

<b>Audit Committee Meeting</b>	
<b>Meeting Date</b>	23 April 2025
<b>Report Title</b>	Updated 2023/24 Audit Findings Report
<b>EMT Lead</b>	Lisa Fillery, Director of Resources
<b>Head of Service</b>	Claire Stanbury, Head of Finance and Procurement
<b>Lead Officer</b>	
<b>Classification</b>	Open
<b>Recommendations</b>	Members are asked to: 1. Note the external auditor's updated Audit Findings Report (Appendix I);

## 1. Purpose of Report and Executive Summary

- 1.1 This report updates the Audit Committee on the external auditor's Audit Findings Report 2023/24 for their consideration.

## 2. Background

### Audit Findings Report

- 2.1 Grant Thornton UK LLP has been the Council's external auditors since 1 September 2012. Their audit of the financial statements began in September 2024 and was finally concluded in February 2025, just within the audit backlog backstop date.
- 2.2 The Audit Findings Report highlights the key matters arising from the audit of the Council's Annual Financial Report for the year ended 31 March 2024. It is also used to report the audit findings to management and those charged with governance. Grant Thornton are required to report whether the Council's Annual Financial Report presents a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared. They are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure value for money.
- 2.3 The Audit Findings Report considered by this committee on 22 January 2025 was subject to final audit testing and GT internal review processes on the following areas.
  - testing of property, plant & equipment;
  - testing of pension liability;
  - testing of employee benefits expenditure;
  - testing of grants income including grants received in advance;

- 2.4 An updated audit findings report is attached at Appendix I, with the changes made since the report considered by this committee on 22 January 2025 circled in red.
- 2.5 Following the conclusion of the audit testing and GT's internal review they raised an issue with the accounting treatment of an item of plant, property and equipment that had been treated as an Asset Under Construction (AUC) since the initial construction of Bourne Place.
- 2.6 During 2023/24 it was confirmed that this asset formed part of the public realm works that had been adopted by KCC in 2022/23 and so should no longer be held on Swale's balance sheet. The accounting treatment route taken was to dispose of the asset at nil value, which removed the asset from balance sheet and charged the cost to the Comprehensive Income and Expenditure statement.
- 2.7 The audit opinion was that as the asset was not owned by the council that it should have been treated as Revenue Expenditure Financed by Capital Under Statute (REFCUS) in the accounts. This would have charged the cost of construction to the Comprehensive Income and Expenditure statement at the time that costs were incurred (between 2017/18 and 2020/21).
- 2.8 It is our understanding that during the build phase of Bourne Place there was some uncertainty that KCC would adopt the completed asset and if this is the case then treating the asset as REFCUS at that time would not have been advisable.
- 2.9 In order to address the position in 2023/24 the above accounting treatment was actioned which resulted in the correct statement of assets on the balance sheet to be carried forward to 2024/25 and avoided complete restatement of prior year balances to arrive at the same position. As can be seen from the audit findings report (page 35) the impact on both the net expenditure and the general fund is nil. It also states *that the accounting entries stated are the proposed adjustment of reversing the capitalisation of the assets only. Management will be required to first unwind the disposals, then reverse the capitalisation of the spend and adjust the movement in reserves accordingly. These changes will lead to an impact on the core statements and associated notes.* It is for those reasons that we have accepted a modified opinion on that element only of the accounts as there is no benefit to the reader of the accounts or any impact on the council's closing balance sheet position for 2023/24 to reverse the accounting entries and restate the 2022/23 position.
- 2.10 As the financial statements have not been amended to reflect the position highlighted by the auditors (for the reasons stated above), their opinion has been modified from an unqualified position, to a qualified 'except for' opinion due to the unadjusted position for the disposal of the asset under construction.
- 2.11 The financial statements for 2023/24 remain unchanged to those approved by this committee in January 2025.
- 2.12 The additional audit recommendations following the completion of the audit testing have been also been noted.

### 3. Proposals

- 3.1 That the audit committee note the modification to the draft audit opinion, which the external audit team have issued to accept the financial statements as currently drafted.
- 3.2 As in the past, the Director of Resources and the Head of Finance and Procurement will work with the external auditors to review the accounts and to continue to maintain and improve them in the future, taking on board the audit recommendations where relevant.

### 4. Alternative Options

- 4.1 To action the accounting entries identified by the external auditors, which would involve considerable officer time and incur further audit fees to reaudit the amended position. It also raises a significant risk of further drafting errors to the statement of accounts given the complexity and level of changes required to bring us back to the same position. This option is not recommend.

### 5. Consultation Undertaken or Proposed

- 5.1 Consultation has taken place with the chair of this committee and the leader of council on the updated audit opinion.

### 6. Implications

Issue	Implications
Corporate Plan	Good financial management is key to supporting the Corporate Plan objectives.
Financial, Resource and Property	The External Auditor's opinion is that the Council's accounting statements give a true and fair view of the financial position of the Council as at 31 March 2024 and its income and expenditure for the year then ended except for the item described.
Legal, Statutory and Procurement	The production of the financial statements is a legal requirement under the 2015 Accounts and Audit regulations.
Crime and Disorder	No direct issues
Environment and Climate/ Ecological Emergency	No direct issues
Health and Wellbeing	No direct issues
Safeguarding of Children, Young People and Vulnerable Adults	No direct issues
Risk Management and Health and Safety	No direct issues
Equality and Diversity	No direct issues
Privacy and Data Protection	No direct issues

## **7. Appendices**

7.1 The following documents are to be published with this report and form part of the report:

7.1.1 Appendix I: Updated Audit Findings Report