

STANDARDS AND AUDIT COMMITTEE – 6 JULY 2023

UPDATE ON EXTERNAL AUDIT

Executive Summary

Attached is an update on the External Audit received from the Council's External Auditor, BDO.

Recommendations

The Committee is requested to:

RESOLVE That the update be received.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers:	None.
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UPDATE TO STANDARDS AND AUDIT COMMITTEE

WOKING BOROUGH COUNCIL

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PROGRESS REPORT

INTRODUCTION

The purpose of this report is to provide the Standards and Audit Committee with an update on the progress of our audit on the Council's 2019/20 financial statements.

Since we last provided an update to this Committee, the Department of Levelling Up, Housing and Communities has published the report of its non-statutory review into the Council's finance, investments and related governance. The Council has also issued a section 114 notice as a result of its financial position. Commissioners have also been appointed to the Council.

Since publication of the non-statutory review the Council has continued to undertake work to progress its understanding of its financial position. This included a review of the Council's lending and borrowing arrangements, impairments, and the position of its companies. A review of the Council's Minimum Revenue Provision has also been completed. While the Council's assessment of the matters is not yet complete, in time these are likely to provide further clarity of the Council's financial position.

In previous reports to this Committee we have provided members with a summary of the most significant matters on which we still need to conclude, the most significant of these being:

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- Assurance over amounts consolidated in the Council's group accounts in respect of the Thameswey group of companies.
- The value of the Minimum Revenue Provision
 - The recoverability of loans to subsidiary entities
 - Our Use of Resources assessment.

In recent weeks we have provided officers with details of the information we require in order to complete our work in these areas. We have set out a summary of these on the following pages. Members of the Committee should be cognisant of the fact that it is the Council's responsibility to prepare financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied those financial statements give a true and fair view.

PROGRESS REPORT

AUDIT PROGRESS

Our aim has always been to provide the Council with a high-quality audit, completed on a timely basis. The position on our audit of the Council's 2019/20 financial statements is that that audit remains in progress. We set out below and on the following pages a summary of the most significant matters on which we still need to conclude

Consolidation of Thameswey Group

We have previously reported to the Standards and Audit Committee that we have been unable to access the working papers prepared by Hamlyns LLP to (a) prepare the Thameswey Limited financial statements for the period to 31 December 2019, or (b) support their audit of those financial statements.

The audit of the 31 December 2021 financial statement for Thameswey was completed by Menzies. Menzies have qualified their audit opinion on those financial statements. The basis of this qualification was that during the year ended 31 December 2021 year, Thameswey revalued investment properties, resulting in a downward valuation of £7.9 million. Menzies found that a fair value movement in relation to investment properties had not been recognised in the financial statements since 31 December 2015, and consequently part of this valuation may have related to prior periods. Menzies were, however, unable to determine how much of the impairment related to prior periods.

The 31 December 2021 financial statements for Thameswey included a significant number of prior period adjustments. The net impact of these adjustments on the consolidated retained earnings at 1 January 2021 was £14.3 million. The net impact on tangible fixed assets was to increase their value by £65.5 million.

Given these matters we have concluded that there is a significant risk that amounts relating to the Thameswey group of companies, and consolidated within the Council's 2019/20 financial statements, are materially misstated.

We wrote to the Council on 23 March 2023 requesting that they instruct the directors of Thameswey Limited to engage a new firm of auditors to reaudit the 31 December 2019 and 31 December 2020 financial statements. The Council wrote to us on 9 June 2023 stating that the estimated cost of this (£500,000) does not represent good value for money and is contrary to the Council's duty of Best Value.

PROGRESS REPORT

AUDIT PROGRESS

The absence of sufficient and appropriate audit evidence over amounts consolidated within the Council's group financial statements pertaining to the Thamesway group of companies will give rise to a qualification of our auditors report.

Minimum Revenue Provision

In previous reports to the Standards and Audit Committee we reported concerns around the legality of the Council's Minimum Revenue Provision (MRP). The Council recently commissioned an external consultant to review the Council's current approach to setting and calculating MRP. This review concluded that areas of non-compliance with the DLUHC guidance on MRP are material; the understatement for the period to 31 March 2020 was assessed as £31 million, with a cumulative understatement to 31 March 2020 of £133 million. The Council will need to conclude its assessment of its consultants report, and whether it intends to amend its draft financial statements.

Loans to subsidiaries and other third parties

Over a long period of time the Council has loaned significant sums of money (c. £1.8bn) to its wholly owned subsidiary companies and other third parties. In previous reports to the Standards and Audit Committee we have highlighted that the recoverability of these loans represented a significant risk to our audit, and that our work in relation to this remained in progress.

A key area of focus for our work is in relation to the loans made to the ThamesWey group of companies, and Victoria Square.

- Thamesway - has operated at a loss for seven of the last nine years between 2012 and 2021. In recent years the losses have increased from £4.6m in 2018 to nearer £20m in 2020 and 2021. Loans made by the Council to Thamesway currently stand at £570 million.
- Victoria Square - the latest asset valuation report (June 2022) gives a value of £205m, a shortfall of almost £500m against the loans advanced by the Council.

PROGRESS REPORT

AUDIT PROGRESS

The Council will need to thoroughly consider facts and circumstances of these matters on its draft financial statements. This will include consideration of the extent to which loans made by the Council are recoverable, any legal issues around how those loans have been use, and the need for impairment of the Council's interest in Victoria Square (Woking) Limited. The Council has not yet provided us with its assessment.

Use of Resources


Alongside our work on the Council's financial statements, we are required to satisfy ourselves that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (our value for money conclusion). Our use of resources assessment remains in progress, but will consider

The Council's financial position

The adequacy of the governance processes established by the Council in advance of it entering into significant investments.

In assessing these matters, we will consider the findings from other reviews recently completed, or currently under way within the Council. This will include the non-statutory review of the Council's finances and governance undertaken in early 2023.

APPENDIX 1 - NATIONAL PICTURE

 To provide further context for members, we have set out below a summary of the Issues that have contributed to the delay in completion of local authority audits, and the position on audit sign-offs across all local authority audits for all suppliers.

- ▶ Backlog initially created during Covid and lockdown that has not been recovered
 - ▶ Enhanced quality requirements following well publicised audit failures within the private sector
 - ▶ Implementation of new auditing standards
 - ▶ Infrastructure accounting and inadequate historical records for highways and infrastructure spend (though we recognise that this specific point does not apply to the Council)
 - ▶ Increased complexity of group structures, nature of transactions, and asset ownership (including the acquisition of investment property for income generation purposes)
- Difficulty recruiting auditors to the sector.

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2019/20

Only 45% of 2019/20 local government bodies received an audit opinion by the extended deadline of 30 November 2020 and 44 (9%) had still not received the audit opinion by 31 March 2023.

2021/22

Only 12% of 2021/22 local government bodies received an audit opinion by the extended deadline of 30 November 2022 and 347 opinions (74%) remained outstanding at 31 March 2023.

2020/21

Only 9% of 2020/21 local government bodies received an audit opinion by the extended deadline of 30 September 2021 and 145 (31%) had still not received the audit opinion by 31 March 2023.

Redmond review

Limited progress has been made against the Redmond review recommendations to improve local public audit. The Financial Reporting Council (FRC) has recently taken on the role of shadow system leader and a memorandum of understanding setting out the FRC's responsibilities in this role was agreed with DLUHC in March 2023.

FOR MORE INFORMATION:

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