

Report of the Deputy Chief Executive

LIBERTY LEISURE – EXTERNAL AUDIT ARRANGEMENTS 2018/191. Purpose of Report

To provide the Committee with details of the requirement for Liberty Leisure to be subject to an external audit for 2018/19 and recommend a way forward.

2. Background

Liberty Leisure is a company limited by guarantee and is wholly owned by Broxtowe Borough Council. Its objectives include the provision of leisure, sports, cultural and heritage services for the benefit of the public. The company was incorporated on 12 April 2016 and commenced trading on 1 October 2016.

Liberty Leisure produce accounts with a year end date of 31 March. They are assisted in this by Haines Watts (Chartered Accountants) based in Stapleford who ensure that the company's accounts are filed at Companies House in accordance with the Companies Act 2006.

The accounts of Liberty Leisure must be subject to an audit due to the company being a subsidiary of an entity (i.e. the Council) that does require an audit. Although the company has a turnover of approximately £3.5 million, it does not meet the small companies exemption criteria as set out in the Companies Act 2006 due to its relationship with the Council.

It is possible, however, to obtain a specific audit exemption for Liberty Leisure under section 479 of the Companies Act 2006 by obtaining a guarantee from the parent (ie. the Council). Further details are set out in the appendix. In this scenario, the Council would have to prepare Group Accounts in its Statement of Accounts 2018/19 in a similar manner to 2017/18. As the Council's external auditors (Mazars) would not be able to rely on audited accounts for Liberty Leisure, they would need to carry out additional work on both the Group and the transactions of the company. The guarantee would not impose any additional risk upon the Council above that it already has with Liberty Leisure.

3. Financial Implications

Mazars have indicated that the cost of the additional work set out above would be £3,500. This would be over and above the fee of £35,807 set for their work on the Council's 2018/19 accounts. The additional cost would be met by the Council.

Recommendation

The Committee is asked to RESOLVE that Liberty Leisure be exempted from requiring an external audit for 2018/19 in accordance with Part 16, Section 479 of the Companies Act 2006.

Background papers

Nil

APPENDIX

**Audit Exemption under the Companies Act 2006 Part 16, Section 479A
Subsidiary Companies**

Companies Act 2006 Part 16, Section 479A(1) states that “a company is exempt from the requirements of this Act relating to the audit of individual accounts for a financial year if – (a) it is itself a subsidiary undertaking, and (b) its parent undertaking is established under the law of an EEA State.”

Furthermore Section 479A (2) states “exemption is conditional upon compliance with all of the following conditions –

- (a) all members of the company must agree to the exemption in respect of the financial year in question;
- (b) the parent undertaking must give a guarantee under section 479C [below] in respect of that year;
- (c) the company must be included in the consolidated accounts drawn up for that year or to an earlier date in that year by the parent undertaking in accordance with -
 - (i) the provisions of Directive 2013/34/EU of the European Parliament and of the Council on the annual financial statements, consolidated statements and related reports of certain types of undertakings, or
 - (ii) international accounting standards;
- (d) the parent undertaking must disclose in the notes to the consolidated accounts that the company is exempt from the requirements of this Act relating to the audit of individual accounts by virtue of this section; and
- (e) the directors of the company must deliver to the registrar on or before the date that they file the accounts for that year -
 - (i) a written notice of the agreement referred to in subsection (2)(a),
 - (ii) the statement referred to in section 479C(1) [below],
 - (iii) a copy of the consolidated accounts referred to in subsection (2)(c),
 - (iv) a copy of the auditor’s report on those accounts, and
 - (v) a copy of the consolidated annual report drawn up by the parent undertaking.”

Companies Act 2006 Part 16, Section 479C (1) states that “a guarantee is given by a parent undertaking under this section when the directors of the subsidiary company deliver to the registrar a statement by the parent undertaking that it guarantees the subsidiary company under this section” and Section 479C(2) details that “the statement under subsection (1) must be authenticated by the parent undertaking and must specify –

- (a) the name of the parent undertaking,
- (b) if the parent undertaking is incorporated in the United Kingdom, its registered number (if any),
- (c) if the parent undertaking is incorporated outside the United Kingdom and registered in the country in which it is incorporated, the identity of the register on which it is registered and the number with which it is so registered,
- (d) the name and registered number of the subsidiary company in respect of which the guarantee is being given,
- (e) the date of the statement, and
- (f) the financial year to which the guarantee relates.”

Companies Act 2006 Part 16, Section 479C(3) states that “a guarantee given under this section has the effect that -

- (a) the parent undertaking guarantees all outstanding liabilities to which the subsidiary company is subject at the end of the financial year to which the guarantee relates, until they are satisfied in full, and
- (b) the guarantee is enforceable against the parent undertaking by any person to whom the subsidiary company is liable in respect of those liabilities.”