

# The Annual Audit Letter for Brighton and Hove City Council

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Year ended 31 March 2019

December 2019



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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 2019.

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 Policy and Resources Committee as those charged with governance in our Audit Findings Report dated 23 July 2019 (and the updated Audit Findings Report dated 17 September 2019).

## 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 Authority'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 Authority's financial statements to be £15,537,000, which is 1.9% of the Authority's gross revenue expenditure from the prior year audited accounts. |
| <b>Financial Statements opinion</b>       | We gave an unqualified opinion on the Authority's financial statements on 19 September 2019.  |
| <b>Whole of Government Accounts (WGA)</b> | We completed work on the Authority's consolidation return following guidance issued by the NAO. This work was completed and notified to the NAO on 14 November 2019.                                |
| <b>Use of statutory powers</b>            | We did not identify any matters which required us to exercise our additional statutory powers.  |

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# Executive Summary

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**Value for Money arrangements** We were satisfied that the Authority 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 Authority on 19 September 2019.

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**Certificate** We certified that we have completed the audit of the financial statements of Brighton and Hove City Council in accordance with the requirements of the Code of Audit Practice on 5 December 2019. This certificate could only be issued on completion of our work on the Authority's consolidation return.

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## Working with the Authority

During the year we have delivered a number of successful outcomes with you:

- We made four recommendations for controls and systems improvements in our Action Plan as reported to the Audit and Standards Committee in July 2019. Implementation of these recommendations will be followed up with your finance team in the 2019/20 year;
- We highlighted a number of areas of the accounts where disclosures could be made clearer along with accounts adjustments for misclassifications/misstatements, which were also reported to the Audit and Standards Committee in July and September 2019;
- Sharing our insight – we provided regular Audit and Standards Committee updates covering best practice. We also share our thought leadership reports.

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

**Grant Thornton UK LLP**  
December 2019

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Authority'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 Authority's financial statements to be £15,537,000, which is 1.9% of the Authority's gross revenue expenditure from the prior year audited accounts. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We set a lower threshold of £777,000, above which we reported errors to the Audit and Standards 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 financial statements, the Narrative Report and Annual Governance Statement published alongside the financial statements to check they are consistent with our understanding of the Authority and with the financial statements included in the Annual Report 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 Authority'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>The revenue cycle includes fraudulent transactions</b><br/>We considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue. We rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants 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.</p> <p>We did not deem it appropriate to rebut this presumed risk for fees, charges and other service income as we did not have cumulative audit testing knowledge of these revenues being your new auditor, and the adoption of IFRS15 Revenue from Contracts with Customers could materially affect recognition of this income.</p> <p>We therefore identified the occurrence and accuracy of these income streams and the existence of associated receivable balances as a significant risk of material misstatement.</p> | <p>Our work included:</p> <ul style="list-style-type: none"> <li>evaluating your accounting policy for recognition of income for appropriateness and compliance with LG Code of Practice</li> <li>updating our understanding of your system for accounting for income and evaluated the design of the associated controls</li> <li>reviewing and sample testing income to supporting evidence</li> <li>evaluating and challenging significant estimates and the judgments made by management, including those around the adoption of the new IFRS15.</li> </ul> | <p>During our testing of income cut off we identified that recharges of repairs/maintenance/improvements to HRA properties recharged to leaseholders were not being correctly matched with the expenditure. This led to revenues being understated by £3,171k – it was agreed that as this amount is immaterial to the accounts this would not be adjusted in the statements.</p> <p>In our walkthrough of the associated receivables accounting system, we made a recommendation that the receivables write off process is undertaken quarterly as per the Council's documented control processes, to ensure that old/unrecoverable receivables are correctly written off and not retained as receivable assets per the accounts.</p> <p>No other issues were identified in our work.</p> |
| <p><b>Management override of controls</b><br/>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 Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk</p>  | <p>Our work included:</p> <ul style="list-style-type: none"> <li>evaluated the design effectiveness of management controls over journals</li> <li>analysed the journals listing and tested unusual journals appropriateness and corroboration</li> <li>gained an understanding of the accounting estimates and critical judgements applied</li> </ul>   | <p>Our audit work did not identify any issues in respect of management override of controls.</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 (Annual revaluation)</b></p> <p>The Council 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 by 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>Additionally, management need to ensure the carrying value in the Council 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, where a rolling programme is used.</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, and a key audit matter.</p> | <p>Our work included:</p> <ul style="list-style-type: none"> <li>evaluating 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>evaluating the competence, capabilities and objectivity of the valuation expert</li> <li>writing to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met</li> <li>challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>assessing 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>testing revaluations made during the year to see if they had been input correctly into the Council's asset register</li> <li>evaluating 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> </ul> | <p>In 2018-19, 78% of property, plant and equipment held on the balance sheet at current or fair value was revalued. Management prepared a paper to address whether assets had been impaired during the year, but did not specifically set out in detail their own assumptions and estimates of the potential movements in value for assets not revalued during the year.</p> <p>In the absence of a detailed management working paper, we developed our own point estimate of the movement in values using information of possible variations provided by our own auditor's expert. We concluded that assets not revalued during the year are materially correctly stated as at 31 March 2019.</p> <p>We have recommended that management strengthen future working papers in this area to provide a detailed assessment for audit. During our discussions with the finance team and the estates team, we noted that the data used by the internal valuer for her assessment of assets is not consistent with the asset register making it difficult to rely on the internal valuer's conclusion for testing of the financial statements.</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 pension fund net liability</b><br/>The Council'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 (£314.4 million in the Council's balance sheet at the 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council'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>Our work included:</p> <ul style="list-style-type: none"> <li>documenting our understanding of the process and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluating the design of the associated controls;</li> <li>liaising with the auditors of East Sussex Pension Fund to evaluate the instructions and accuracy/completeness of information issued by the Pension Fund to their management expert (actuary – Hymans Robertson) for this estimate and the scope of the actuary's work;</li> <li>assessing the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li> <li>testing 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>undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional focussed audit procedures suggested within the report; and</li> <li>obtaining 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>Our work on the net pension liability included analytical testing of the reasonableness of the Council's share of assets and liabilities, and the actuarial application of the roll forward approach in estimating the value of the net pension liability. Our initial analytics suggested there could be a material error in the actuary's estimate of the Council's share of assets. In order to provide an actuarial estimate quickly for inclusion in the financial statements the actuary uses an estimated return on pension fund assets as at the financial year end. When the actual return on assets was applied this highlighted a material error. A revised actuary report was requested. The estimate of the net pension fund liability increased by £39.4m, which increased the Council's Cost of Services by £4.9m, and increased 'Other Comprehensive Income and Expenditure' by £34.4m. Note due to adjustments between the accounting and funding basis under regulations this does not impact on the closing General Fund balance. As this was material to the audit we agreed with management that this should be adjusted in the financial statements.</p> <p>During the year two legal cases were heard impacting on pensions and their accounting. The McCloud case relates to the Court of Appeal ruling that there was age discrimination in certain public sector pension schemes where there were transitional protections given to scheme members. The GMP case relates to the High Court ruling that GMPs must be equalised between men and women and that past underpayments must be corrected. The Council's actuary assessed the impact of the GMP matter as immaterial in its year end reporting to the Council. We were able to apply information provided by our auditor's consulting actuary to estimate the GMP potential liability to a reasonable degree of accuracy and concluded that it was immaterial.</p> <p>The actuary assessed the potential impact of the McCloud ruling as an increase in pension liabilities of £5,312k, and an increase in service costs for the 2019/20 year of £1,041k. The impact of the McCloud ruling was reflected in the revised actuary report and the revised financial statements approved by members.</p> <p>Our audit work did not identify any further issues in respect of the pension fund net liability.</p> |



# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Authority's financial statements on 19 September 2019.

## **Preparation of the financial statements**

The Authority presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

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

We reported the key issues from our audit to the Authority's Audit and Standards Committee on 23 July 2019, and subsequently updated the Committee with an additional report on completion of outstanding audit work on 17 September 2019.

All significant issues from our audit have been summarised on pages 3-9 of this report.

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

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

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 Authority and with our knowledge of the Authority.

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

We carried out work on the Authority's Data Collection Tool (DCT) in line with instructions provided by the NAO . We issued an assurance statement which confirmed that our work in checking the data submitted in the Authority's DCT back to the audited accounts had not identified any issues.

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

We certified that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Code of Audit Practice on 5 December 2019.

# 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 November 2017 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.

The risks we identified and the work we performed are set out overleaf.

## Overall Value for Money conclusion

We are satisfied through the work documented below, that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

| Risks identified in our audit plan  | How we responded to the risk  | Findings and conclusions   |
|---|---|--|
| <p><b>Medium Term Financial Resilience</b></p> <p>The Council has a strong track record of delivering a budget underspend at year-end, despite reduced funding from central government. Financial resilience of the Council will depend on its ability to balance its budget without use of reserves.</p> <p>At month 9 of 2018-19, the forecast risk position to General fund budget outturn for 2018/19 was a small £0.4m overspend. Of the £12.7m savings target for 2018/19, £10.5m was on track, but £3.4m was not expected to be delivered in year.</p> <p>The Council expected to set a balanced budget for 2019/20. This included a budget gap of £14.2m which is expected to be met by planned savings. However as noted above, achievement of savings plans is inherently uncertain and risk and this could put overall budget achievement in doubt. There is currently no reasonable estimate that can be made for the impact of the 2020/21 Fair Funding Review and potential changes to Business Rate retention.</p> <p>For these reasons we cited medium term financial sustainability as a risk that the Council could fail to achieve Economy, Efficiency, and Effectiveness in use of its resources in 2018/19 and beyond.</p> | <p>As part of our work we have:</p> <ol style="list-style-type: none"> <li>made an appraisal of the Council's current financial performance in 2018/19;</li> <li>reviewed the methods and assumptions underlying the Medium Term Financial Strategy through discussion with officers of the forward budgeting process and the key assumptions made; and</li> <li>reviewed the fiscal indicators and the level of reserves that your management have assessed is prudent for the Council to hold.</li> </ol> | <p><b>Financial Performance 2018/19</b></p> <p>The council, like most others, has experienced a significant increase in pressure on demand led budgets, child agency/in-house placements, community care and temporary accommodation, and there was a £3.5m overspend in these areas which was compensated for by underspends in Families, Children &amp; Learning, Economy, Environment &amp; Culture, Neighbourhood, Communities &amp; Housing and back office areas. This continues your track record of delivering outturn results to budget or surplus positions. Our discussion with management and review of the final outturn report as issued to the Policy, Resources and Growth Committee indicates that overspends are largely structural local market issues indicating a permanent increase in costs or demand which will likely continue in coming years.</p> <p><b>The Council will have to make sure that structural demand pressures in Children's and Adult Social Care manifesting as budget overspends, are adequately factored into the MTFs in future years as recurrent increases in costs, mitigated through service transformation.</b></p> <p><b>Financial planning (MTFS) 2019/20 to 2023/24</b></p> <p>The Medium Term Financial Strategy (MTFS) is the key financial planning document which sets out the financial implications of the Council's corporate strategy over 5 years. We met with key members of the finance team to discuss and review the method for building the MTFs and in particular the robustness and realism underlying key assumptions, the savings plans which are included and any areas where significant new/increased areas of revenue have been included. We were satisfied that the method and assumptions were reasonable and in line with comparable sized councils.</p> <p>At the time of our audit, there were Budget Gaps totalling £28.8m predicted over the period 2020/21 to 2023/24 (from the February Budget Council report) which will need to be addressed via savings and revenue generation schemes in those year's budgets. Though the Council has a strong previous track record of achieving ambitious savings plans, this still represents a steep challenge.</p> <p><b>Fiscal Indicators and Reserves Levels</b></p> <p>Each year management assess the level of reserves that they believe it is prudent for the Council to hold based on local, national and macro-economic factors. We discussed the level of reserves and these considerations with management. Taking into account the above factors, management have reached the conclusion that an amount representing approximately 4 weeks of council tax revenue, or £9m, as a working balance is appropriate. At the 31 March 2019 the Council had a total general fund (including earmarked reserves separate from the working balance) of £57.1m and increase of £8.4m on the previous year.</p> <p>We were satisfied that the considerations and assumptions that management have in place to monitor reserves levels at what they consider to be a safe level are reasonable and detailed. The review of the adequacy of reserves is presented to the Policy, Resources and Growth Committee alongside the MTFs each year.</p> |

# Value for Money conclusion

| Risks identified in our audit plan  | How we responded to the risk   | Findings and conclusions   |
|---|--|--|
| <p><b>Health and Social Care Integration</b></p> <p>To improve health and social care outcomes for the local community and to reduce spiralling costs, particularly relating to social care, it is imperative that the Council continues to maximise integration with local Trusts, CCGs and other partners.</p> <p>Failure to secure maximum value from partnership working with the NHS could impact negatively on social care and public health services, leading to worse health outcomes for your residents and also increased current and future costs. There is a risk that the Council fails to achieve Economy, Efficiency, and Effectiveness in working with partners across organisational boundaries. This is currently a red rated risk in the Council's strategic risk register.</p> <p>In our first year as your auditor, we needed to develop an understanding of your arrangements and plans. We reviewed documentation and spoke to officers to understand your significant NHS collaboration initiatives, including but not limited to your role in the Surrey and Sussex Sustainability and Transformation Plan, Better Care Board, and Health and Social Care Integration Board and future plans for closer integration.</p> | <p>As part of our work we have:</p> <ol style="list-style-type: none"> <li>1. met with key officers to discuss the current status of integration plans;</li> <li>2. reviewed the minutes of key meetings discussing progress of plans</li> </ol> | <p>Prior to the 2018/19 financial year the Council and co-terminus Clinical Commissioning Group already had an established record of joint working. The key groups which are currently meeting to progress collaboration and integration are the Health and Wellbeing Board (HWB) and the Health and Social Care Integration Board (HSCIB) (jointly chaired by the Council Chief Executive and focussed on the integration aspect).</p> <p>We reviewed the minutes of these meetings and confirmed the shared discussion of health system problems and that these issues and improvements to pathways that may help alleviate were being discussed as wholly shared issues between the Council and it's health sector partners. Current arrangements include sharing of data across organisations to better understand the relationships and impacts of each organisation rather than each working in a silo, and integration taking the form of joint commissioning and delivery of services.</p> <p>We reviewed the plans between partners as the recommended approach has moved towards wider Integrated Care Systems (ICS) across Sussex and how the strategy to establish this structure is being established. The Council is in the fortunate position to currently have a co-terminus CCG making localised financial planning more straightforward, but one of the key challenges is an NHS provider system which is very financially challenged and largely in deficit, therefore making real investment in structural or pathway change difficult.</p> <p>Going forward the Brighton and Hove network along with wider East Sussex partners are drawing up plans over the summer to develop a longer-term Health &amp; Social Care programme for East Sussex.</p> <p><b>On the basis of this work, our view was that at a time of particular challenge in terms of increasing demand and rapid change in the overall national strategy to address this, we were satisfied the Council has in place adequate arrangements to develop effective collaboration with local partners to address this challenge. It is continuing area of development for the Council and its partners, which is common to the wider national picture, and we will maintain updates with your management around this area going into the 2019/20 audit.</b></p> |

# Value for Money conclusion

| Risks identified in our audit plan   | How we responded to the risk  | Findings and conclusions  |
|--|---|---|
| <p><b>Governance and Decision Making processes for key capital regeneration schemes</b></p> <p>Brighton and Hove City Council has several ambitious capital regeneration projects which are in varying stages of planning and development, including the Waterfront Project and the King Alfred redevelopment. These are complex developments involving significant levels of additional borrowing, a complex set of stakeholders and a relatively high level of risk. There is a risk that the Council fails to achieve Economy, Efficiency and Effectiveness in informed decision making.</p> <p>In our first year, we need to develop an understanding of your governance arrangements to manage risk and delivery. We will review the governance arrangements and decision making processes that the Council has in place around entering into capital investment plans and how the Council continues to reassess the public and financial benefits as the plans evolve.</p> | <p>As part of our work we have built our understanding of the governance and decision making processes around capital regeneration schemes, and how the Council ensures these deliver value for money and manage risk around the schemes.</p> | <p>The Council is progressing with several major capital investment plans which are all at different stages of development, alongside ongoing estates regeneration plans. We met with key officers in order to build and document our understanding of the different governance and decision making processes which are in place for different types of schemes. We discussed how the cost of the scheme and perceived value for money (including social value) is set out for a scheme to allow decisions to be made on whether to approve the investment in planning the scheme and then the full implementation. We also discussed how the ongoing value for money and ongoing affordability of schemes is monitored at key milestones/decision points.</p> <p>We obtained key documents setting out the different groups/meeting/key officers who would need to approve schemes of different types and levels of financial cost, and we reviewed the terms of reference and minutes of key groups including the Corporate Investment Board (CIB: the officer led group that has day to day oversight of projects) and Strategic Delivery Board (SDB: the member led group that has ultimate oversight) to confirm the discussion of projects at these groups.</p> <p>Through our discussions with management and our review of key documents we were able to take assurance that the Council has put in place proper governance arrangements and decision making processes for considering the value for money before entering into significant capital investment schemes and for then reassessing this as plans evolve.</p> |

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and **confirm there were no fees for the provision of non audit services.**

## Reports issued

| Report                | Date issued  |
|-----------------------|--|
| Audit Plan            | 12 March 2019  |
| Audit Findings Report | 23 July 2019 and updated report on 17 September 2019 |
| Annual Audit Letter   | 27 December 2019                                     |

## Fees

|                   | Planned<br>£   | Actual fees<br>£ |
|-------------------|----------------|------------------|
| Statutory audit   | 122,084        | 136,084          |
| <b>Total fees</b> | <b>122,084</b> | <b>136,084</b>   |

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £122,084 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

| Area  | Reason   | Fee proposed   |
|---|--|----------------|
| <b>Assessing the impact of the McCloud ruling</b> | The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.   | £3,000         |
| <b>Pensions – IAS 19</b>                          | The Financial Reporting Authority has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this. We carried out significant additional work to address the material error found in the draft accounts.   | £4,000         |
| <b>PPE Valuation – work of experts</b>            | As above, the Financial Reporting Authority has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.   | £5,000         |
| <b>Other factors increasing audit input</b>       | There were a number of areas where we had to apply additional resources to deliver the audit. These include, but are not limited to; delayed availability of the trail balance and mapping to draft statements; some transaction listings with multiple 'ins and outs' which made it time consuming to select a sample which reflected the year end balance; the inability to reconcile interim testing to year end transaction listings | £2,000         |
| <b>Total</b>                                      |  | <b>£14,000</b> |

**Note: Fee variations are subject to PSAA approval.**

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Authority companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies





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