Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

REPORT OF:	HEAD OF FINANCE (CFO)
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TO:	EXECUTIVE
DATE:	15 SEPTEMBER 2016
EXECUTIVE MEMBER:	COUNCILLOR G KNIGHT

KEY DECISION REQUIRED:	NO
WARD (S) AFFECTED:	ALL

SUBJECT: **REPORT FROM THE EXTERNAL AUDITORS (ISA 260 REPORT)**

RECOMMENDATIONS:

(i) That the report on the 2015/16 audit is noted.

(ii) The Management Representation Letter is agreed.

REASONS FOR RECOMMENDATIONS:

The Executive is responsible for corporate governance. How we utilise and account for resources is intrinsic to good governance.

EXECUTIVE SUMMARY:

The report from the Council's external auditors (KPMG) summarises the conclusions and significant issues arising from the audit of the 2015/16 Annual Financial Report. This report is appended as Annex 1.

The agreement of the Management Representation Letter is part of the standard audit process. This letter is set out in Annex 2.

Executive has authority to approve the above recommendations.

STATUTORY POWERS

1. The Council is required to produce an annual Statement of Accounts by the *Local Government and Housing Act 1989* and the *Accounts and Audit Regulations 2011*.

2. The *International Standard on Auditing 260* ("ISA 260 - Communication of audit matters to those charged with governance") provides standards and guidance on the communication of audit matters between the auditor and those charged with governance.

3. Under the Council’s Constitution this function has been delegated to the Executive.

ISSUES

4. The External Auditors are required to issue the Council with an ISA 260 report following the completion of the work they have done on auditing the Council’s 2015/16 Statement of Accounts.

5. The report is attached as Annex 1. In particular, Member’s attention is drawn to the auditors “headlines” set out on pages 4 to 6 of their report.

LEGAL IMPLICATIONS

6. There are no legal implications.

FINANCIAL IMPLICATIONS

7. There are no direct financial implications.

EQUALITIES IMPLICATIONS

8. There are no equalities implications.

COMMUNICATIONS IMPLICATIONS

9. There are no communications implications.

CONSULTATION

10. The Executive Member for Finance was consulted during the preparation of this report.

POLICY FRAMEWORK

11. There are no policy issues to raise as part of this report.

Background Papers: Executive, 15 September 2016, *Statement of Accounts 2015/16*

External Audit Report 2015/16

Reigate and Banstead Borough Council

Year ended 31 March 2016

15 September 2016

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

— Our audit work at Reigate and Banstead Borough Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and

— The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in March 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2016.

It also includes additional findings in respect of our control evaluation which we have identified since we undertook our interim audit in March 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

— Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;

— Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and

— Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

— Section 2 summarises the headline messages.

— Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.

— Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified adjustments to the accounts, most of which are presentational in nature. There are two items which impact on the prime financial statements, neither of these are material to the financial statements: • Short Term Creditors overstated by £238k, and Capital Grants Unapplied understated by £238k. This arose because a Creditor Accrual was raised in error. The Authority has decided not to adjust this in 2015/16, but rather will amend this in 2016/17, as this item is not material, we are satisfied that this treatment is acceptable. We are satisfied this error is isolated in nature, rather than more systematic to the wider accruals balance, as the accrual was raised by a temporary member of staff who has since left the Authority. We reviewed the accruals balance and this item was the only accrual raised by this individual, hence we are satisfied this is an isolated error. • Surplus/Deficit on Provision of Services incorrectly reported in the Cashflow Statement, resulting in a presentational amendment to the Cashflow Statement of £1.2m. This has been amended by the Authority. Neither of the above items impact on the Authority's General Fund balance or Surplus/Deficit on the Provision of Services. We have raised three recommendations in relation to the matters identified during our audit, which are summarised in Appendix one.

Headlines

Key financial statements audit risks	We identified two financial statements audit risks in our 2015/16 External audit plan issued in March 2016: • Valuation of land and buildings; and • Management override of controls We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas to bring to your attention.
Accounts production and audit process	We received complete draft accounts by 29 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures used within the financial statements are in line with the requirements of the Code. The Authority has implemented the recommendation raised in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries enabling the audit process has been completed within the planned timescales. As in previous years, we will debrief with the Finance Team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particularly we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.
VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in March 2016. • Financial Resilience • Development Programme We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.

Headlines

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Casting of the updated financial statements — Final review procedures — Closedown procedures You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 25 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking for specific representations on: • Valuation of land and buildings; and • Cut off of expenditure transactions. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Proposed opinion and audit differences

Our audit identified presentational adjustments to the accounts.

The is no net impact on the Authority's General Fund balance or Surplus/Deficit on the Provision of Services as a result of these items.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 15 August 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £2.1 million. Audit differences below £105k are not considered significant.

Our audit identified adjustments to the accounts, most of which are presentational in nature. We did not identify any material adjustments to the prime financial statements. The most significant of the adjustments identified are:

Audit Differences: Prime Financial Statements

- Short Term Creditors overstated by £238k, and Capital Grants Unapplied understated by £238k. This arose because a Creditor Accrual was raised in error. The Authority has decided not to adjust this in 2015/16, but rather will amend this in 2016/17, as this item is not material, we are satisfied that this treatment is acceptable.
- Surplus/Deficit on Provision of Services incorrectly reported in the Cashflow Statement, resulting in a presentational amendment to the Cashflow Statement of £1.2m. The Authority has amended this item.

Audit Differences: Disclosure Notes

- Local Authority Creditors overstated by £1.1m, and Central Government Creditors understated by £1.1m. This is a misclassification between lines within Creditors, and has no impact on the prime financial statements. This has been adjusted by the Authority.
- Note 26 Leases understated, with lease disclosure items totalling £4.9m omitted from Note 26.1, and £72m of disclosed future lease payments omitted from Note 26.3. These have no impact on the prime financial statements and the Authority has adjusted these.
- Note 1.3 Segmental Reporting overstated by £1.1m in 2014/15. This is a disclosure item only and has no impact on the prime financial statements. The Authority has decided not to adjust this, as this item is not material, we are satisfied that this treatment is acceptable.

None of the above items impact on the Authority's General Fund balance or Surplus/Deficit on the Provision of Services.

Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements, as contained in the Authority's Statement of Accounts by 30 September 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirm that:

— It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and

— It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Annual report

We reviewed the Authority's annual report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in March 2016, we identified two significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of this area and set out our evaluation following our substantive work.

The table below sets out our detailed findings for the risks that are specific to the Authority.

Valuation of land and buildings

— Risk

In 2014/15 the Authority reported that it owned land and buildings valued at £85m. Local Authorities exercise judgement in determining the fair value of different asset classes held and the methods used to ensure that the carrying values recorded each year reflect those fair values. In 2015/16, a new valuer, Wilkes Head and Eve, was employed by the Authority and so all assets have been revalued. Given the materiality in value and the judgement involved in determining the carrying amounts of assets, we considered this to be a significant audit risk for 2015/16. At 31 March 2016 the Authority reported that it owned land and buildings valued at £104M.

— Findings

- We considered the independence and experience of Wilks Head and Eve and were satisfied that the valuer was appropriately qualified to complete the valuation.
- We assessed the basis upon which any impairments to land and buildings have been calculated and tested the associated assumptions
- We confirmed that the valuation was conducted in accordance with RICS principles, and in line with the instructions provided to the valuer, and the Authority's accounting policies.
- We reviewed the data provided to the valuer by the Authority for the purposes of the valuation and confirmed its completeness and accuracy, including reviewing the size and dimensions of properties provided to the valuer to confirm they were correctly stated.
- We confirmed that the accounting entries resulting from the valuation have been correctly reflected in the financial statements.

There are no matters to report to you in respect of the above.

Significant audit risks

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing, in particular around journals and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2015/16* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Assessment of subjective areas

Asset/liability class	15/16	Balance (£m)	KPMG comment
Property, Plant and Equipment valuations	3	£103.8m *(PY: £84.7m)*	All PPE is measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended. All assets are subsequently measured at fair value. The Authority has undertaken a full valuation of its land and buildings as at 31 March 2016. This has resulted in an impairment of £2.9m charged to the Statement of Comprehensive Income and Expenditure, and a revaluation gain of £15.9m charged to the revaluation reserve. The approach undertaken by external valuer Wilkes Head and Eve adapts according to different asset categories. For infrastructure, community assets and assets under construction, depreciated historical cost is used. For operational assets, a current value basis is used, determined by the characteristics of the asset. All other assets are valued at fair value, determined as the highest and best use amount that would be paid for the asset in an orderly transaction between market participants. These methods are in line with the *Code of Practice on Local Authority Accounting 2015/16* and the RICS Red Book. From this work we have reasonable assurance that the judgements made in the valuation of land and buildings are appropriate to ensure revaluations and impairments which are materially accurate.
Debtors provisioning	3	£1.9m *(PY: £1.9m)*	The Authority has maintained its debtors provisioning at the equivalent level to the previous year, in spite of an increase in gross debtors in year, from £6.4m in 2014/15, to £14.6m in 2015/16. This is because the majority of this increase in debtors is due to a single item; a £7.0m debtor associated with the sale of Banstead Leisure Centre, which was outstanding at year end for timing reasons only, and for which the cash had been received by the date of audit fieldwork. Our audit work has given us sufficient assurance that the Authority's judgements in providing for bad debts is balanced and the Authority's provision for impairment of receivables stated in the financial statements is materially accurate.

Judgements

Assessment of subjective areas			
Asset/liability class	**15/16**	**Balance (£m)**	**KPMG comment**
Creditor Accruals	❸	£2.3m *(PY: £2.8m)*	We consider the related disclosures to be proportionate. The main accruals are consistent with the prior year and in line with our expectations. A review of crystallization of prior year accruals has also shown that their methods for estimating accruals appear to be accurate. The Authority recorded accruals of £2.3m for 2015/16 (£2.8m in 2014/15). In most cases, the Authority will make significant judgements when calculating estimates for accruals, as information about actual amounts owed were not available at 31 March 2016. Accruals are based on estimates and judgements of historical trends and anticipated outcomes. At the end of each accounting period, Management reviews outstanding items and estimates amounts to be accrued. Any variation between the estimate and the actual is recorded under the relevant heading in the accounts in the subsequent financial period. Our procedures focussed on considering the nature of accruals, selected on a sample basis, and whether the Authority has calculated the accrual using relevant supporting documentation and reasonable assumptions. In addition we have undertaken a retrospective review of accruals made in 2014/15 and agreed them to subsequent cash payments in 2015/16, to support the accuracy of methodologies to accrue expenditure. The review supported our determination that the Authority has made reasonable judgements in estimating accruals. Our audit work identified one error in testing, where an accrual of £238k was raised in error. Through our work we are satisfied that this error is isolated in nature. The Authority has decided not to adjust this in 2015/16, but rather will amend this in 2016/17, as this item is not material, we are satisfied that this treatment is acceptable. On this basis we are satisfied that the Authority's judgements in the accruals process is balanced and the accruals stated in the financial statements is materially accurate.
Pensions Liability	❸	£56.9m *(PY: £70.0m)*	The pension liability has been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. discounted to present values. We have reviewed the accounting entries for pensions supplied by the Surrey County Council Pension Fund actuary, Hymans Robertson, and consider the disclosures to be appropriate. We have also compared this information to industry standard benchmarks. We have not noted any material inconsistencies between the assumptions used by the actuary and the industry standard benchmarks. This includes the discount rate, inflation, salary growth, and life expectancy assumptions. From this work we have reasonable assurance that the accounting entries for the pensions liability are materially accurate.

Accounts production and audit process

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented the recommendation raised in our *ISA 260 Report 2014/15*.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process through a produces statements of accounts of good standards. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2016. The Authority has made presentational changes to the accounts presented for audit. However, there have been no changes which we consider to be fundamental, other than those highlighted in Appendix two.
Quality of supporting working papers	Our PBC request list set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our PBC request list.
Response to audit queries	Officers resolved audit queries in am efficient and timely manner, which allowed the audit to be completed within

Additional findings in respect of the control environment for key financial systems

We identified that key control account reconciliations undertaken by the Authority during the year, including the bank reconciliation and monthly journals reviews, were not always prepared and reviewed in a timely manner. As a result we have raised a recommendation regarding this in Appendix One.

Liaison with Internal Audit

We have reviewed the work undertaken by Baker Tilly, your internal auditors, in accordance with ISA 610 and used the findings to inform and planning and audit approach. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit. This has not led to any additional resource burden for the Authority.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last year's ISA 260 report.

The Authority has implemented the recommendation in our *ISA 260 Report 2014/15*. Appendix One provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Reigate and Banstead Borough Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Reigate and Banstead Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix Four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Head of Finance for presentation to the Audit Committee. We require a signed copy of your management representations letter before we issue our audit opinion. We have requested two specific representations from the Authority in 2015/16, in addition to the routine requests:

- **Valuation of land and buildings:** The Authority is satisfied that the valuation of land and buildings included within the 2015/16 financial statements is appropriate and adequately reflects the factors that may impact on valuation; and
- **Expenditure cut off:** The Authority is satisfied that expenditure items are materially correctly recorded in the appropriate accounting period.

Other matters

ISA 260 requires us to communicate to you 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.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

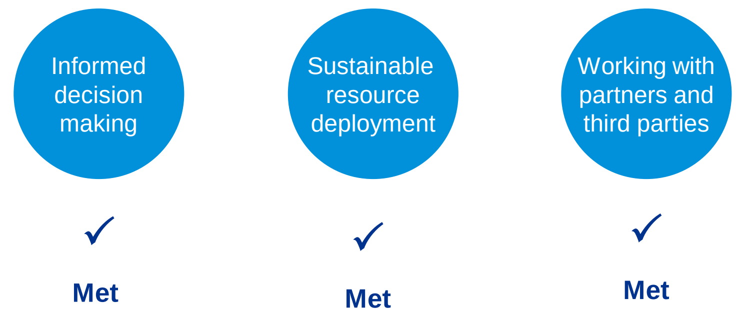
These sub-criteria provide a focus to our VFM work at the Authority.

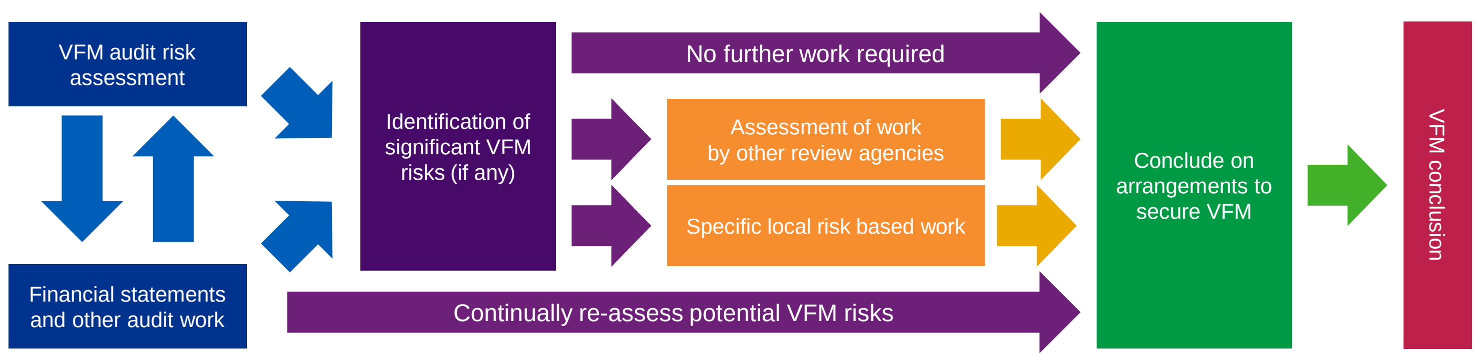
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





Specific VFM Risks

We have identified two specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan 2015/16* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Completed specific local risk based work; and

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description	Assessment
Financial resilience	Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. The Council has continued to see a reduction in central government grants with the 2015/16 allocation funding representing a reduction of over 38% (£2.3m) compared to the grants received in 2010/11. The Government announced in December 2015 that the Council's grant funding for 2016/17 will be £0.5m and for 2017/18 it will be zero. This cessation of grant funding is faster than had been anticipated in the Council's Medium Term Financial Strategy. This is relevant to sustainable resource deployment, sub-criteria of the VFM conclusion.	We reviewed the overall management arrangements that the Authority has for managing its financial position. We have also tested controls over the budget monitoring process throughout the Authority. The Authority has a Medium Term Financial Strategy, ongoing monitoring of the annual budget, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to Full Council and Committees. As part of the Authority's Corporate Plan 2015/20 it is aiming to be grant free by 2020, in order to insulate itself against decreasing revenues from central government. As a result of our work, we have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Specific VFM Risks

Key VFM risk	Risk description	Assessment
Development programme	The Council has a investment property development programme. Significant developments are taking place in Merstham, Redhill (Station and Warwick Quandrant) and Horley to improve the economic infrastructure, providing commercial premises as well as houses and flats. This also has the aim of generating additional income streams for the Council which will offset the reduction in Government Grant funding. The investment properties held by the Council on 31 March 2016 was £35.9m with rental income reported of £0.5m. The Council is planning to spend £20m on regeneration projects over the next three years.	The most individually significant ongoing regeneration programmes are those in Redhill and Merstham, part of which is undertaken jointly with Surrey County Council. We reviewed the overall management arrangements that the Authority has for managing its development programme, both within the Estates Team and the Finance Team. We have reviewed the Authority's arrangements for tracking progress against these schemes, including tracking for overrunning or overspending projects. We have tested controls over the budget monitoring process throughout the Authority, including the Authority's development programme. The Authority underwent a full revaluation of its land and buildings, including investment properties, in 2015/16. This saw a revaluation increase for investment properties of £10.1m, equivalent to 49% of the base. As a result of our work, we have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions, worked effectively in partnership with partners and third parties, and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

In 2015/16 the Authority was subject to a significant value fraud. This matter is the subject of a significant police investigation which is ongoing. We have reviewed the arrangements the Authority has put in place since this incident occurred, and are satisfied that arrangements have been sufficiently improved such that this incident does not impact on our Value for Money conclusion opinion 2015/16. We have also confirmed that the financial statements appropriately reflect this matter for 2015/16.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**Cut-off** We tested a sample of transactions from March and April 2016 bank statements to confirm that they had been posted to the correct accounting period. From an initial sample of 13 expenditure transactions, we identified that 2 items, which were received in April 2016 and had been recorded in 2016/17, actually related to 2015/16. These items were not accrued for. We undertook a further sample of 12 items, including the highest value items, and from this identified a further 2 errors, again where items recorded in 2016/17, actually related to 2015/16 and had not been accrued for at year end. The total value of these errors is £6.5k. From this testing we are satisfied that the total population in which any further error could occur is £1,011,157, which is immaterial. Extrapolating the 1% error rate over this population results in an extrapolated error of £12k, which is below our trivial reporting threshold. Therefore we are satisfied that the accounts are materially fairly stated, with the extrapolated error identified trivial in value. However, in response to the above, we recommend that the Authority reviews its processes for accruing for expenditure at year end, to ensure it accurately captures all such items going forward, to ensure that all transactions are recorded in the appropriate financial year.	**Accepted** Cut-off processes will be reviewed and improved. **Responsible Officer** Principle Accountant **Due Date** March 2017

Key issues and recommendations

#	Risk	Issue and recommendation	Management response/responsible officer/due date
2	3	**Timeliness of control account reconciliations** Key control account reconciliations, for example monthly bank reconciliations and journals authorisation reviews, were not always prepared and reviewed in a timely manner. All such control account reconciliations ought to be prepared and reviewed within 10 days of month end, in line with the Authority's procedures. We identified instances where review took place later than this: • March 2016 bank reconciliation: reviewed on 23/06/16; • March 2016 journal authorisation review: reviewed on 06/07/2016; and • November 2015 payroll reconciliation: reviewed on 03/03/2016 The delay in reviewing these reconciliations raises the risk that discrepancies, errors or issues identified in these reconciliations will not be identified and rectified in a timely manner. Control account reconciliations should be performed and reviewed in a timely manner to ensure any issues can be appropriately addressed. The Authority should reinforce to preparers and authorisers their procedures in this area, and if considered necessary, provide additional training or support to help facilitate this.	**Accepted** New processes for ensuring the timely completion and review of reconciliations have now been introduced. **Responsible Officer** Principle Accountant **Due Date** September 2016
3	3	**Identification of Related Parties** The Authority did not use Councillor declaration of interest forms to identify potential related parties. Instead Councillors were asked to complete a separate declaration of transactions form, asking if Councillors or those related to them had to their knowledge incurred any transactions with the Authority during the year. This results in a duplication of effort for Councillors, and can result in potential related parties being omitted, as Councillors may not be aware of all transactions carried out between the Council and bodies with whom they have either control or influence over. The Related Parties Note should be compiled based on the collating of Councillor declaration of interest forms. These declaration forms should then be compared to the Authority's General Ledger to ascertain if any transactions have occurred during the year.	**Accepted** The Related Party Note will be based on declaration of interest forms in the future. **Responsible Officer** Principle Accountant **Due Date** March 2017

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2014/15* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	3	**Temporary Accommodation Account** The Council's temporary accommodation team maintain a separate bank account with a year end balance of £92k. There is a historical discrepancy with Council's financial system which reports this balance as £82k, under reporting the amount by £10,000. We recommend that the Council corrects its ledger balance to enable the bank account to be accurately reported.	**Implemented** The Council has adjusted its ledger balance to eliminate this historical discrepancy. The ledger now matches the temporary accommodation separate bank account balance.	**Implemented**

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £105k.

It is our understanding that all of these will be adjusted.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Reigate and Banstead Borough Council's financial statements for the year ended 31 March 2016.

	Impact	
#	**Disclosure**	**Basis of audit difference**
1	**Note 26.3 Operating Leases** This note previously disclosed the annual payments due, rather than the overall commitment. The value of the future minimum lease payments for current and prior years have been amended with an adjustment of £71.2m required for lease payments due after 1 years, split between those due in 2-5 years, and those due in over 5 years.	Payments due in 2-5 years: increased from £1.3m to £4.5m Payments due in over 5 years: increase from £1.3m to £69.4m
2	**Note 26.1 Finance Leases** The finance lease disclosure erroneously omitted a lease of £4.9m in the 2014/15 figures. A presentational amendment has been made to include this in the restated 2014/15 figures.	Prior year finance lease disclosure should increase by £4.9m in the category Other Land and Buildings – freehold owned by Council.
3	**Note 16 Creditors** £1.1m of central government creditors were incorrectly recorded as local authority creditors in the draft accounts. A presentational amendment has been made to reclassify these.	Local authority creditors should decrease by £1.1m, and central government creditors should increase by £1.1m.
4	**Cashflow Statement** The incorrect surplus/deficit on the provision of services was used in the draft Cashflow Statement, resulting in a presentational error of £1.2m.	The surplus/deficit on provision of services should increase to £24.0m, rather than £22.8m.

Audit differences

The cumulative impact of uncorrected audit differences on the primary statements is £238k.

This is below our materiality level of £2.1 million.

Uncorrected audit differences

The following table sets out the uncorrected audit difference identified by our audit of Reigate and Banstead Borough Council's financial statements for the year ended 31 March 2016.

Impact £'000							
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1				Dr Short term creditors £238k	Cr Capital grant unapplied £238k	The authority incorrectly raised an accrual of £238k. The Authority has determined not to adjust for this within the 15/16 accounts, and instead will correct this misstatement in the 16/17 accounts. This is not material to the financial statements and hence we are satisfied this treatment is appropriate.
				Dr £238k	**Cr 238k**	**Total impact of uncorrected audit differences**

Impact		
#	Disclosure	Basis of audit difference
2	**Note 1 Segmental Reporting** In prior year figures, there is a £1.1m presentational discrepancy between Grant Income Credited to Cost of Services per Note 5 Grant Income, and per Note 1.3 Reconciliation to Subjective Analysis.	Note 5 and note 1.3 will not be updated. This is not material to the financial statements and hence we are satisfied this treatment is appropriate.

Materiality and reporting of audit differences

For 2015/16 our materiality is £2.1 million for the Authority's accounts.

We have reported all audit differences over £105k for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2015/16*, presented to you in March 2016.

Materiality for the Authority's accounts was set at £2.1m which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision, at £1.5m in 2015/16.

Reporting 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 misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £105k for the Authority.

Where 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.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Reigate and Banstead Borough Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Reigate and Banstead Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our fee for the external audit was £48,812 plus VAT. This fee was in line with that highlighted within our *External Audit Plan 2015/16* agreed by the Audit Committee in March 2016. Our fee for certification for the HBCOUNT is £9,593.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Fee	Potential threat to auditor independence and associated safeguards in place
Tax support to the Authority around VAT and sales tax:	£3K	**Self interest** – This engagement is entirely separate from the audit through a separate contract, Engagement Team and Engagement Lead. The proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. **Self review** – The nature of this work is to provide tax support to the Authority. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditor, as tax issues are not material to the Authority's financial statements in 2015/16. The existence of a separate team for this work is a further safeguard. **Management threat** – This work will be advice and support only – all decisions will be made by the Council. **Familiarity** – This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is a key safeguard. **Advocacy** – We will not act as advocates for the Council in any aspect of this work. We will draw on our experience in such roles to provide the Council with a range of approaches but the scope of this work falls well short of any advocacy role. **Intimidation** – We have not received any threats or intimidating behaviour in 2015/16, or previously, which could impact on our independence.
Total non audit fees (excluding VAT):	**£3K**	
Total estimated fees as a percentage of the external audit fees:	**5.1%**	

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk

Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

Mr N Hewitson
Director
KPMG LLP
15 Canada Square
London
E14 5GL

15 September 2016

Dear Neil

This representation letter is provided in connection with your audit of the financial statements of Reigate and Banstead Borough Council ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

ii. and whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

    i. give a true and fair view of the financial position of the Authority at 31 March 2016 and of the Authority's expenditure and income for the year then ended;

    ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter in Appendix two.

Information provided

5. The Authority has provided you with:

    - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
    - additional information that you have requested from the Authority for the purpose of the audit; and
    - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority confirms the following:

    i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

    Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

    ii) The Authority has disclosed to you all information in relation to:

    a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
        - management;
        - employees who have significant roles in internal control; or
        - others where the fraud could have a material effect on the financial statements; and

    b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:
        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,

    have been identified and properly accounted for; and

    b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

13. The Authority has included in its financial statements land and buildings of £99.3m. The Authority underwent a full valuation of its land and buildings as at 31 March 2016. The Executive confirms it is satisfied that the valuation of land and buildings included within the 2015/16 financial statements is appropriate and adequately reflects the factors that may impact on it.

14. The Executive confirms that it is satisfied that expenditure transactions are recorded in the appropriate accounts period and accrued for where appropriate.

This letter was tabled and agreed at the meeting of the Executive on 15 September.

Yours faithfully,

....

Cllr Victor Broad
Leader

....

Bill Pallett
Head of Finance

Appendix 1 to the Authority Representation Letter of Reigate and Banstead Borough Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Appendix 2 to the Authority Representation Letter of Reigate and Banstead Borough Council: Uncorrected Audit Differences

The following table sets out the uncorrected audit difference identified by our audit of Reigate and Banstead Borough Council's financial statements for the year ended 31

Impact £'000			
	Liabilities	**Reserves**	**Basis of audit difference**
1	Dr Short term creditors £238k	Cr Capital grant unapplied £238k	The authority incorrectly raised an accrual of £238k. The Authority has determined not to adjust for this within the 15/16 accounts, and instead will correct this misstatement in the 16/17 accounts. This is not material to the financial statements and hence we are satisfied this treatment is appropriate.
	Dr £238k	**Cr 238k**	**Total impact of uncorrected audit differences**

March 2016.

	Impact	
	Disclosure	**Basis of audit difference**
2	**Note 1 Segmental Reporting** In prior year figures, there is a £1.1m presentational discrepancy between Grant Income Credited to Cost of Services per Note 5 Grant Income, and per Note 1.3 Reconciliation to Subjective Analysis.	Note 5 and note 1.3 will not be updated. This is not material to the financial statements and hence we are satisfied this treatment is appropriate.