

# Brighton & Hove City Council

## Audit, Standards & General Purposes Committee

## Agenda Item 8

**Subject:** External Audit Plan and Informing the Audit Risk Assessment 2023/24

**Date of meeting:** 25 June 2024

**Report of:** External Auditor, Grant Thornton UK LLP

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**Ward(s) affected:** All

**For general release**

### 1. Purpose of the report and policy context

#### External Audit Plan 2023/24

- 1.1 Grant Thornton's audit plan sets out an overview of the planning scope and timing of the council's statutory external audit for the financial year ending 31 March 2024. The audit plan ("Brighton and Hove City Council Audit Plan 2023-24") is attached at Appendix 1. The audit plan sets out, for example, the significant risks identified ahead of the main audit work (pages 7-11), levels of materiality for the financial statements (page 13- 15) and the proposed audit fees for 2023/24 (page 21)
- 1.2 The external auditors are responsible for forming and expressing an opinion on the council's financial statements and for considering whether there are sufficient arrangements in place at the council for securing economy, efficiency, and effectiveness in its use of resources (Value for Money arrangements).

#### Informing the Audit Risk Assessment 2023/24

- 1.3 Informing the audit risk assessment is an external audit related review (introduced by Grant Thornton last year as part of the 2022/23 audit in response to revised financial reporting standards) which is completed by the council's management ahead of the main audit. The completed document ("BHCC - Informing the Audit Risk Assessment 23-24") is attached at Appendix 2.
- 1.4 As set out on page 4, the purpose of the document is "to contribute towards the effective two-way communication between Brighton & Hove City Council's external auditors and the Audit, Standards & General Purposes Committee". The report sets out audit queries and the management

responses covering general enquires of management, fraud, laws and regulations, related parties, going concern and accounting estimates.

### **Increase in de-minimis level for capitalisation of plant, property, and equipment**

- 1.5 As set out below in paragraphs 3.2 to 3.5, the council's de-minimis level for capitalisation of property, plant and equipment has been in place for a significant period of time and has been reviewed for validity as required.

## **2. Recommendations**

That the Audit, Standards & General Purposes Committee:

- 2.1 Notes and considers the documents and notifies the external auditor if there are any additional matters that it considers may also impact on the planned audit work and context for the financial year ending 31 March 2024.
- 2.2 Notes both the external audit plan and informing the audit risk assessment for 2023/24.
- 2.3 Approves an increase of the existing accounting policy of a de minimis level of £20,000 for capitalisation of plant, property, and equipment up to £50,000, and authorises the Chief Finance Officer to make necessary changes to the council's accounting policies to reflect the increase.

## **3. Context and background information**

### **External Audit Plan 2023/24 and Informing the Audit Risk Assessment 2023/24**

- 3.1 This is set out in summary section 1 of this report and in detail in Appendices 1 and 2. External audit is a statutory requirement for local authorities.

### **Increase in de-minimis level for capitalisation of plant, property, and equipment**

- 3.2 The council has had in place a de minimis level of £20,000 for capitalisation (as set out in its detailed accounting policies below) for around 20 years (since at least the 2003/04 financial year).
- 3.3 Local authority capitalisation de minimis levels can be set locally providing they are reasonable and appropriate.
- 3.4 The council's current accounting policy for capitalisation is:

"The council has a de minimis level of £20,000 for land and buildings and vehicles, plant and equipment. Items of expenditure below this de minimis level are charged to the relevant service within the Comprehensive Income & Expenditure Statement (CIES) in the year they are incurred. In certain cases, the council capitalises particular items of expenditure that is below its de minimis level (e.g. expenditure funded by grant where the conditions state that the grant should only be applied to capital items of expenditure)."

- 3.5 Based on the Bank of England's inflation calculator, the purchasing power of £20,000 is c£35,000 at today's prices. However, research shows that most other local authorities of similar size and complexity have set capitalisation levels of £50,000. It is recommended that the council revises its capitalisation level to £50,000. This does not rule out (as the extract from the existing accounting policies clarifies) capitalising spending below this level if deemed appropriate.

#### **4. Analysis and consideration of alternative options**

- 4.1 Along with every other council in England, the council elected to join the sector-wide procurement of external audit and is therefore bound by the terms negotiated by Public Sector Audit Appointments Ltd (PSAA). Under this arrangement, Grant Thornton are the appointed external auditor for Brighton & Hove City Council. The authority has recourse to PSAA, who perform a contract monitoring role, if it is dissatisfied with the performance of the external auditor in the delivery of the contract.

#### **5. Community engagement and consultation**

- 5.1 Not applicable.

#### **6. Conclusion**

- 6.1 This report and appendices are primarily for noting unless the Committee has additional issues to raise (as set out under section 2 Recommendations).

#### **7. Financial implications**

- 7.1 The proposed audit fee (subject to the normal review and moderation by Public Sector Audit Appointments, PSAA) is £433,676, a substantial increase in the scale fee of 151% from 2022/23 as set out on page 21 of Appendix 1, and in accordance with the sector-wide re-procurement of external audit by Public Sector Audit Appointments Ltd, a public sector body set up by the Local Government Association to undertake the procurement on behalf of local government. This will need to be funded from the General Fund revenue budget and creates an in-year pressure of £0.220m in 2023/24 which has been recognised with the provisional outturn together with a similar in-year pressure in 2024/25 which will also need to be permanently recognised within the 2025/26 budget process. The current contract runs for 5 years.
- 7.2 The recommended change in the capitalisation level has no financial implications for the authority and is to bring the authority in line with common practice. The authority retains the option of capitalising expenses even if they fall below the de minimis level.

Finance officer consulted: Nigel Manvell      Date consulted: 12/06/24

#### **8. Legal implications**

- 8.1 The Local Audit and Accountability Act 2014 makes it a requirement that the council's external auditors consider whether the council has made proper arrangements for securing economy, efficiency and effectiveness in its use

of resources (securing value for money). This committee is the appropriate body for the consideration of this report by elected members of the council.

Name of lawyer consulted: Victoria Simpson    Date consulted: 12/06/2024

**9. Equalities implications**

9.1 There are none identified.

**10. Sustainability implications**

10.1 There are none identified.

**Supporting Documentation**

**Appendices**

1. Brighton and Hove City Council Audit Plan 2023-24.
2. BHCC - Informing the Audit Risk Assessment 2023-24