

This Report will be made public on 3 May 2024



Report number: **AuG/24/01**

**To:** Audit and Governance Committee  
**Date:** 14 May 2024  
**Head of Service:** Lydia Morrison – Interim Director Governance and Finance Services  
**Cabinet Member:** Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance

**Subject:** Statement of Accounts 2022/23 – Audit Findings

**Summary:** In accordance with the Accounts and Audit (Amendment) Regulations, the audit of the 2022/23 Accounts has now been completed. The final audit findings in relation to the audit of the 2022/23 Statements of Account are set out within the Grant Thornton's Audit Findings report attached as Appendix A.

**Reasons for recommendations:**

The Committee is asked to note the recommendations set out below because the Accounts and Audit (Amendment) Regulations require the Council to consider and approve its 2022/23 Statement of Accounts (Appendix B) to enable publication to be made.

**Recommendations:**

1. To note Grant Thornton's final 2022/23 Audit Findings report (ISA 260) on the 2022/23 Statement of Accounts.
2. To approve the updated Statement of Accounts for 2022/23.
3. To note the formal External Auditor (GT) Letter of Representation that will be signed by the Chairman of the Audit & Governance Committee and the Interim Director Governance and Finance Services (S151 Officer) as required by the external auditor at the conclusion of the audit.
4. To note the auditors (GT) report on the Council's 2022/23 audit risk assessment.

1. INTRODUCTION AND BACKGROUND

- 1.1 For 2022/23 the statutory deadlines for publishing the final audited accounts was 30<sup>th</sup> September with unaudited accounts needing to be published by 31st May. It was identified during audit planning that external audit would be unable to work to the 30<sup>th</sup> September deadline due to delays in available audit resources whilst the audit sector work through the backlog of public sector audits highlighted and acknowledged by the Public Sector Audit Appointments.
- 1.2 The 2022/23 Statement of Accounts has been prepared in accordance with the relevant Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS).
- 1.3 The Department for Levelling-Up, Housing and Communities (DLUHC) published the Accounts and Audit Regulations on 28 June 2022. The Accounts and Audit (Amendment) Regulations amended the date for the publication of draft accounts to 31 May and the publication of the final audited accounts from to 30 September to help stabilise the market and address long-term supply auditor issues.
- 1.4 It has not been possible to meet the deadlines due to a number of factors beyond the Council's control. The completion of the audit was delayed, primarily due to a number of elements including limited resources to carry out the Council's accounts final audit given Grant Thornton's existing commitments to other ongoing audits, various audit resource issues, changes to the audit team, agreeing appropriate accounting treatment, valuation, and the Group financial statements issues.
- 1.5 Following further discussions with GT in July 2023, the Council was advised that September and October are the peak times for GT's business as a whole. That they have looked for team availability to carry out the audit and have been unable to reallocate resources given the GT's existing commitments to other clients.
- 1.6 The continuous rescheduling of the final audit tends to have implications for the Council's finance team and might present other challenges for 2023/24 closures of accounts process. This knock-on impact is currently being worked through by officers with GT to ensure minimum disruption to other work commitments and future audit.
- 1.7 Changes to local government audit since the abolition of the Audit Commission and a lack of qualified and experienced audit staff in the sector are some of the key drivers for the final audit backlogs. The backlog is so significant that it is really important to know what is holding this up and what steps need to be taken to address the issues in a more granular way.
- 1.8 The Auditor's view is that the uncertainties around the valuation of infrastructure assets, and the significant ongoing challenges of recruiting and retaining sufficient audit staff, are contributing to create a level of backlog,

which is beginning to seriously undermine the financial management, governance, and accountability of local government bodies.

- 1.9 At the same time, new auditing standards required more detailed investigations than in previous years, further lengthening the timescales and the Council will likely incur significant audit fees variation, in addition to the ongoing situation, putting pressure on budgets set with a potential damage to the Council's reputation.
- 1.10 The Council cannot emphasise enough that the backlog and non-completion of audit delay comes at a cost - financial cost, reputational cost, and governance cost - and that when audits are delayed, financial reporting is weakened, leading to various risks. The ongoing delay and lack of timely external audit assurance has a direct impact on the Council's planning processes, as the Council commences its annual budget planning during the autumn of the preceding year. Late delivery of an audit opinion makes it harder for the Council to plan its budgets setting processes for the forthcoming year with certainty.
- 1.11 While the Council continues to conduct future financial planning and set its annual budgets, it is forced to do so without the support it is due, i.e., without the back up of an independently audited opinion.

## **2. 2022/23 AUDIT OF THE ACCOUNTS**

- 2.1 Under its terms of reference, it is the role of this Committee to review/approve the annual statement of accounts and the external auditor's report to those charged with governance, having considered whether appropriate accounting policies have been followed, and any issues raised by Grant Thornton from the audit of the accounts.
- 2.2 The audit of the accounts is substantially complete, and it is important to note that the Audit Opinion in respect of the 2022/23 Accounts will be an Unqualified Opinion on the accounts, subject to the successful completion of any outstanding matters. A number of accounting and presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the report.
- 2.3 Grant Thornton has also completed the review of the arrangements made by the Council to secure economy, efficiency, and effectiveness in the use of resources (Value for Money - VFM) and did not identify any significant VFM risks in 2022/23. Grant Thornton is satisfied that the Council has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2023, and did not feel it necessary to report on any particular points on value for money issues.

## **3. STATEMENT OF ACCOUNTS - Content**

- 3.1 In recent years, the authority has seen a change in the audit approach taken by Grant Thornton, with increased scrutiny of the authority's accounting estimates and related disclosures. This includes increased scrutiny of journal postings and the evidence supporting those entries. There has also been a significant focus on two of the largest accounting estimates (pensions liability and property valuations). This additional scrutiny has been seen nationally following requests made on auditors by the Financial Reporting Council and auditing standards. This applies to audits at all authorities.

### **Narrative Statement**

- 3.2 The purpose of the narrative statement is to provide commentary on the financial statements. It includes an explanation of key events and their effect on the financial statements. The information in the narrative statement is consistent with budget information provided during the year and reconciles to the year-end financial position reported to Cabinet in July 2023.

### **Core Financial Statements**

#### **3.3 Movement in reserves statement**

Reserves represent the Council's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable. The level of usable reserves, the Council's spending plans, and other sources of funding determine how much council tax needs to be raised. Unusable reserves derive from technical accounting adjustments and cannot be used to support spending. The movement in reserves statement analyses the changes in each of the authority's reserves between 2021/22 and 2022/23.

#### **3.4 Comprehensive income and expenditure statement**

The comprehensive income and expenditure statement reports on how the Authority performed during the year and whether its operations resulted in a surplus or deficit. It is produced in a standard format and is made up of five broad sections:

- Cost of services: Presented in the management structure of the Council. It includes service specific income and expenditure.
- Other operating income and expenditure: Includes the surplus or deficit from the sale of property, plant, and equipment.
- Financing and investment income and expenditure: Includes interest payable and receivable and trading account income and expenditure.
- Taxation and general grant income and expenditure: Includes revenue from council tax, business rates and government revenue and capital grants.
- Other comprehensive income and expenditure: Includes items which are not allowed to be accounted for elsewhere, such as increases in the value of land and buildings and changes in the actuarial assessment of pension assets/liabilities.

#### **3.5 Balance Sheet**

The balance sheet is a 'snapshot' of the authority's financial position at a point in time, showing what it owns and owes at 31 March 2023. It is divided into two halves that, as the name suggests, balance. These are assets less liabilities (the top half) and reserves (the bottom half).

#### **3.6 Cash flow statement**

The cash flow statement sets out our cash receipts and payments during the year, analysing them into operating, investing, and financing activities. Cash-flows are related to income and expenditure but are not equivalent to them. The difference arises from the accruals concept, whereby income and expenditure are recognised in the comprehensive income and expenditure statement when the transactions occurred, not when the cash was paid or received.

### 3.7 Accounting Policies and Notes to the Core Financial Statements

The accounting policies set out the accounting rules the authority has followed in compiling the financial statements. They are largely specified by International Financial Reporting Standards and the Local Authority Accounting Code of Practice. We have limited discretion to amend them. The Notes to the accounts provide further detail for the figures within the core statements as well as other information we are required to include in the Statement of Accounts.

## 4. KEY EXTERNAL AUDIT FINDINGS AND AMENDMENTS TO THE STATEMENT OF ACCOUNTS

4.1 Audit findings and amendments to the 2022/23 financial statements are detailed in Appendix A - *The final 2022/23 Audit Findings report, including the Audit Opinion from Grant Thornton*. The audit findings/amendments set out within the GT report have been reflected within the revised statement of accounts appended to this report. The Committee is asked to note and agree to these amendments in the final 2022/23 Statement of Accounts, which have been agreed by officers. A small number of disclosure adjustments, to improve the presentation of the financial statements have also been agreed.

4.2 The findings from the external audit are set out in detail within the GT's 2022/23 Audit Results Report (Appendix A), which is a separate report, and Members are asked to note the summary below.

Nos.	Issue	Management Response
1	Trial balance mapping	This is a new requirement to populate the GT's mapping template and the council is in the process of replacing its financial management systems, which will enable mapping automation of the accounts to the financial statements and populating GT templates.
2	Journal Authorisation	Controls around segregation of duties and journal authorisation will be reviewed and action taken to ensure that the control around segregation of duties are operation effectively.
3	2021/22 - Debtor and creditor opening balances	Issue relates to the reporting facilities available within the current finance system. The Council is in the process of upgrading and replacing the current system that will enable robust reporting on the debtors and creditors balances with easier extractions of relevant data.

<b>Nos.</b>	<b>Issue</b>	<b>Management Response</b>
4	2021/22 - Cleansing of the fixed asset register	The council is reviewing its accounting and depreciation policies following which the Council will consider whether any assets need to be written out of the fixed asset register or change the assets economic useful life.
5	2020/21 - HRA componentisation	The council would review its accounting policy and consider what level of componentisation would be required.

4.3 Audit amendments – the summary of all adjusted misstatements are set out within the table below, and full details are provided within the GT’s 2022/23 Audit Results Report (Appendix A).

<b>Description</b>	<b>Impact on Total Net Expenditure</b>	<b>Statement of Financial Position</b>
	<b>£</b>	<b>£</b>
Valuation of land and building understated – this was due to the application of rental income in the valuer’s calculation of the Manor Road Multi-storey car park.	(310,059)	310,059
Valuation of investment property overstated — valuation of the industrial unit 1 & 2 were incorrectly recorded.	158,250	(158,250)
Valuation of investment property overstated – due to incorrect entry of industrial unit 3a and 4a in the asset register.	159,900	(159,900)
Valuation of investment property understated - due to the reconciliation of the Connect 38 office valuation amount within the fixed asset register and the valuation report at the year end.	(1,247,200)	1,247,200
<b>Overall Impact</b>	<b>(1,230,109)</b>	<b>1,230,109</b>

4.4 The issues identified within 2022/23 audit will form the basis of continuous improvement programme in the build up to the production of next year’s accounts, focusing on effective control, measurement, and project planning that will ensure the account closure and final audit deadlines are achieved.

4.5 Plant Property and Equipment (PPE) transactions will be monitored to ensure errors are identified as soon as possible and manual journal transactions will be reviewed by a senior member of staff prior to posting. There will be additional controls whereby cross checking of data are carried out between what was valued by the external valuers and reconciliation to the fixed asset register.

4.6 **Analytical Review** - The Council’s financial statements are prepared in line with the Statement of Recommended Practice/CIPFA Code of Practice and

are subject to internal quality assurance arrangements that review areas of highest risk. The statement of account was subjected to a series of analytical reviews procedures by the external auditors to identify any unusual movements or trends for further investigation. The audit work did not identify any material issues or unusual transactions to indicate any deliberate misreporting of the Council's financial position. Some of the significant movements within the comprehensive income and expenditure statement (CIES) are as follows –

#### Analytical Review - CIES Extract

2021/22			Description	2022/23			Comments
Gross Exp.	Gross Income	Net Exp.		Gross Exp.	Gross Income	Net Exp.	
£000s	£000s	£000s		£000s	£000s	£000s	
9,686	(6,264)	3,422	Estates & Operations	16,506	(6,790)	9,716	Otterpool impairment of assets (£2m), Mountfield Industrial estate impairment of assets (3.5m)
9,060	(3,111)	5,949	Place	9,529	(4,257)	5,272	Increase in income from Waste Collection £400k and Otterpool Income £580k.
6,784	(32,157)	(25,373)	Taxation and non-specific grant income	6,317	(27,263)	(20,946)	£2.4m reduction in Non-ring fenced government grants and £4.1m reduction in capital grants and contributions.
		(8,713)	Re-measurement of net defined liability	-	-	(61,192)	£67m increase due to a change in financial assumptions, £5m increase due to change in demographic assumptions, and £18m reduction due to an increased gain on defined benefit obligation.

## 5. LETTER OF REPRESENTATION 2022/23

- 5.1 Each year, on completion of the audit of the Council's Financial Statements, the Interim Director Governance and Finance Services (S151) is required to submit a Letter of Representation to the Council's external auditor. The letter formally and publicly confirms the accuracy and completeness of the presented Statement of Accounts.
- 5.2 A copy of the draft Letter of Representation for 2022/23 is attached at Appendix C, and on receipt of the signed Letter of Representation, the

Council's external auditor will formally issue an opinion on the Financial Statements.

## **6. INFORMING THE AUDIT RISK ASSESSMENT – 2022/23**

- 6.1 The purpose of the report (Appendix D) is to contribute towards the effective two-way communication between the Council's external auditors and Folkestone and Hythe District Council, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where the Auditors are required to make inquiries of the Audit and Governance Committee under auditing standards.
- 6.2 Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.
- 6.3 This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Committee in fulfilling its responsibilities in relation to the financial reporting process.
- 6.4 As part of our risk assessment procedures the auditors are required to obtain an understanding of management processes and the Council's oversight of the following areas:
- General Enquiries of Management
  - Fraud,
  - Laws and Regulations,
  - Related Parties,
  - Going Concern, and
  - Accounting Estimates.

## **7. CONCLUSION**

- 7.1 The Committee is asked to note the Grant Thornton's final 2022/23 Audit Findings report (ISA 260) on the 2022/23 Statement of Accounts and the 2022/23 Annual Report on Value for Money.
- 7.2 To note the auditor's report on Informing the audit risk assessment for Folkestone and Hythe District Council 2022/23, which contribute towards the effective two-way communication between the Council's external auditors and Folkestone and Hythe District Council, as 'those charged with governance'.

## **8. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**



**8.1 Legal Officer's Comments (AK)**

There are no legal implications arising directly out of this report that are not already referred to in the report.

**8.2 Finance Officer's Comments (OO)**

This report has been prepared by Financial Services and all financial matters contained within the body of the report.

**8.3 Diversity and Equalities Implications ( )**

There are none arising directly from this report.

**9. CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

Councillors with any questions arising out of this report should contact the following officer prior to the meeting.

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The following background documents have been relied upon in the preparation of this report:

**10. Appendices:**

- Appendix A - The final 2022/23 Audit Findings report, including the Audit Opinion from Grant Thornton in accordance with the International Standard of Auditing (ISA 260).
- Appendix B - Updated Statement of Accounts for 2022/23
- Appendix C - The 2022/23 Letter of Representation.
- Appendix D - Informing the audit risk assessment for Folkestone and Hythe District Council 2022/23