

EXTERNAL AUDIT REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2017-18

Executive Summary

Attached as Appendix 1 is the External Auditor's report to those charged with Governance (ISA 260) for 2017/18. Attached as Appendix 2 is a draft Management Representation letter, a copy of which will be signed following approval of the Statement of Accounts by Council on 26 July 2018.

In their report, the External Auditor draws the Committee's attention to the matters of concern discovered during the audit, and any adjusted or unadjusted audit differences. The External Auditor raised no recommendations as a result of their work this year and is satisfied that the Council has addressed those recommendations raised last year. There was one presentational adjustment which was made to the supporting notes to the accounts.

This report contains the Council's assessment of going concern, demonstrating that the assumption of going concern in preparing the accounts is appropriate.

The Standards and Audit Committee, in its role of governance and overseeing audit arrangements, is requested to receive the report and make any comments to full Council on 26 July 2018 as part of the Council's consideration of the Annual Statement of Accounts.

Recommendations

The Committee is requested to:

RECOMMEND TO COUNCIL That the Report To Those Charged with Governance (ISA 260) 2017/18 and the Management Representation letter be received.

The item(s) above will need to be dealt with by way of a recommendation to Council.

Background Papers: None.

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External Audit Report to those Charged with Governance (ISA 260) 2017-18

1.0 Introduction

- 1.1 Attached as Appendix 1 is the External Auditor's report to those charged with Governance (ISA 260) for 2017/18. Attached as Appendix 2 is a draft Management Representation letter, a copy of which will be presented to Council on the 26 July 2018 for signature after approval by Council.
- 1.2 In their report the External Auditor, KPMG, draws the Committee's attention to matters of concern discovered during the audit. The report also sets out any significant adjusted or unadjusted audit differences. There was one presentational adjustment required to the notes to the accounts this year.
- 1.3 There were no recommendations raised as a result of the audit work this year. KPMG also confirm that previous years recommendations have been addressed.

2.0 Going Concern Assessment

- 2.1 As part of their audit work, KPMG consider going concern, and require the Council to demonstrate its ability to continue as a going concern for a period of 12 months from the signing of the accounts. Authorities are now asked to report their assessment of going concern to their Audit Committee.
- 2.2 Going concern is the assumption that the Council, its functions and services, will continue in operational existence for the foreseeable future. It is a fundamental principle in the preparation of the accounts and is required by the Local Authority Code of Accounting Practice.
- 2.3 If going concern was in doubt the impact on the accounts would include revaluation of fixed assets to ensure the values were actually realisable, and the inclusion of provisions for service closure and redundancies.
- 2.4 The Code assumes going concern on the basis that essential services to communities need to continue and that authorities are revenue-raising bodies with potential central government flexibility and support should they be in serious financial difficulty. Nevertheless it is best practice to consider and demonstrate that this assumption is appropriate.
- 2.5 The main factors which underpin the assessment are as set out below and considered further in the following sections.
 - The Council's current financial position;
 - The Council's projected financial position;
 - The Council's governance arrangements;
 - Identified risks and external conditions which could affect the Council's position.

Current Financial Position

- 2.6 The Statement of Accounts sets out the financial position at 31 March 2018, and the performance in the year to that date. KPMG have completed their audit of the accounts and have recommended one presentational change to the notes to the accounts.
- 2.7 The Council's financial and performance monitoring report for March 2018 showed underspends against budget of over £1m. This, together with the realisation of Business Rates income from previous years, and the acquisition of Dukes Court has enabled:

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- The transfer of rental income from Orion Gate into the MTFS reserve (£644k);
- No requirement to use the MTFS reserve to support the budget (£744k planned);
- The creation of a new Car Parks reserve with £1m to allow time for forecast activity in new car parks to levels to meet financing costs; and
- The creation of a Dukes Court reserve, credited with £840k of rental income, to meet future landlord investment and cover any income shortfalls.

- 2.8 There was an increase in the Business Rates appeals provision at 31 March 2018. This reflects a more cautious view following the April 2017 revaluation and during a period of disruption in Woking town centre. It results in the Council requiring a safety net payment to maintain the minimum level of Business Rates funding in 2017/18. With the safety net payment the level of income is approximately £150,000 less than the baseline level. The budget also assumed a further Business Rates benefit of £200,000. Both of these have been covered by previous years Business Rates surpluses.
- 2.9 There was some use of reserves in year, including the use of the Wolsey Place reserve to offset reductions in rental income following the surrender of a lease some years ago, the New Homes Bonus reserve to support work at Brookwood Cemetery and the Investment Strategy Reserve to fund Investment Programme projects.
- 2.10 Overall there was an increase in General Fund revenue reserves and balances from £24.3m to £30.4m, although £3.5m of this increase relates to the timing of the Business Rates 2017/18 deficit and is therefore unusable. Housing Revenue Account balances reduced from £10.7m to £7.4m for HRA reserves, although it is expected that these will rise again when costs incurred by the Council on the Sheerwater project are reimbursed by Thamesway. The budget for 2018/19, approved in February 2018, forecast a £2.6m use of revenue reserves in the year to 31 March 2019 to support the budget, fund projects and maintain assets.
- 2.11 Reserves are set aside for specific purposes but there may be some flexibility in the timing of when they are required. Some reserves, in particular the Business Rates and MTFS reserve (which has a balance of £3.4m), are specifically to offset the impact of future funding threats including the impact of economic downturn.

Medium Term Financial Strategy (MTFS)

- 2.12 The 2018/19 General Fund budget was approved in February 2018 and included a £309,000 use of reserves to offset funding reductions ahead of the mitigating revenue, as identified by the MTFS, being in place.
- 2.13 To date the performance monitoring for 2018/19 has not identified any significant adverse variances to the base budget. The Green Book for May 2018 shows a projected underspend of £300,000 with the £250,000 contingency still available.
- 2.14 The MTFS approved by Council in April 2018, identified the need for £6.3m of ongoing cost savings or increased income by 31 March 2022. Of this total, £2.9m has identified plans in place to mitigate the pressures.
- 2.15 This leaves £3.4m to be secured, including £1.6m in 2019/20. Whilst this is challenging, the 2019/20 figures assume no use of reserves, and no Business Rates or Council Tax surplus. Having finalised the collection fund for 2017/18 the Council Tax surplus is £98,000 and it is hoped that the Business Rates pilot in 2018/19 will generate income in excess of that budgeted for the year. It is also possible that the pilot could continue into 2019/20 with potential for further income retained by the Council.

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- 2.16 As part of the settlement for 2018/19 the government announced an intention to review the 'negative RSG' which it is assumed will cost the Council £945k in funding reduction in 2019/20. Any positive improvement in this position will reduce the savings to be secured.
- 2.17 In addition a proportion of the pressure arises through the impact of Investment Programme projects, some of which could be delayed should the need arise.
- 2.18 Plans continue to be developed to meet the medium term financial requirement, however, the 2017/18 results provide additional flexibility to manage the transition.

Governance Arrangements

- 2.19 Also on the agenda at this meeting is the Annual Governance Statement (AGS) for inclusion in the Statement of Accounts 2017/18.
- 2.20 The AGS together with supporting detailed schedules demonstrates how the Council meets the requirements of the CIPFA/Solace governance framework. It sets out in detail the arrangements within which the Council operates, plans and monitors use of assets to achieve objectives.
- 2.21 An action plan is included within the AGS to track the implementation of identified improvements. There are a number of actions for 2018/19 which are being taken forward by officers.

Risks and External conditions

- 2.22 Central to the MTFS is the assumption of withdrawal of government funding. To the extent that the multi-year settlement can be relied upon, the reductions are set and built into the Council's plans. However, post 2019/20 the funding position is unclear. The MTFS assumes continual reductions with the risk that these could be greater than the forecast amounts. £870k of further assumed funding reductions are included in the MTFS figures relating to 2020/21 and 2021/22.
- 2.23 The Council is undertaking significant projects in Victoria Square and Sheerwater. However, the governance structures are such that these are managed through the Council's subsidiary and associate companies. Whilst ongoing funding will be required from the Council, the structures protect the Council from the immediate impact of significant adverse variations, allowing time for future plans to be considered.
- 2.24 The Council requires loan finance to progress investment plans and the MTFS strategy. Should access to PWLB funding be limited funds would have to be secured from elsewhere. However, there are alternative sources of finance available to the Council. A significant increase in interest rates would increase project costs and increase the time to generate the forecast positive cashflows. Currently interest rate forecasts suggest only gradual increases over the MTFS period.

Going concern assessment conclusion

- 2.25 The analysis above confirms that the going concern assumption is valid and appropriate. Despite continued funding reductions over recent years the Council has maintained services, increased activity in some areas, and is shown to be able to do so for the foreseeable future. The Council has reserves which can mitigate a one-off or unexpected shock, and could cushion the ongoing operations for a period of time while a revised base position was secured. Most recent outturn performance confirms that revenue budgets are realistic and

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prudent, with some opportunity for in year underspends should management action be required.

3.0 Implications

Financial

3.1 There are no new financial implications arising from this report.

Human Resource/Training and Development

3.2 There are no specific HR, training and development issues arising.

Community Safety

3.3 There are no community safety issues.

Risk Management

3.4 Risks are addressed within the Medium Term Financial Strategy. The External Auditors have not raised any recommendations as a result of their audit this year.

Sustainability

3.5 There are no specific sustainability issues.

Equalities

3.6 There are no equalities issues.

4.0 Conclusions

4.1 The Statement of Accounts will be presented for approval by Council on 26 July 2018 together with the External Auditor's report, the Management Representation letter and any comments this Committee wishes to make on the report.

4.2 The Auditors have indicated that they anticipate issuing an unqualified audit opinion by 31 July 2018 in accordance with the statutory timetable.

4.3 The Standards and Audit Committee, in its role of governance and overseeing audit arrangements, is requested to receive the report and make any comments to full Council.

REPORT ENDS