we do not consider this to be a significant risk for the Council and standard audit procedures will be carried out. We will keep this consideration under review throughout the audit to ensure this judgement remains appropriate.

Significant risks identified (continued)

Significant risk	Risk relates to	Audit team's assessment	**Planned audit procedures**
Valuation of land and buildings (including council dwellings) and investment properties	The authority revalue its land and buildings on a rolling five-yearly to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value at the financial statements date.	The valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as significant risk requiring special audit consideration. We have further focussed our risk assessment to the valuation of land and buildings with large and/or unusual changes to their valuation approach. In order to identify such assets in the Council's valuation programme, we will make direct inquiries with the valuer to understand the source data that underpins their valuations , corroborated the source and reasonableness of the external data they rely upon for their key assumptions, and evaluate the completeness and accuracy of source data provided directly from the Council. We will then complete analytical procedures on the valuation reports, with reference to external market data, to identify those assets at greater risk of material misstatement. For assets which are not revalued by the external valuer in year, work is carried out with the aim of ensuring the carrying value is materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value; • Test revaluations made during the year to see if they are input correctly into the Authority's asset register; • Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • Engage an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.

Significant risks identified (continued)

Significant risk	Risk relates to	Audit team's assessment	**Planned audit procedures**
Valuation of the pension fund net asset/liability - assumptions applied by the professional actuary in their calculation	The Authority's pension fund net asset/liability, as reflected in its balance sheet as the net liability on defined pension scheme, represents a significant estimate in the financial statements.	The pension fund net asset/liability 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 Authority's pension fund net asset/liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we would reconsider this if it becomes apparent that there significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • Assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

31

Other risks identified

Other risks are, in the auditor's judgement, those where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for another risk is lower than for a significant risk, and they are not considered to be areas that are highly judgemental, or unusual in relation to the day-to-day activities of the business.

Risk	Description	Planned audit procedures
Equal Pay Claims	The council has received around 1,600 equal pay claims citing a number of areas of potential gender pay inequality. The council has a job evaluation scheme against which all jobs are evaluated and keeps under review its pay and allowances structure. The council considers that the claims are defensible and has commissioned external legal advice to undertake the detailed analysis and advise the council on potential defences or any potential risks they may pose. This process is likely to take at least two years. The council does not therefore currently have any reliable data upon which to make any financial assessment or judgement for inclusion in the statement of accounts, and therefore has disclosed this issue as a contingent liability.	We will: • Update our knowledge of the current status of the issue; • Discuss the issue further with management, and obtain any further evidence that we need in order to conclude on whether it is reasonable to disclose this as a contingent liability as opposed to a IAS37 provision.
Going Concern	The Council has three key financial risks that if they materialised could have a significant impact on the Council's financial sustainability in the short to medium term, and could require the Council to issue a s114 Notice. These are the budget gap for 2025/26 and the risk that sufficient savings cannot be found to meet that gap, and the risk of a successful equal pay claim (having recently received 1,600 equal pay claims). The Council's reserves remain low at £8.2m as of 31 March 2024, general fund reserves are considered by the Council to be at a minimum sustainable level and are not sufficient to be able to mitigate any overspends, lack of delivery of planned savings and the potential materialisation of these key risks. The Council's position is highly challenging and it could require further consideration of the feasibility of provision of non-statutory services. Although we don't consider there to be a material uncertainty around going concern for the Council, we also do not consider the risk to be remote.	We will: • Review and consider the robustness of the Council's own assessment and reporting on the sufficiency of reserves; • Carry out review and challenge of the key assumptions in the Council's budget, medium term financial plan and cashflow forecasts; and • Update our understanding of all key emerging financial risks for the Council.
Large panel systems – provision and valuation of assets	As set out in our Audit Findings Report 2023/24 several large blocks of council dwellings containing large panel systems, were deemed non-compliant with Health & Safety standards. As a result, the Council's professional valuation expert amended their valuation of these blocks to Nil and this impairment was adjusted in the Council's financial statements for 2023/24. There is a potential risk that: - The council should make a provision for an estimate of the costs to rebuild/repair the blocks and any other costs associated with this; - The valuation of the blocks/other assets under construction associated with the blocks and repairs could be misstated.	We will: • Update our knowledge of the Council's plans and current status, the Council's legal obligations and the Council's estimates of costs; • Challenge key assumptions in these estimates; and • Challenge the Council as to whether there is a current legal obligations/liability as a result of past events, and whether the this would now meet the criteria for recognition as a provision.

"The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA (UK) 330 (Revised July 2017), to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated." (ISA (UK) 315)

Other matters

Other work

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

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

Other material balances and transactions

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

34

04 Our approach to materiality

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.

Matter	Description	Planned audit procedures
01	**Determination** We have determined planning materiality (financial statement materiality for the planning stage of the audit) based on professional judgement in the context of our knowledge of the Council , including consideration of factors such as stakeholder expectations, industry developments, financial stability and reporting requirements for the financial statements	• We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
02	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements	• An item may be considered to be material by nature when it relates to instances where greater precision is required
03	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process	• We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality
04	**Matters we will report to the Those Charged with Governance** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Standards and General Purposes Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	• We report to the Audit, Standards and General Purposes Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. • In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.97m (PY £0.68m). • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Standards and General Purposes Committee to assist it in fulfilling its governance responsibilities.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK) 320)

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.

	Amount (£)	**Qualitative factors considered**
Materiality for the Council Financial Statements	£19,500,000	In determining materiality, we have considered the following key factors: - Debt arrangements: the authority has a significant level of debt, but the majority of this is with PWLB and the council follows the CIPFA Prudential Code with regard to managing the levels of debt. We are not aware of significant debt covenants or other factors that would indicate an enhanced risk. - Business environment: the Council operates in a generally stable, regulated environment, although in recent years government policies have reduced the funding available and this has increased the financial pressures on the authority. - 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	14,625,000	We determine a lower performance materiality as an amount less than materiality for the financial statements as a whole (i.e., planning materiality) to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. In determining performance materiality the main considerations are our view and understanding of the Council control environment, whether there have been significant levels of errors in prior year audits. There is not a history of significant deficiencies or a high number of deficiencies in the control environment, and in prior years there have not been a large number or significant misstatements identified. Our performance materiality is therefore calculated at 75% of our headline materiality.
Materiality for specific transactions, balances or disclosures - Officers' Remuneration Disclosures	£100,000	In determining materiality, we have considered the following key factors: - The expectations of users of the financial statements and the audit requirements/quality standards.

05 Progress against prior year audit recommendations

Progress against prior year audit recommendations

We identified the following issues in our 2023/24 audit of the Council’s financial statements, which resulted in 1 recommendation being reported in our 2023/24 Audit Findings Report. We are pleased to report that management have implemented 1 of our recommendations, the other is currently being addressed and,we will follow this up to review/corroborate actions in our fieldwork audit and we will report on this in our Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue(s)
In progress	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 recommended 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 update: This recommendation is a work in progress on the 2024/25 accounts. Audit comment: We will revisit this recommendation for an update at audit fieldwork.

06 IT audit strategy

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the IT environment related to all key business processes, identify all risks from the use of IT related to those business process controls judged relevant to our audit and assess the relevant IT general controls (ITGCs) in place to mitigate them. Our audit will include completing an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

The following IT applications are in scope for IT controls assessment based on the planned financial statement audit approach, we will perform the indicated level of assessment:

IT application	Audit area	Planned level IT audit assessment
Civica	Financial reporting	• ITGC assessment (design and implementation effectiveness)
NEC (formerly Northgate)	Council Tax, Business Rates, Benefits	• ITGC assessment (design and implementation effectiveness)
iTrent	Payroll	• ITGC assessment (design and implementation effectiveness)
Carefirst	Social Care Services	• ITGC assessment (design and implementation effectiveness)

41

07 Interim audit work

Interim Audit Work

Details of work to be conducted at interim:

Description	Work commentary
IFRS 16	We will: • Obtain an understanding of the process used to put together the IFRS 16 Disclosures. • Request the data for both Opening Balances and select a sample of these for testing where made available (note this work will be carried out during April where the Council provide these working papers which we have requested in advance of the planning visit). • Agree these sample items back to third party evidences. At the date of issuing this audit plan, this work is being completed and will be concluded in April. This work will be subject to senior engagement review. We will report any significant findings to management and those charged with governance in either a later Progress Report or in our Audit Findings Report at completion as appropriate.
Other Service Expenditure and Fees, Charges and Other Income Sampling	We will: • Send a sample of both Other Service Expenditure and Fees, Charges and Other Income to test based on interim data provided. • Agree these sample items back to third party evidences. At the date of issuing this audit plan, this work is in progress and will be concluded in April. This work will be subject to senior engagement review. We will report any significant findings to management and those charged with governance in either a later Progress Report or in our Audit Findings Report at completion as appropriate.
Employee Benefit Expenditure	We will: • View listings of Starters, Leavers and Change of Circumstance being downloaded from the system after Year End. • Select a sample from these listings and agree information back to data provided by HR. • Investigate the payroll for both Council Staff and Teaching Staff in order to complete our Payroll Analytics work. At the date of issuing this audit plan, this work is in progress and will be concluded in April. This work will be subject to senior engagement review. We will report any significant findings to management and those charged with governance in either a later Progress Report or in our Audit Findings Report at completion as appropriate.

08 Value for Money Arrangements

Value for Money Arrangements

Approach to Value for Money work for the period ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

44

Financial sustainability

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

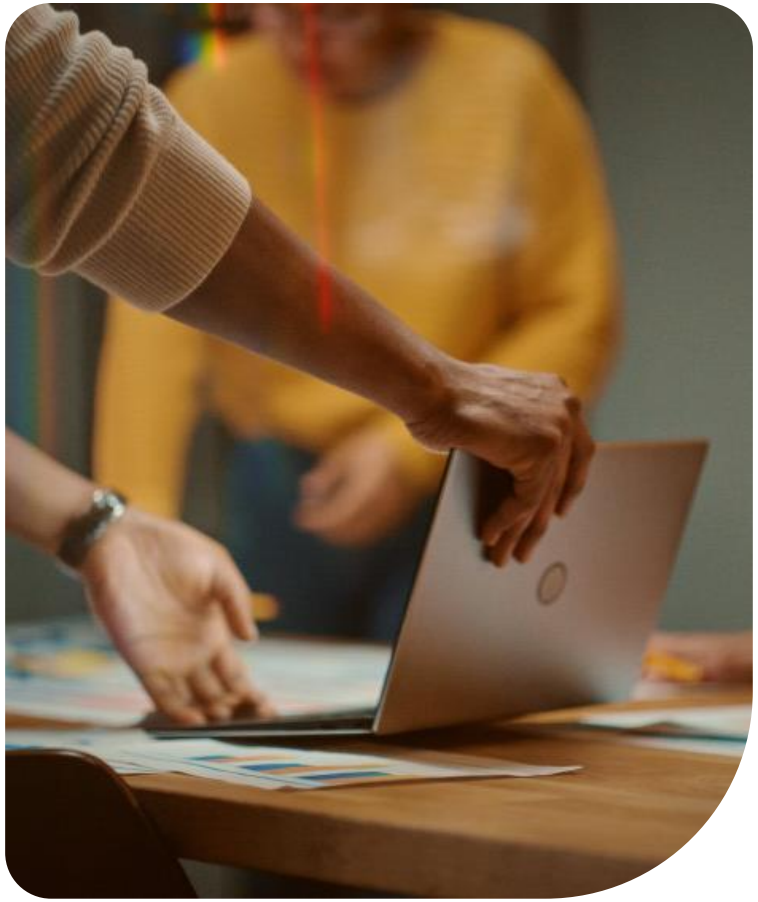
Governance

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

Improving economy, efficiency and effectiveness

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

Risks of significant VFM weaknesses



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

Potential types of recommendations

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

Statutory recommendation

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.

Risks of significant weakness in VFM arrangements (continued)

Risk assessment of the Council's VFM arrangements

The Code of Audit Practice 2024 (the Code) sets out that the auditor's work is likely to fall into three broad areas: planning; additional risk-based procedures and evaluation; and reporting. We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. Consideration of prior year significant weaknesses and known areas of risk is a key part of the risk assessment for 2024/25. We will continue to evaluate risks of significant weakness and if further risks are identified , we will report these to those charged with governance. We set out our reported assessment below:

Criteria	2023/24 Auditor judgement on arrangements		2024/25 risk assessment	2024/25 risk-based procedures
Financial sustainability	R	We have reported a significant weakness and key recommendation in respect of the Council's ability to ensure future financial sustainability. This is a result of the significant key financial risks the Council faces while not having a high level of reserves to mitigate these risks, alongside risks in the deliver of savings plans. We recommended that the Council urgently implement step changes in Strategy to secure financial sustainability.	Potential risk of significant weakness in arrangements due to a significant weakness raised in the prior year which is a clear indicator of a risk in the current year.	Given the risk of significant weakness identified, we will undertake additional risk-based procedures to assess whether a significant weakness exists. This will focus on the Council's ongoing assessment of key risks, including mitigation of the budget gap for 25/26 and the medium term with savings plans, and the risk of a future successful equal pay claim. Also looking into the conversations taking place on suitable funding for demand led services alongside national local government reform, as being discussed at a national level.
Governance	R	We have reported a significant weakness and key recommendation in respect of the findings of the revies by a King's Council (KC) of the City Clean Service. The review confirming that '*the working environment could fairly be described as toxic*'. *We recommended more formal reporting on progress on recommendations and a lessons learnt exercise to be carried out.*	Potential risk of significant weakness in arrangements due to a significant weakness raised in the prior year which is a clear indicator of a risk in the current year.	Given the risk of significant weakness identified, we will undertake additional risk-based procedures to assess whether a significant weakness still exists, including assessing the Council's progress on the recommendations made in our Auditor's Annual Report 2023/24.
Improving economy, efficiency and effectiveness	R	We have reported a significant weakness and key recommendation in respect of the findings of the Social Housing Regulator in August 2024 that there were serious failings in the Council's landlord functions of its social housing and failings to deliver all the required outcomes. We recommended that the Council should address and report on progress on the reported failings to Cabinet at least every 6 months.	Potential risk of significant weakness in arrangements due to a significant weakness raised in the prior year which is a clear indicator of a risk in the current year.	Given the risk of significant weakness identified, we will undertake additional risk-based procedures to assess whether a significant weakness still exists, including assessing the Council's progress on the recommendations made in our Auditor's Annual Report 2023/24.

We will continue our review of your arrangements until we sign the opinion on your financial statements before we issue our auditor's annual report. Should any further risks of significant weakness be identified, we will report this to those charged with governance as soon as practically possible. We report our value for money work in our Auditor's Annual Report. Any significant weaknesses identified once we have completed our work will be reflected in your Auditor's Report and included within our audit opinion.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

47

09 Logistics

Logistics

The audit timeline

Key Dates

Year end:

31st March 2025

Audit, Standards and General Purposes Committee:

TBC

Close out:

30 September 2025

Sign off:

TBC – by December 2025

48

Audit phases:

Planning – 3 weeks

February-March 2025

Key elements

- Planning meeting with management to set audit scope
- Planning requirements checklist to management
- Agree timetable and deliverables with management and Audit, Standards and General Purposes Committee
- Issue the Audit Plan to management and Audit, Standards and General Purposes Committee
- Planning meeting with Audit, Standards and General Purposes Committee to discuss the Audit Plan

Interim – 2 weeks

March –April 2025

Key elements

- Document design effectiveness of systems and processes
- Review of key judgements and estimates
- Issue Audit progress report and sector update to management and Audit, Standards and General Purposes Committee
- Any planned additional testing.
- As per page 27, this work is still in progress.

Final – June to September 2025

Key elements

- Audit teams to complete fieldwork and detailed testing
- Weekly update meetings with management

Completion – 1 week

September 2025

Key elements

- Draft Audit Findings issued to management
- Audit Findings meeting with management
- Draft Audit Findings issued to Audit, Standards and General Purposes Committee
- Audit Findings presentation to Audit, Standards and General Purposes Committee
- Auditor's Annual Report
- Finalise and sign financial statements and audit report

Our team and communications

Grant Thornton core team

Paul Cuttle

Engagement Lead/

Key Audit Partner

- Key contact for senior management and Audit, Standards and General Purposes Committee
- Overall quality assurance

Andy N Conlan

Audit Senior Manager

- Audit planning
- Resource management
- Performance management reporting

Ali Hamza

Audit Senior / In-charge

- On-site audit team management
- Day-to-day point of contact
- Audit fieldwork

	Service delivery	Audit reporting	Audit progress	Technical support
Formal communications	• Annual client service review	• The Audit Plan • Audit Progress and Sector Update Reports • The Audit Findings • Auditor's Annual Report	• Audit planning meetings • Audit clearance meetings • Communication of issues log	• Technical updates
Informal communications	• Open channel for discussion		• Communication of audit issues as they arise	• Notification of up-coming issues

As part of our overall service delivery we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same way as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

10 Fees and related matters

Our fee estimate

Our estimate of the audit fees is set out in the table across, along with the fees billed in the prior year

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2024) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

PSAA

Local Government Audit fees are set by PSAA as part of their national procurement exercise. In 2023 PSAA awarded a contract of audit of the Council to begin with effect from 2023/24. The scale fee set out in the PSAA contract for the 2024/25 audit is £450,108.

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

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

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here Fee Variations Overview – PSAA

Updated Auditing Standards

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

Our fee estimate:

We set our specific assumptions made in arriving at our estimated audit fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.
- Our fee estimate also assumes that you will engage suitably competent experts to assist management in the relation to the valuation of land and buildings and of the valuation of the pension fund net asset/liability
- As in previous years due to the risk profile of the council we will be using our own experts for the Valuations of Land and Building which will lead to additional fee once the extent of work has been confirmed this additional fee is therefore TBC.
- We will also include a fee variance for additional work in the audit related to the implementation of IFRS16. The extent of this work is TBC, as management have not yet completed the work on the implementation, accounting treatment and accounts (though this is in progress).
- We expect to need to include a fee variance in respect of likely additional work related to the LPS asset valuations and potential provisions – this fee is TBC.
- We expect to need to include a fee variance in respect of likely additional work related to the equal pay claim and potential provisions – this fee is TBC.

Previous year

In 2023/24 the scale fee set by PSAA was £418,126. The actual fee charged for the audit, was £442,676, due to additional charges for additional audit risk assessment and business process documentation related to ISA 315 (£12,550) and use of external audit valuation expert (£7,000).

Council	Audit Fee for 2023/24 (£)	Proposed fee for 2024/25 (£)
Council Audit scale fee	£430,676	£450,108
Additional fee for audit work related to the implementation of IFRS16	-	TBC
Additional fee in respective of audit work on LPS asset valuations and potential provision	5,000	TBC
Additional fee in respect of audit work on the equal pay claims if required	-	TBC
Fee for the disbursement related to the use of our own auditor's valuation expert	7,000	TBC
Total	**£442,676**	TBC

11 Independence considerations

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 and network firms). There are no matters that we are required to report.

We are also required to report to you details of any breaches of the requirements of the FRC Ethical Standard, and of any safeguards applied and actions we have taken to address any threats to independence. We note in this instance there ere are no matters that which require reporting.

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

Matter	Conclusions
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council/Group 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/Group or investments in the Group 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/Group 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/Group .
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, a member of the Council/Group's board, 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 at planning 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 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.

Fees and non-audit services

The following tables below sets out the non-audit services charged from the beginning of the financial year to March 2025, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

The below non-audit services are consistent with the council's policy on the allotment of non-audit work to your auditor.

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

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Brighton and Hove City Council . The table summarises all non-audit services which were identified. We have adequate safeguards in place to mitigate the perceived self-interest threat from these fees due to their size compared to the Audit Fee.

54

Assurance Service Fees

Service	Fees £	Threats Identified	Safeguards applied
Teachers Pensions return certification	£12,500	Self-Interest (because this is a recurring fee)	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 £450,108 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.
Certification of Housing Benefits	34,253 with an adjustment for CPI. (proposed fee being discussed with management)	Self-Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £34,253 with an adjustment for CPI (plus £1,500 day rate for any additional re-performance/other work necessary outside of the core agreed fee) in comparison to the total fee for the audit of £450,108 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.

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.

12 Communication of audit matters with those charged with governance

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	●	
Planned use of internal audit	●	
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 matters in relation to going concern	●	●
Views about the qualitative aspects of the Council accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
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		●

56

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

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

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

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.

57

13 Delivering audit quality

Delivering audit quality

Our quality strategy

We deliver the highest standards of audit quality by focusing our investment on:

Creating the right environment

Our audit practice is built around the markets it faces. Your audit team are focused on the Public Sector audit market and work with clients like you day in, day out. Their specialism brings experience, efficiency and quality.

Building our talent, technology and infrastructure

We've invested in digital tools and methodologies that bring insight and efficiency and invested in senior talent that works directly with clients to deploy bespoke digital audit solutions.

Working with premium clients

We work with great public sector clients that, like you, value audit, value the challenge a robust audit provides, and demonstrate the strongest levels of corporate governance. We're aligned with our clients on what right looks like.

Our objective is to be the best audit firm in the UK for the quality of our work and our client service, because we believe the two are intrinsically linked.

How our strategy differentiates our service

Our investment in a specialist team, and leading tools and methodologies to deliver their work, has set us apart from our competitors in the quality of what we do.

The FRC highlighted the following as areas of particularly good practice in its recent inspections of our work:

- use of specialists, including at planning phases, to enhance our fraud risk assessment
- effective deployment of data analytical tools, particularly in the audit of journals

The right people at the right time

We are clear that a focus on quality, effectiveness and efficiency is the foundation of great client service. By doing the right audit work, at the right time, with the right people, we maximise the value of your time and ours, while maintaining our second-to-none quality record.

Bringing you the right people means that we bring our specialists to the table early, resolving the key judgements before they impact the timeline of your financial reporting. The audit partner always retains the final call on the critical decisions; we use our experts when forming our opinions, but we don't hide behind them.

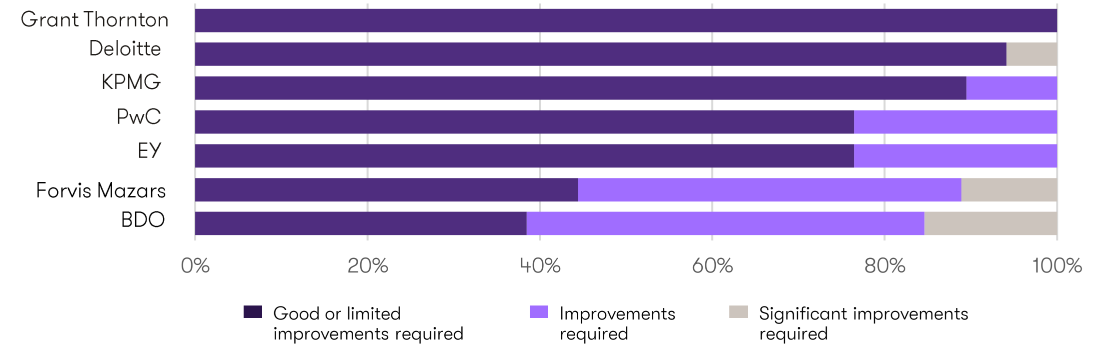
Digital differentiation

We're a digital-first audit practice, and our investment in data analytics solutions has given our clients better assurance by focusing our work on transactions that carry the most risk. With digital specialists working directly with your teams, we make the most of the data that powers your business when forming our audit strategy.

Oversight and control

Wherever your audit work is happening, we make sure that its quality meets your exacting requirements, and we emphasise communication to identify and resolve potential challenges early, wherever and however they arise. By getting matters on the table before they become "issues", we give our clients the time and space to deal with them effectively.

FRC's Audit Quality Inspection and Supervision Inspection
(% of files awarded in each grading, in the most recent report for each firm)



Quality underpins everything at Grant Thornton, as our FRC inspection results in the chart below attest to. We're growing our practice sustainably, and that means focusing where we know we can excel without compromising our strong track record or our ability to deliver great audits. It's why we will only commit to auditing clients where we're certain we have the time and resource, but, most importantly, capabilities and specialist expertise to deliver. You're in safe hands with the team; they bring the right blend of experience, energy and enthusiasm to work with you and are fully supported by myself and the rest of our firm.

Wendy Russell
Partner, UK Head of Audit

59

14 Appendices

IFRS reporters New or revised accounting standards that are in effect

First time adoption of IFRS 16 Lease liability in a sale and leaseback	• IFRS 16 was implemented by LG bodies from 1 April 2024, with early adoption possible from 1 April 2022. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. • This year will be the first year IFRS 16 is adopted fully within Local Government.
IAS 1 amendments Non-current liabilities with covenants	• These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.
Amendment to IAS 7 and IFRS 7 Supplier finance arrangements	• These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

IFRS reporters Future financial reporting changes

IFRS reporters future financial reporting changes

These changes will apply to local government once adopted by the Code of practice on local authority accounting (the Code).

Amendments to IAS 21 – Lack of exchangeability

IAS 21 has been amended by the IASB to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments are expected to be adopted by the Code from **1 April 2025**.

Amendments to IFRS 9 and IFRS 7 – Classification and measurement of financial instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, adds guidance on the SPPI criteria, and includes updated disclosures for certain instruments. The amendments are expected to be adopted by the Code **in future years**.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 provides reduced disclosure requirements for eligible subsidiaries. A subsidiary is eligible if it does not have public accountability and has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. IFRS 19 is a voluntary standard for eligible subsidiaries and is expected to be adopted by the Code **in future years**.

IFRS 18 Presentation and Disclosure in the Financial Statements

IFRS 18 will replace IAS 1 Presentation of Financial Statements. All entities reporting under IFRS Accounting Standards will be impacted.

The new standard will impact the structure and presentation of the statement of profit or loss as well as introduce specific disclosure requirements. Some of the key changes are:

- Introducing new defined categories for the presentation of income and expenses in the income statement
- Introducing specified totals and subtotals, for example the mandatory inclusion of 'Operating profit or loss' subtotal.
- Disclosure of management defined performance measures
- Enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes.

IFRS 18 is expected to be adopted by the CIPFA Code **in future years**.

The Grant Thornton Digital Audit – Inflo

A suite of tools utilised throughout the audit process

01 Collaborate

Information requests are uploaded by the engagement team and directed to the right member of your team, giving a clear place for files and comments to be uploaded and viewed by all parties.

What you'll see

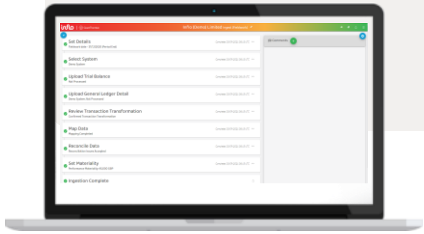
- Individual requests for all information required during the audit
- Details regarding who is responsible, what the deadline is, and a description of what is required
- Graphs and charts to give a clear overview of the status of requests on the engagement

02 Ingest

The general ledger and trial balance are uploaded from the finance system directly into Inflo. This enables samples, analytical procedures, and advance data analytics techniques to be performed on the information directly from your accounting records.

What you'll see

- A step by step guide regarding what information to upload
- Tailored instructions to ensure the steps follow your finance system



03 Detect

Journals interrogation software which puts every transaction in the general ledger through a series of automated tests. From this, transactions are selected which display several potential unusual or higher risk characteristics.

What you'll see

- Journals samples selected based on the specific characteristics of your business
- A focussed approach to journals testing, seeking to only test and analyse transactions where there is the potential for risk or misstatement