

# Corporate Policy & Resources Committee

15 April 2024



<b>Title</b>	<i>To note the audited financial statements for Spelthorne Direct Services Ltd (SDS) for the year end 31 March 2023</i>
<b>Purpose of the report</b>	To note
<b>Report Author</b>	<i>Terry Collier Chief Finance Officer</i>
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Corporate Priority</b>	Community Addressing Housing Need Resilience Environment Services
<b>Recommendations</b>	<b>Committee is asked to note the report, and particularly the unqualified audit report.</b>
<b>Reason for Recommendation</b>	<p>The Board of Directors of Spelthorne Direct Services Ltd approved the accounts for the year ended 31 March 2023 on 14 December 2023.</p> <p>The Auditors provided an unqualified audit report and the accounts have been filed at Companies House and with His Majesty's Revenue &amp; Customs (HMRC), where there is no Corporation Tax to pay.</p>

## 1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> <li>This Committee is responsible for the oversight over Spelthorne Direct Services (SDS).</li> <li>Every year the accounts of SDS are subject to an independent audit.</li> <li>This report is a backward looking and focuses on the year to 31 March 2023.</li> <li>Note that the external auditors gave an unqualified (no significant</li> </ul>	<ul style="list-style-type: none"> <li>As part of good governance, this Committee manages the relationship with SDS on behalf of Council.</li> <li>The SDS Board have discharged their duties and obtained an unqualified audit report for the year end 31 March 2023.</li> </ul>

<p>findings of concern) audit opinion for the year end 31 March 2023.</p> <ul style="list-style-type: none"> <li>• After depreciation and interest charges, the Company made a profit of £46k (2021-22: £10k) for the year to 31 March 2023.</li> </ul>	
<b>This is what we want to do about it</b>	<b>These are the next steps</b>
<ul style="list-style-type: none"> <li>• To review the report and its appendices.</li> <li>• Question managers and the Directors about the results contained in the financial statements, the comments in the management letter and the Directors response in the Letter of Representation, noting that this was a straightforward audit assignment.</li> <li>• Focus on the figures for 2022-23, as the previous year has been noted by the Committee.</li> </ul>	<ul style="list-style-type: none"> <li>• That the Committee note the report.</li> </ul>

## 2. Summary of the report

2.1 The unqualified audited accounts for the year ended 31 March 2023 were approved by the Spelthorne Direct Services Ltd (SDS) Board on 14 December 2023 and filed at Companies House.

2.2 There was no Corporation Tax to pay.

2.3 A summary of the profit and loss account on page 5 of Appendix A is shown below, noting that under Company Law, losses are shown as a negative figure and profits are shown as a positive figure, which is the reverse situation when reporting under the Chartered Institute of Public Finance Accountancy Code for Local Authorities:

	<b>2022-23</b>	<b>2021-22</b>
<b>Turnover</b>	£373,587	£199,598
<b>Profit/(loss) for the year</b>	£35,316	£58,893
<b>Total equity</b>	£45,658	£10,342

2.4 The business continues to grow steadily, given that it is a start-up business and the main changes during the year were as follows:

- (a) Turnover almost doubled in the year as a result of winning a substantial contract.

- (b) During the year, a new vehicle was acquired, and depreciation increased by £24k.
- (c) Direct cost increased by £83k.
- (d) Wages increased by £67k.

As the business grows, costs tend to take on a stepped change model, i.e., when a new contract is obtained, it is important that the company takes on resources to deliver the contract, in doing so, this provides spare capacity that takes time to fully cover new cost base, until additional contracts are obtained.

Budget monitoring for 2023-24 is forecasting a significantly higher profit than budgeted as turnover is substantially ahead of budget, with no further stepped increase in costs.

### **3. Key issues**

- 3.1 Following a meeting with Tracey Wickens, the Senior Statutory Auditor at MGI-Midgely Snelling, the SDS Board of Directors formally accepted and signed the accounts (Appendix A) on 14 December 2023.
- 3.2 Also attached is the Management Letter from the Auditor, which states that:
  - (a) There was no change in the audit process.
  - (b) There were no significant findings coming from the audit.
  - (c) There was feedback on the bank reconciliation, which highlights a small difference, upon review this issue was successfully resolved and no cash was at risk.

However, these have not been reflected in the trial balance and the Chief Accountant is dealing with this matter in February.

Please note that both adjustments are favourable and under the company's materiality levels and will be adjusted accordingly going forward.

- 3.3 The auditors also provided confirmation:
  - (a) of an anticipated clean audit report being issued, subject to final checks and submissions.
  - (b) that the auditors agree with the Directors' views on:
    - i) Going concern
    - ii) Accounting policies and disclosures
  - (c) that there were no related party issues.
  - (d) that all third-party confirmations were received.
  - (e) of MGI-Midgely Snelling's independence.
- 3.4 As part of the normal audit process, the Directors were asked to review and sign the attached Letter of Representation (Appendix C). This letter sets out key affirmations that the Directors have made during the audit process.
- 3.5 Where adjustments are material, the Board requested that the financial statements were amended to reflect these adjustments. As a result of these

adjustments the Spelthorne Borough Council Group accounts will need to be updated to reflect these favourable adjustments.

#### **4. Financial implications**

4.1 There are no further financial implications in respect of the financial accounts.

#### **5. Risk considerations**

5.1 There are no significant risk issues to draw to this Committee's attention.

#### **6. Options analysis and proposal**

6.1 Not applicable

#### **7. Financial management comments**

7.1 Explain the key financial headlines linked to appropriate data in appendices (if required).

#### **8. Procurement comments**

8.1 There are no Procurement implications in this report.

#### **9. Legal comments**

9.1 It is a requirement under section 441 of the Companies Act 2006 for accounts to be filed every year at Companies House.

9.2 As the sole shareholder of SDS, the Council should have sufficient oversight of the company's activities. This report assists with providing financial oversight and gives assurance that SDS is financially sound.

#### **10. Other considerations**

10.1 Detail any other considerations to be taken into account.

#### **11. Equality and Diversity**

11.1 Detail how the recommended proposals will impact equality and diversity and mitigation measures being taken.

#### **12. Sustainability/Climate Change Implications**

12.1 Detail how the proposal will support/impact sustainability/climate change issues.

#### **13. Timetable for implementation**

13.1 Set out a timetable, if required, showing when the proposal in the report will be implemented.

#### **14. Contact**

14.1 [T.Collier@spelthorne.gov.uk](mailto:T.Collier@spelthorne.gov.uk)

**Background papers:** There are none.

#### **Appendices:**

**Appendix A** – Signed Audited Accounts for Spelthorne Direct Services for the year end 31 March 2023.

**Appendix B** - Management Letter

**Appendix C** – Letter of Representation

