



Report to the Standards and Audit Committee  
**WOKING BOROUGH COUNCIL**

Audit Progress: year ended 31 March 2020

15 September 2022

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## Overview

The purpose of this report is to give the Standards and Audit Committee

- An update on the progress of our audit for the year ended 31 March 2020 in the context of the wider public sector (pages 2 - 6)
- An outline of the specific factors within the public sector audit market that have contributed to the delays experienced in the completing our audit of Woking Borough Council. This includes a summary of the national position across all suppliers on unfinished audits.

## Audit progress

The 2020 audit has been challenging to deliver and is not yet complete. The Council's financial statements contain a number of significant accounting estimates requiring management judgement, all of which require more detailed consideration in light of revised auditing standards and regulator focus, resulting in the need for more resource and specialist resource. Specific examples relevant to our audit of the Council include property valuations (impacting on both the Council and its subsidiaries), pension liabilities, the recoverability of loans and other debts, and PFI liabilities. These factors, together with those outlined on page 7 of this report have contributed to the delay in completion of our audit, in addition to the longer-term impacts of Covid-19 and remote working.

Notwithstanding this, we have worked with the Council's finance team to make progress on most areas of the financial statements. This work is now subject to our internal review processes. Details of these are provided at Appendix 1 of our report on page 8. This is unchanged from the position we reported to this Committee in July 2022. There are, however, a number of areas in which our audit remains in progress, and our audit is not yet sufficiently progressed to enable us to present our Audit Completion Report. The following pages provide further details of the work currently outstanding.

At the conclusion of our audit we will issue an Audit Completion Report to the Standards and Audit Committee. This will set out the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements. Based on the work we have completed to date we have no significant matters to bring to your attention

In the meantime if you would like to discuss any aspects of our report in advance of, or subsequent to, the Standards and Audit Committee meeting we would be happy to do so.

Steve Bladen

5 September 2022





## Group Consolidation

The Council's group financial statements consolidates the transactions and balances relating to the Thamesway group of companies, a group of 13 subsidiary entities. As Group auditor we are required to design an audit strategy to ensure we have obtained the required audit assurance for each group component.

The accounts for the subsidiary entities were prepared and audited by Hamlyn's LLP, with the audit for the year ended 31 December 2019 being completed in October 2021. The Council provided us with group accounts in December 2021.

At the planning stage of our audit we identified a number of risks around the Council's group financial statements, including:

- The risk that due to the complexity and number of subsidiaries that there may be errors in the consolidation process and/or failure to eliminate intra-group transactions and balances.
- The subsidiary entities produce audited accounts to 31 December and there is a risk that material transactions for the remaining 3 months up to the Group year end of 31 March not be reported or valuations may be materially different.
- The subsidiary entities prepare financial statements under UK GAAP (FRS 102) rather than IFRSs and transactions and balances may require adjustment in the Group financial statements where accounting policies differ under IFRS based reporting standards.

We have undertaken an initial review of the audit working papers for the Council's subsidiary entities. However, this work is not yet complete and further work is required to conclude this element of our work. We are in the process of arranging a further review of the working papers prepared by Hamlyn's LLP.

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## Minimum Revenue Provision (MRP) Policy

At the conclusion of our 2018/19 audit, we raised in our Audit Completion Report an issue around the Council's MRP policy and the fact that it does not set aside any charge against the borrowing obtained to fund the loans to subsidiaries and the Victoria Square Ltd associate. The MRP strategy notes that the Council's borrowing is repaid on a back-to-back basis against loan repayments from these entities and that the business models would result in full repayment of the loans over the next 50 years.

We recommended that the Council reviews its existing MRP policy to confirm that it is compliant with the new guidance for investments supported by borrowing from 1 April 2019. We also recommended that for pre-April 2019 investments, the Council closely monitor the business plans of its subsidiaries to confirm that the loans will be fully repaid. If it considered the loans will not be repaid it would be appropriate to commence making an MRP charge against that borrowing.

We have also received an objection from a member of the public alleging that the Council's MRP policy is unlawful.

In testing the Council's MRP charge, we will undertake the following work:

- **Assess whether the Council's MRP policy complies with relevant guidance.** We requested that the Council seek legal advice on this matter. This was provided to us in late April 2022. The advice received by the Council from Legal Counsel and its Treasury Management advisors confirms that the Council's MRP policy for the 2019/20 year is compliant with relevant guidance. Importantly, however, that advice notes that where the Council deviates from the methods for calculating MRP set out in the 2018 regulations, the financial information prepared by the Council justifies that the method used has resulted in a prudent provision. We have reviewed the advice received by the Council and are satisfied that the Council's MRP policy complies with relevant guidance. However, we have not yet concluded our assessment of whether we consider the Council's MRP policy to be sufficiently prudent.
- **Assess whether the Council's policy is sufficiently prudent.** As noted above, this element of our work remains in progress.

Following the conclusion of our work in this area we will write to the objector setting out our findings.

## Recoverability of loans to subsidiaries and associate

At 31 March 2020, the Council's borrowing was £732 million. This has increased significantly in recent years, and currently stands in excess of £1.8bn, the third highest for any Council in the UK in absolute terms and the highest of any Council per head of population. Approximately £1.1bn of this has been for loans to the Thameswey group of companies, or Associate Companies (Victoria Square Woking Ltd).

The Council's ability to recover these loans will depend on those subsidiary entities and associate generating sufficient profits to repay this debt.

To test the recoverability of these loans we will assess whether management's assumptions appropriately reflect the recoverability of these loans, given current economic conditions and the performance of those subsidiaries. This work remains in progress.







## User 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). Within our audit planning report we identified significant risks in relation to:

- ***Sustainable finances.*** The ongoing financial environment for local authorities is challenging, and the Council will need to deliver savings and achieve income targets to maintain financial sustainability in the medium term. There is a risk that these will not be met. Our work to address this risk remains in progress, but specifically will consider the following
  - The reasonableness of the assumptions used in the Medium Term Financial Strategy
  - The extent to which the savings identified in the Medium Term Financial Strategy have been delivered, and the Council's strategy to close budget gaps in future years;
  - The impact of the Council's significant capital programme on its budget, the adequacy of the Council's risk management plans in the event of delays to revenue generating projects, and the impact on borrowing and MRP charges. Completion of this work is closely linked to our work on the recoverability of the loans made by the Council to its subsidiary entities (see page 5).
- ***Decision making processes in relation to significant projects.*** The Council continue to work on a number of schemes that are significant in terms of its strategic, operational and financial priorities. We will assess the Council's governance arrangements over major projects. This work remains in progress.



## Audit Sector developments

The sector has seen a number of pressures arising since the faster close agenda brought the reporting deadline forward for the 31 March 2019 period to 31 July 2019. Recruitment and retention of staff with suitable public sector experience has become increasingly challenging on a national level. Added to this the increased scope of audit work, increased complexity in public sector accounts and extensive regulatory requirements have continued to add to this pressure sector wide. It has been widely recognised that the audit sector, and public sector audit specifically, requires reform to enable it to remain sustainable. The Redmond review specifically focuses on recommendations to help achieve this in the longer term.

Alongside these already present pressures, a global pandemic manifested additional impacts and pressure. New challenges of remote working, onboarding and training new staff remotely, communication, IT support and illness within the team directly impacting efficiency and delivery.

We have set out below the current position on audit completions nationally.

### 2018/19

Only 60% of local government bodies were able to publish audited accounts by the deadline of 31 July 2019. By exception, there remain a small number of 2018/19 audits outstanding to date (13 bodies, representing 3% of bodies). This is unchanged from the figure reported to this Committee in July 2022. We issued our auditor's report on the Council's 2018/19 financial statements in November 2020.

### 2019/20

The publication deadline for years ending 31 March 2020, initially pushed back to end September 2020 from July 2020, was then further extended to 30 November 2020. However, only 45% of local government bodies were able to publish audited accounts by this extended deadline, with even authorities which traditionally have been completed in advance of the deadline close to or at the deadline date.

As at 31 March 2022 opinions were outstanding for 51 bodies (11%). This figure includes Woking Borough Council. This is unchanged from the figure reported to this Committee in July 2022.

### 2020/21

The 31 March 2021 publication deadline was set at end September 2021. Audit firms and audit regulation bodies did feedback that this was not realistically achievable. Only 9% of 2021 audits were completed by 30 September 2021, 20% by 30 November 2021, 40% by 31 December 2021, and 52% by March 2022. By June 2022 the figure had risen to 58% (276 bodies).

# APPENDIX 1: PROGRESS

## Work substantially completed

Work on the following areas of the financial statements is now substantially complete and are now subject to our internal review processes. This is unchanged from the position we reported to this Committee in July 2022.

- ▶ Investments
  - ▶ Accrued interest on receivables and interest income received
  - ▶ Sample testing of credit notes
  - ▶ Borrowings
  - ▶ Grant receipts in advance
  - ▶ VAT review
  - ▶ Pensions liability
  - ▶ Cut off testing across income and expenditure
  - ▶ Recharges and overheads
  - ▶ Grant Income received
  - ▶ Testing on a sample of other income and expenditure items not tested elsewhere
  - ▶ Journals
  - ▶ Related party transactions
  - ▶ Cash & bank reconciliation
  - ▶ Capital commitments
  - ▶ Asset existence
  - ▶ Depreciation
  - ▶ Assets transferred
  - ▶ Operating leases
  - ▶ Asset disclosure notes
  - ▶ Asset disposals
  - ▶ Assets under construction
  - ▶ Expenditure completeness
  - ▶ Interest payments
  - ▶ Housing benefits expenditure
  - ▶ Payroll
  - ▶ Housing Revenue Account (including income and expenditure testing, system reconciliations, disclosures in the accounts)
  - ▶ Cash flows statement
  - ▶ Review of minutes
  - ▶ Repairs and maintenance
  - ▶ REFCUS
  - ▶ Income completeness
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The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the Council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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