

# The Annual Audit Letter for Brighton and Hove City Council

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29 Year ended 31 March 2020

9 March 2021



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Brighton and Hove City Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Standards Committee as those charged with governance in our Audit Findings Report on 28 November 2021.

## Our work

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £12.34m, which is 1.5% of the Council's gross cost of services.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the Council's financial statements on 30 November 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
<b>Whole of Government Accounts (WGA)</b>	We have completed work on the Council's consolidation return following guidance issued by the NAO, but final submission of the WGA return remains outstanding while we close final queries on the return.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

# Executive Summary

<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 28 November 2020.
<b>Certificate</b>	We are unable to certify the completion of the audit until we have submitted our Whole of Government Accounts (WGA) assurance statement and considered matters raised with us by local electors. We expect the WGA to be submitted in March 2021.

## Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Particularly the provision of adult social care and children's services have become more complex and expensive to deliver, the closure of schools, and the necessary redesign of the Council's service delivery have presented substantial challenges. We updated our audit risk assessment to consider the impact of the pandemic on our audit and we reported a financial statement level risk in respect of Covid-19 and highlighted the impact on our VfM approach.

Restrictions for non-essential travel meant both Council and audit staff worked remotely, including the remote accessing of financial systems, video calling, and verifying the completeness, accuracy of information produced by the entity through online screensharing.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UKLLP**  
February 2021

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £12.34m, which is 1.5% of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year. We also set lower levels of specific materiality for cash and cash equivalents of £500k, and for related party transactions and senior officers remuneration of £50k.

We set a lower threshold of £0.6m, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The current circumstances have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>- Remote working arrangements and redeployment of staff impact potentially impacting on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>- Volatility of financial and property markets increased the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>- Financial uncertainty has required management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>- Disclosures within the financial statements have required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We :</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported;</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> <li>• engaged the use of an auditor experts in PPE our valuations work.</li> </ul>	<p>As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by the professional valuer relating to land and buildings, and also by an investment manager for pooled property investments underlying the net pension liability.</p> <p>These material uncertainties have been accurately disclosed in Note 3 Critical Judgements and Assumptions Made. We included an 'Emphasis of Matter' in our audit opinion to ensure that users of the accounts are aware of these material uncertainties.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Authority revalues its land and buildings on a five-yearly rolling basis to ensure the carrying value in the Authority 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. This valuation is carried out the Council's internal valuers, professional valuers and independent property managing consultants contracted by the Council. This 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.</p> <p>Management needed to ensure the carrying value in the Authority financial statements was not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation experts;</li> <li>written 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;</li> <li>challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding;</li> <li>assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value;</li> <li>tested revaluations made during the year to see if they had been input correctly into the Authority's asset register;</li> <li>evaluated 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;</li> <li>engaged an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used.</li> </ul>	<p>Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of land and buildings.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b> The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net 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.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We :</p> <ul style="list-style-type: none"> <li>updated 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 evaluated the design of the associated controls;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>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;</li> <li>undertaken procedures to confirm the reasonableness of the actuarial assumptions made by using an auditor's expert; and</li> <li>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.</li> </ul>	<p>Aside from the issue detailed on the page above in relation to the Covid-19 risk, our audit work did not identify any issues in respect of valuation of the net pension liability.</p>



# Audit of the Financial Statements

## Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We :</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals;</li> <li>analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>tested unusual journals recorded during the year and as part of accounts production for appropriateness and corroboration;</li> <li>gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence;</li> <li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p><b>Income from fees, charges and other service income</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For Brighton and Hove Council, we have concluded that the greatest risk of material misstatement relates to fees, charges and other service income where the timing of income recognition could be via subjective criteria determined by management.</p> <p>We therefore identified the occurrence and accuracy of fees, charges and other service income as a significant risk, which was one of the most significant assessed risks of material misstatement</p> <p>We rebutted this presumed risk for your other revenue streams because other income streams are primarily derived from grants or formula based income which limits the opportunity to manipulate revenue recognition.</p>	<p>We :</p> <ul style="list-style-type: none"> <li>evaluated your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice;</li> <li>updated our understanding of your system for accounting for income and evaluate the design of the associated controls;</li> <li>reviewed and sample tested income to supporting evidence corroborating the occurrence of the service/good delivered and the accuracy of the amount recognised; and</li> <li>evaluated and challenged significant estimates and the judgments made by management in the recognition of income.</li> </ul>	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>

# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

## **Preparation of the financial statements**

Draft financial statements were provided to the audit team on the 22nd July 2020. An updated set of statements were subsequently provided on 13th August 2020. There were some key working papers that we required for our audit work to progress efficiently which were not available at the start of the audit, and some audit sample responses took some time to turn around due to internal capacity issues. These issues did delay audit progress at the start of the agreed timeframe.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit and Standards Committee on 28 November 2020.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We have carried out work in line with instructions provided by the NAO. Our work did not identify any issues for the group auditor to consider. There were a small number of queries on the WGA return which we are finalising before submission, and expect this to be submitted in March 2021.

## **Certificate of closure of the audit**

We are unable to certify that we have completed the audit of the financial statements of the Council until we have submitted the WGA assurance statement as above. We expect to be able to certify the closure of the audit during March. We also have to consider matters raised with us by local electors.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. We identified medium term financial sustainability as the significant risk around Value for Money for the authority. The work we set out to address the risk was:

- review your 2019-20 outturn, including details of performance against both your revenue and capital budgets;
- review progress against your 2020-21 financial plan up to the completion of our audit;
- assess the reasonableness of assumptions made in your MTFP;
- assess your reserve levels;
- review documentation and discuss your progress and plans to address the budget gap in coming years.

## Overview

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. Although in December 2019 the Council had forecast an overspend of £2.821m in 2019/20, it was able to manage this through a number of mitigations, without further depleting general fund reserves.

The Council has a strong track record of delivering savings plans. Over the last eight years, over £142m of savings have been achieved to enable cost and demand increases to be funded, alongside managing reductions in central government funding. In 2019/20, the Council achieved 92% of its ambitious savings target of

£12.236m. The financial position for 2020/21 and the medium term is challenging, in particular due to the COVID-19 pandemic, which is presenting all councils with unprecedented pressures. For Brighton & Hove, this is manifesting in reduced visitor numbers, commercial activity and increased demand-led services requirements. As at Month 5, the Council was forecasting a £7.853m net budget overspend (taking into account the most recent government COVID-19 funding support). Together with a forecast deficit on the Collection Fund of £11.818m, this indicates a total in year overspend of £19.671m, however the Council has additional flexibility over Collection Fund element meaning that it does not directly impact on the current year position.

The Executive Leadership Team is currently reviewing options to manage the in-year position and the Council has agreed a 'financial smoothing' strategy, whereby the overspend will be temporarily met from reserve balances, which will be replaced in future years.

In July 2020 the Council undertook scenario analysis to better understand the implications of COVID-19 and the subsequent economic downturn. The revised medium term projections for the moderate case project a budget gap of £17.3m in 2021/22 building to £43.161m by 2023/24. These deficits will ultimately need to be closed through further savings or additional government support.

## VfM Conclusion – Financial Sustainability

The Council has implemented adequate financial governance arrangements including the timely monitoring of progress against budgets and the impact of COVID-19. We note the use of scenario analysis to manage uncertainty, alongside the ongoing consideration of adequacy of reserves and detailed forward planning to bridge budget gaps. This will be invaluable in navigating the financial pressures arising from the COVID-19 pandemic over the medium term.

The Council successfully delivered a balanced budget in 2019/20 and is on track to manage the projected £7.853m budget overspend in 2020/21 through the use of reserves under the financial smoothing approach.

The Council faces a significant financial challenge in setting a balanced budget for 2021/22 and is in the process of developing a viable mitigation plan. The government's intentions in regard to further financial support as part of the

## Value for Money conclusion (continued)

2021/22 funding settlement are not yet clear and therefore the current focus is on actions that can be taken to address funding pressures within the Council's existing resources.

**It will be important that Council members and officers agree a financially sustainable financial plan for 2021/22 recognising that, without significant further support from government, this could require difficult decisions to be made around future service priorities.**

We made one recommendation as a result of the work carried out – these are shown in the table adjacent.

### Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

	Recommendation
1	While we recognise that COVID-19 has had a significant adverse impact on financial performance within Health and Adult Social Care, it is clear that there were pre-existing pressures that the Council has identified and is in the process of addressing. As this area forms one of the largest elements of the Council budget, it will need to be a key component of the strategy to secure financial sustainability to the Council in the medium to long term.
2	In our view, the adoption of financial smoothing to manage the forecast overspend in 2020/21 is a valid mitigation strategy in the light of the improved outlook at month 5. However, it will mean a significant reduction in the reserves available to manage the significant financial pressures forecast from 2021/22 onwards. We recommend that the use of reserves to manage the in year deficit be reduced as far as possible through additional savings and other mitigating actions, in order to protect reserve balances so they can remain available to manage risk in future years.
3	The Council will need to continue to review its financial assumptions and forecast outturn and be fully prepared to take further mitigating action if necessary. Should the financial outlook worsen over the next few months the Council will need to be in a position to consider further measures it could take to set a balanced budget for 2021/22, beyond the current planning to mitigate a £17.3m deficit.
4	It will be important that Council members and officers agree a financially sustainable financial plan for 2021/22 recognising that, without significant further support from government, this could require difficult decisions to be made around future service priorities.

## A. Reports issued and fees

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

### Reports issued

Report	Date issued
Audit Plan	February 2020
Audit Findings Report	November 2020
Annual Audit Letter	November 2020

### Fees

	Planned	Actual fees
	£	£
Statutory audit	144,084	168,572
<b>Total fees</b>	<b>144,084</b>	<b>168,572</b>

### Audit fee variation

There is additional work which was necessary to be carried out during the audit due to the added complexities of the impact of Covid-19. This fee variation has been communicated with your Chief Finance Officer, and is also subject to approval by Public Sector Audit Appointments (PSAA).

## A. Reports issued and fees continued

### Fees for non-audit services

Service	Proposed fee	Final fee
<b>Audit related services</b>		
Certification of Housing capital receipts grant 2019/20	2,500	TBC
Certification of Teachers Pension Return 2019/20	3,500	TBC
Certification of Housing Benefit Claim 2019/20	17,000	TBC
<b>Total non- audit fees (excluding VAT)</b>	<b>£23,000</b>	<b>£TBC</b>

### 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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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



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