

Audit Committee

23 March 2023



Title	External Auditor's 2017-18 Opinion
Purpose of the report	To make a Key Decision
Report Author	Terry Collier, Chief Finance Officer
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	
Corporate Priority	Not applicable
Recommendations	Committee is asked to: 1. To accept the ISA 260 report from KPMG, (the External Auditor), KPMG and to accept the opinions on the Statement of Accounts and Value for Money 2. To recommend that the Chair of the Audit Committee and Chief Finance Officer, sign the Accounts and the letter of representation.
Reason for Recommendation	The Audit Committee is responsible for considering reports of external auditors.

1. Summary of the report

- 1.1 Whilst the External Auditor presented a draft ISA 260 report to the Committee in February 2019, due to the length of time it took the External Auditor to reach a conclusion on Value for Money opinion, which was ultimately resolved by their issuing a Public Interest Report, which was considered by an Extraordinary Council Meeting on 8th December 2022 the final ISA260 had just been issued.
- 1.2 As the ISA 260 report (Appendix A) states the audit has been undertaken over a prolonged period. Significant elements of the audit of the financial statements were completed in 2018 and 2019. The auditors' initial work on the value for money work was undertaken in 2019 following completion of the 2016/17 audit. As a result of this work, the Auditor determined that significant additional procedures were required in relation to the purchase of investment properties.
- 1.3 ISA 260 requires the Auditors to communicate to the Council by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:
- Significant difficulties encountered during the audit;
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management;

- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g., Significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non-disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

Statement of Accounts

1.4 The Auditors confirm that they received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The ISA260 and the Auditor's Opinion report (Appendix B) conclude that in the Auditor's opinion the financial statements (Appendix C) :

a) give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended; and

b) have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Value for Money and Public Interest Report

1.5 The ISA 260 concludes an adverse Value for Money opinion for the reasons set out in the Auditor's 2022 Public Interest report. The report raised significant concerns regarding the Authority's programme of investment in commercial properties and the implications of those transactions for its overall finances. In particular, these concerns arose from the purchase of three commercial properties during the financial year 2017/18. At the Extraordinary Council Meeting on the 8th December 2022 the Council responded to those concerns and agreed the recommendations of the PIR. There is a latter report on the Agenda of this Committee setting out how the Council is following up those recommendations.

Follow up of Recommendations

1.6 The Auditors identified six prior year recommendations that require further action by Management, and one further recommendation that was superseded by a new recommendation in 2017/18. Eight new recommendations were been raised in 2017/18. These relate to the bank and payroll reconciliations, preparation of Group/Subsidiary accounts in compliance with the CIPFA Code due to different interpretations of guidance,

and purchase of commercial properties. All recommendations are shown in appendix 1 of the ISA report. Officers confirm that all of the recommendations have been addressed.

Management Representations

- 1.7 The Auditors are asking Management to provide specific representations (Appendix D) on:

The valuation of land and buildings which have not been revalued in year are not materially misstated given movements in values;

Investment property is appropriately valued and that there have been no subsequent events that would impact the valuations as at 31 March 2018; and

—The completeness and accuracy of disclosures and financial information relating to Knowle Green Estates Ltd.

Officers confirm the representations in the letter and ask that the Committee approve the Chair of the Committee and the Chief Finance Officer sign the Letter of Management Representations.

Judgements

- 1.8 **NDR (Business Rates) Appeals:** In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. The disclosures relating to the provisions are appropriate. The provision has been adjusted to remove an amount for the NHS appeal, following the NHS Trusts having withdrawn their application to the Appeals Court in 2021. This was done as a late adjustment as a post balance sheet event following discussions between the Auditors and the Council.

- 1.9 **Property, Plant and Equipment:** full valuation took place in 2014/15 before the adoption of a five year rolling valuation programme in 2015/16. 20% of land and buildings were revalued in the current year with no material movements noted. We considered the revaluation basis to be appropriate. The Authority continues its use of the beacon methodology in line with the DCLG's Stock Valuation for Resource Accounting published in November 2016. The Authority has utilised an external valuation expert, Kempton Carr Croft to provide valuation estimates. The Auditors reviewed instructions provided and have assessed that the valuation exercise is generally in line with the instructions.

2. Options analysis and proposal

- 2.1 Option 1 – to accept the Auditor's report (**recommended**)
- 2.2 Option 2 – to not accept the Auditor's report. (**not recommended**). The Council needs to accept the report to enable the Auditors to conclude their work and for BDO to be able to commence their audit work on subsequent accounts.

2.3 **Financial Implications**

The Auditors fees are highlighted on page 17 of the ISA report

3. **Risk considerations**

3.1 Addressed by the ISA260 report.

4. **Legal considerations**

4.1 There are no direct legal implications. Further to the Local Audit and Accountability Act 2014, the External Auditor is required to satisfy themselves that the Council's accounts comply with statutory requirements.

5. **Procurement considerations**

5.1 Not applicable

6. **Other considerations**

6.1 None

7. **Equality and Diversity**

7.1 Not applicable

8. **Sustainability/Climate Change Implications**

8.1 Not applicable

9. **Timetable for implementation**

9.1 Report to be accepted at the Committee on 23rd March 2023

10. **Contact**

10.1 Terry Collier t.collier@spelthorne.gov.uk

Background papers:

Appendices:

Appendix A: ISA 260 Report

Appendix B Auditor's Opinion

Appendix C Statement of Accounts

Appendix D Letter of Management Representation