This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
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Spelthorne Borough Council Indicative Audit Plan

Financial year ending 31 March 2024

Spelthorne Borough Council

March

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging.

Local Government funding continues to be stretched, Spelthorne Borough Council (like other local authorities), has seen the level of central government funding reduce over the last decade and has sought alternative ways to increase its income to fund services. As a result, the council borrowed considerable sums of money from Public Works Loans Board to fund investments in commercial properties. The Council's external borrowing based on the unaudited accounts for 22/23 was £1.1bn. This means the council's debt is significantly higher relative to its spending power or annual budget or council size. While the council has managed to receive income to fund services from its investment property portfolio, the level of debt brings additional risks.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

As your new auditor, in planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our repot About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

There is currently an on-going national consultation to "fix" the backlog of unaudited local authority accounts and ensure timely audits, involving key stakeholders in the sector (the Department for Levelling Up, Housing and Communities (DLUHC), the Financial Reporting Council (FRC), the National Audit Office (NAO), the Chartered Institute of Public Finance and Accountancy (CIPFA), Public Sector Audit Appointments (PSAA)). Spelthorne Borough Council has produced and published draft financial statements up to 2022/23 (including prior periods), however, these have not been audited, with the last audit opinion issued by KMPG for the 2017/18 accounts in the year 2023. The Council is keen to get back on track to having audited financial statements and ensure accountability to local taxpayers.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Based on initial discussions your Senior Officers at the Council, their preference is for the audit team to be conducted on-site with council staff. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We will meet with the Chief Executive twice a year, and with the Director of Finance Quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- We have met the Chair of your Audit Committee (February), to brief them on the status and progress of the audit work to date and we will continue to engage with them and the Audit Committee as relevant throughout the audit.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work. Should the NAO revise the VFM code during 2023/24, these areas of focus may change.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.

Prior year disclaimer

- The 2022/23 financial statement accounts will be disclaimed by BDO . We will provide management and members of the audit committee with changes to the indicative audit plan throughout the year.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Spelthorne Borough Council ('the Council') for those charged with governance.

Respective responsibilities

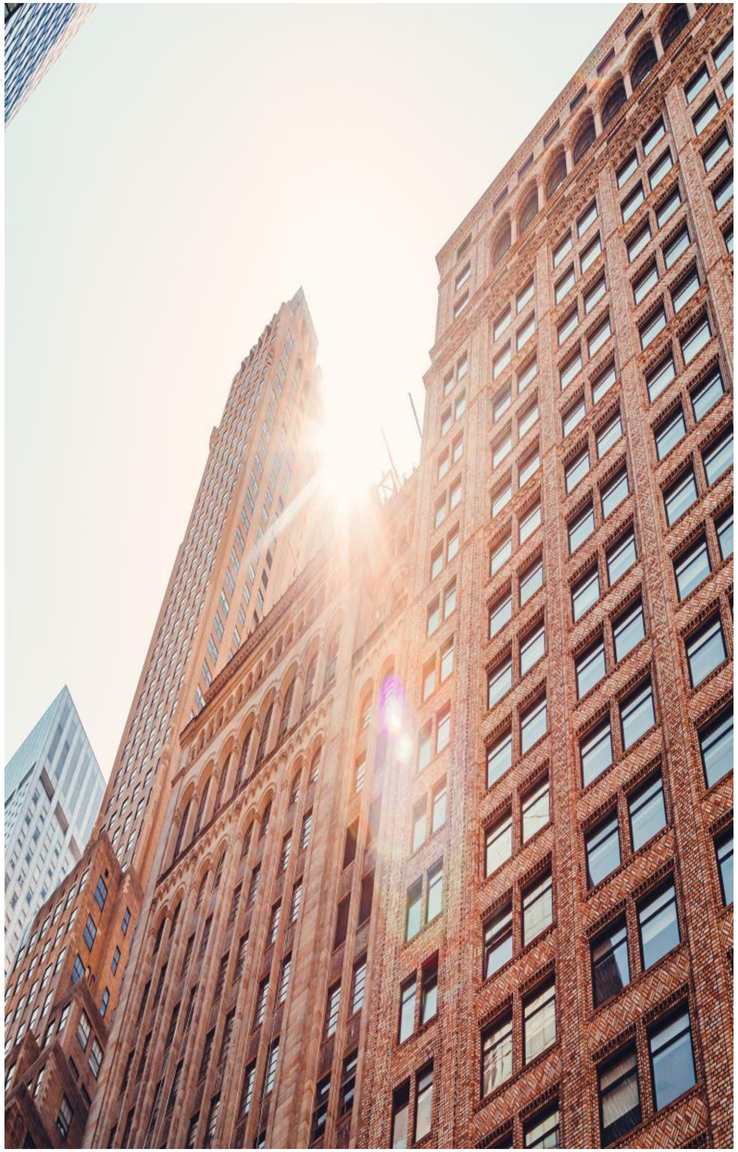
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Presumed risk of fraud in revenue recognition (rental income, sales and other income)
- Valuation of Pension liability
- Valuation of land and buildings, and investment properties.
- Group Accounts consolidation
- Presentation and disclosures
- Minimum Revenue Provision

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

Knowle Green Estate LTD

Spelthorne Direct Services

Materiality

We have determined planning materiality to be £1m for the group and £0.9m for the Council, which equates to 1.6% and 1.5% respectively of your prior year gross operating costs for the year (unaudited accounts). We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

We will review our materiality throughout the and on receipt of the draft financial statement audit and report to management and members of the audit committee any changes.

Clearly trivial has been set at £50k for the Group and £46k for the Council

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has commenced yet. We will agree with management when we will commence the work once, we understand the arrangements on the conclusion of the prior year 2022/23 value for money by the predecessor auditor.

We will continue to update Audit Committee members on progress of the value for money work for 23/24

Audit logistics

Our planning visit will take place in February and March and our year end audit timeline is to be agreed, but our plan is to issue an audit opinion by 31 December 2024. We will ensure we resource the audit, to meet this deadline [subject to any opening balance and any disclaimer requirements, not yet known at this stage]

Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £223,086 for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls. ISA (UK) 240	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition. ISA (UK) 240	Group and Council	The council has a significant income stream from commercial properties and based on the unaudited accounts for 22/23, rental income was £53.8m. The Council is also has other sales and charges of approximately £4m. There is a risk of either fraud or improper revenue recognition for these income streams apart from Government Grants & Collection Fund income streams. We have therefore, not rebutted this presumed risk that revenue may be misstated due to improper recognition.	We will • evaluated the group's accounting policy for recognition of income from commercial properties, sales and other charges for appropriateness; • gained an understanding of the Authority's system for accounting for income from commercial income, sales and other charges, and evaluate the design of the associated controls; • Agreed on a sample basis, amounts recognised as income from commercial rents, sales and other charges in the financial statements to supporting documents. • Test the completeness of revenue within the 23/24 financial statements. • We will test the associated trade receivables or debtors pertaining to commercial rents and other sales and charges.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund Net liability.	Council	The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The council participates in the local government pension scheme administered by Surrey County Council. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£15.6million in the single entity's balance sheet at 31 March 2023), complexity of the actuarial valuation and the sensitivity of the estimate to changes in key assumptions. The Council engage the services of Hymans Robertson as a qualified actuary to develop an IAS 19 compliant estimate of the pension fund net liability. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • Assess the accuracy and completeness of the information provided by the Group to the actuary to estimate the liabilities; • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from our pension fund testing as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Fund and the fund assets valuation in the Fund's financial statements.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of council's Land and Buildings , Investment Properties	Group and Council	The Council has a significant property plant and equipment. The following holding of: Land and building assets totalling £86m as at 31 March 2023 (unaudited accounts). The council's valuer for land and building is Wilks Head and Eve Investment properties amounting to £775m as at 31 March 2023 (unaudited accounts) . The council's valuer for investment properties is Carter Jonas LLP. The Group - Knowle Green Estate LTD has land and buildings £35.5m as at 31st March 2023 (audited) . Their valuer is Wilks Head and Eve. This valuation represents a significant estimate by management in the financial statements due to the size of the figures and the sensitivity of this estimate to changes in key assumptions. Management has engaged the above mentioned external valuers' services to provide an estimate of the current value and fair value of these assets in line with the council's valuation cycle. We therefore identified valuation of land, buildings, including Investment Properties assets, as a significant risk of material misstatement.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. We engage our own valuation expert to support us in this area and other aspects of our work in relation to this risk; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; • Challenge the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which will include engaging our own valuer to assess the instructions issued by management to their valuer, the scope of the Group's and Council's valuers' work, the Group and Council's valuers' reports and the assumptions that underpin the valuations; • Assess the value of a sample of assets in relation to market rates for comparable properties; • Test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • Evaluate the assumptions made by management regarding assets not revalued during the year particularly regarding how they are satisfied these are not materially different from current value at year end.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Group Accounts Consolidation Process	Group and Council	The Authority is required to prepare group financial statements that consolidate the financial information of its wholly owned subsidiary undertakings. The Code of Practice requires a local authority to prepare group accounts if it has a control over one or more other legal entities. Based on the 21/22 Spelthorne Borough Council (the reporting authority) has two wholly owned subsidiary companies: • Knowle Green Estates Limited (KGE) - The purpose of the company is to hold investments in residential property around the borough. • Spelthorne Direct Services (SDS), Incorporated on 29 June 2020. The purpose of the company is the collection, treatment and disposal of non-hazardous waste. The draft 22/23 accounts did not include Group Accounts. We will need to understand the key agreements in place for the above mentioned subsidiary companies. We have therefore identified a potential risk of group accounts consolidation resulting in a risk of error.	We will • review the key agreements to gain an understanding of the agreements put in place on the establishment of the companies; • discuss with key group personnel, the underlying substance of the transactions and the basis of the group's proposed accounting treatment of the arrangements; • critically assess the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance; • review the Group structure of the Council; • obtain and copy of the Group materiality assessment to be prepared by the Council; • review the qualitative and quantitative materiality of the Council's subsidiaries in relation to the Council's operations.
Presentation and Disclosure	Council	Presentation and Disclosure – Financial Statement Level Risks The council's last unqualified opinion on the financial statements was in 17/18, and no subsequent external audit opinions have been issued since (at the time of writing this audit plan). We anticipate the outstanding financial statement opinion audits will be backstopped. There is a risk that accounting transactions are not being appropriately presented and disclosed within the 23/24 financial statements. We therefore identified the presentation and disclosure of the financial statements as a significant risk.	We will • consider the Authority's arrangements for preparing the financial statements and working papers; • discuss with key group personnel, the underlying substance of the transactions and judgements made; • critically assess the financial statements in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance;

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Minimum Revenue Provision	Council	Minimum Revenue Provision The Council's Capital Financing Requirement as at 31 March 2023 was £1.1bn with external borrowing £1.1bn. The Council's minimum revenue charge for 2022/23 was £12m. The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). According to regulations, the duty to make MRP extends to Investment Property where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements.	We • tested that the council has appropriately calculated its Capital Financing Requirement (CFR). • tested that the Council is correctly identifying capital expenditure subject to MRP charge in line with the guidance. • reviewed and check that the Council's policy on MRP complies with statutory guidance • reviewed Council Committee and sub-Committee papers to check that full council has approved the annual Minimum Revenue Provision statement • checked that MRP has been calculated in line with the authority's policy on MRP • assessed whether any changes to the authority's policy on MRP: a. have been discussed and agreed with those charged with governance b. have been approved by full council c. are adequately explained and evidenced d. comply with statutory guidance e. are in accordance with any legal or other professional advice obtained by the authority

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Key changes within the group:

We are not aware of any key changes at this point of the audit. This will continuously be evaluated during the 2023/24 audit.

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Spelthorne Borough Council	Yes		Refer to page 7 to 12 on risk identified for the Council	Full scope audit performed by Grant Thornton UK LLP
Knowle Green Estate LTD	Yes		• Management override of controls • Revenue recognition • Valuation of Property Plant and Equipment's	Specific scope procedures on Management override of controls and Valuation of Property Plant and Equipment to be performed by component auditor, MGI Midgley Snelling LLP The nature, time and extent of our involvement in the work of MGI Midgley Snelling LLP will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the MGI Midgley Snelling LLP audit documentation and meeting with appropriate members of management. Depending on the outcome of our risk assessment and planning on the group accounts for 23/24, we may undertake our own procedures on the identified risks.
Spelthorne Direct Services	Yes		N/A	Analytical procedures at group level

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component’s financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Description	Planned audit procedures
Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the prior year financial statements. Materiality at the planning stage of our audit is £1m and £0.9m for the group and the council respectively, which equates to 1.6% and 1.5%% of your prior year gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
Other communications relating to materiality we will report to the Audit Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £50k and £46k respectively. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Group	Amount (£)	Qualitative factors considered
Materiality for the Group financial statements	1,000,000	This benchmark is determined as a percentage of the Group's Gross Cost of Services (estimated 2022/23) Expenditure in year, which has been set at approximately 1.6%.
Performance Materiality	650,000	Performance Materiality is based on a percentage of the overall materiality. The PM is 65% of materiality for the Group
Trivial matters	50,000	This balance is set at 5% of overall materiality

Local Authority	Amount (£)	Qualitative factors considered
Materiality for the Council financial statements	926,000	This benchmark is determined as a percentage of the Council's Gross Cost of Services Expenditure in year, which has been set at approximately 1.5%.
Performance Materiality	602,000	Performance Materiality is based on a percentage of the overall materiality. The PM is 65% of materiality for the council
Trivial matters	46,300	This balance is set at 5% of overall materiality

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e, IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment. However, this is subject to initial inquiries and work and we will review our understanding of the IT Environment and update our planning.

IT system	Audit area	Planned level IT audit assessment
Centros	Financial reporting	We do not plan to test design and implementation of the ITGCs. We will review the controls report produced by the auditors of Hampshire County Council.
iTrent	Payroll	We do not plan to test design and implementation of the ITGCs

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Our work on the council's value for money arrangements for 23/24 has not commenced yet. We would have liked to do value for money review early on in our audit appointment, but we will liaise with management on a suitable timetable to undertake the work and communicate with BDO and update our risk assessment in due course. We will continue to provide members of the Audit Committee with progress and update reports on the status of the value for money throughout the year.

Audit logistics and team

Joanne Brown Key Audit Partner

Joanne is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit Committee, the Chief Executive and the S151 Chief Finance Officer. Joanne will will share her wealth of knowledge and experience across the sector providing challenge and sharing goodpractice. Joanne will ensure our audit is tailored specifically to you, and she is responsible for the overall quality of our audit work. Joanne will sign your audit opinion.

Keith Mungadzi, Senior Manager

Keith is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Committee, S151, Chief Finance Officer and finance team. Keith will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Keith will be responsible for the delivery of our work on your arrangements in place to secure value for money.

Serena Mohd Shariff, Assistant Manager

Serena will support Keith in his work to ensure the early delivery of audit testing and lead on a number of complex accounting issues. Serena will perform first reviews of the team's work. In addition, Serena will also liaise with key members of the finance team to ensure audit testing and reviews are conducted on a timely basis.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure good quality working papers are available at the start of the audit, in accordance with the working paper requirements that we have shared with you.
- Ensure the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing. These reports should be cleansed so that reversing transactions are removed.
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- Respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2022, PSAA awarded a contract of audit for Spelthorne Borough Council to begin with effect from 2023/24. Grant Thornton have been appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £205,556.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Spelthorne Borough Council (Scale Fee)	£205,556
ISA 315	£7,530
External Valuer*	£10,000 (fixed + variable element)
IFRS 16 Leases**	tbc
Total audit fees (excluding VAT)	£223,086

* External Valuer

The review by our expert Valuer is not covered by the PSAA Scale fee. Our expert will review the Council's terms of reference with your valuer plus a review of the valuers report. This work will be £3k. There is an additional variable element which relates to any further work that the audit team considers necessary on individual property valuations.

IFRS 16 – leases

CIPFA have deferred the mandatory implementation of IFRS 16 until 2024/25. If the council implements IFRS 16 in the 2023/24 financial statements, this will require additional work from the audit team. Even if the council is not adopting the implementation until 1st of April 2024, the council will need to consider the impact of its adoption for the disclosure in the 2023/24 financial statements.

Previous year

If the opinion on the 2022/23 (and subsequent audits since 2017/18) audit is disclaimed due to the imposition of a backstop date, we will need to consider the outcome of the backstop guidance issued by the regulator/government. We will discuss the practical implications of this with you should this circumstance arise.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)]

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group and Council.

Independence and non-audit services

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We have not provided Spelthorne Borough Council with any additional services prior to the appointment as Auditors .

We do not believe that the previous services detailed above will impact our independence as auditors.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud		•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Appendix

SECTOR UPDATE

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers

an agreed approach to dealing with the backlog of local government audits

Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton]

Current local audit deadline 'unachievable'- Grant Thornton (Oct 23)

Low capacity in council finance teams and the failure to deal with historic accounting issues mean the current September audit deadline is unlikely to be met.

The firm said the changes in recent years to council investment strategies have seen annual accounts become increasingly complex.

In evidence to a Public Accounts Committee inquiry, Grant Thornton said the increased workload and pressure on resources have complicated recruitment and compounded delays.

The auditors said it is unlikely firms will be able to meet the 30 September deadline for publishing opinions on 2022-23 financial statements, because they are still working on previous years' accounts.

The firm said one of the key issues causing delays is the lack of consensus over areas of audit focus, specifically over how land and buildings are audited.

"Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies," the firm said.

In certain instances, audits are open as far back as 2017-18.

"Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces.

"This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable."

Current local audit deadline ‘unachievable’- Grant Thornton(cont.)

Grant Thornton said that while audit firms can be sanctioned by the Financial Reporting Council for failing to comply with regulations, there are currently no punishments for public bodies that fail to meet requirements.

It said there should be interventions for audited bodies that show “significant failures in financial reporting and an unwillingness to improve”.

In its evidence the firm blamed a lack of council funding to bolster finance teams for a reduction in the quality of reporting, causing further delays.

“Unfortunately, the quality of too many financial statements and working papers are not adequate,” Grant Thornton said.

“Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime.”

In December, local audit procurement body Public Sector Audit Appointments revealed that only 12% of local government audits for 2021-22 were completed by the 30 November deadline.

PSAA said that 630 opinions were outstanding from both 2021-22 and previous years, and the level of opinions completed on time has declined significantly from 45% in 2019-20.

Read the full report here

committees.parliament.uk/writtenevidence/118580/pdf/

DLUHC proposals to clear audit backlog

A range of proposals and actions to address the backlog of local audits in England has been set out by the Department for Levelling Up, Housing and Communities (DLUHC).

These include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

The proposals have been agreed in principle with key partners across the local audit system, DLUHC said. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes, the department added.

In addition, DLUHC is considering whether legislative change is needed to set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years, the department said.

Under these proposals, section 151 officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

Read the full proposal here

committees.parliament.uk/publications/40932/documents/199432/default/

Call for sanctions for late accounts amid fears of ‘more Wokings - public accounts committee (PAC)

The Commons’ public accounts committee (PAC) published a report, Timeliness of local auditor reporting, which highlights problems caused by the delays to local audit.

Just 12% of local government bodies received their audit opinions in time to publish their 2021-22 accounts by the extended deadline. The committee warned that the problem is likely to get worse before it gets better.

The report points out that there are no sanctions for failing to produce accounts on time, for either auditors or councils.

The PAC and others have been concerned about the implications of audit delays and Sir Geoffrey Clifton-Brown said cases like that of Thurrock Council and Woking Borough Council demonstrate why this issue needs to be addressed. Both councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt.

LGPS valuation gives 'cause for optimism' – Hymans Robertson

Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia's invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a report.

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: "Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

"While the good news is welcome, the hard work doesn't stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025."

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased "across the board" in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

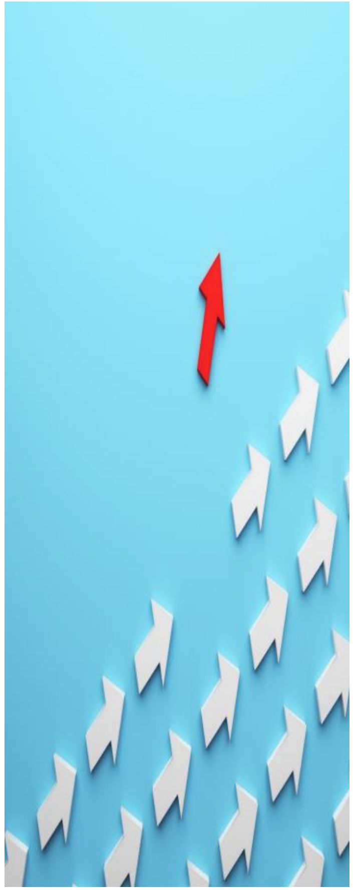
Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

"This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a 'deficit working group' and the significant market events that the LGPS has had to navigate in recent years."

"Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade."

Read the full report here

LGPS_2022_Valuation_-_the_big_picture.pdf (hymans.co.uk)



Sustainability reporting in the public sector - CIPFA

CIPFA said, 'Sustainability reporting in the public sector is in its infancy, and there is an evolutionary journey to be embarked upon – sooner rather than later.'

Sustainability reporting is the recording and disclosure of an organisation's environmental impact caused by its activities. It has been widely adopted in the private sector, but in the public sector it is not the same story.

Having a clear understanding of the overall carbon footprint of the public sector is vital if we are to tackle climate change, find solutions and encourage sustainable development, said CIPFA.

CIPFA report states, 'the answers and positive steps to addressing the most pressing challenges around public sector sustainability questions. The current patchwork of public sector sustainability reporting frameworks are inconsistent and confusing. The report draws on already existing standards and frameworks that are relevant and useful to the public sector, rather than trying to reinvent the wheel.'

Alignment to financial reporting

The report recommends an approach that aligns sustainability reporting with the wider practice of financial reporting. The four key areas in this approach are governance, the management approach, performance and targets, and strategy. 'Public sector sustainability reporting: time to step it up' provides public finance professionals with a good understanding of what information needs to be disclosed and the process in producing a high quality report.

Read the full report from CIPFA here

[Sustainability Reporting (cipfa.org)]

Grant Thornton