



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

<b>REPORT OF:</b>	HEAD OF FINANCE (CFO)
<b>AUTHORS:</b>	Bill Pallett
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<b>TO:</b>	OVERVIEW & SCRUTINY
<b>DATE:</b>	17 SEPTEMBER 2015

<b>SUBJECT:</b>	<b>REPORT FROM THE EXTERNAL AUDITORS (ISA 260 REPORT)</b>
<b>RECOMMENDATION:</b> <b>To note the report from the Council's External Auditors, KPMG, which summarises the conclusions and significant issues arising from the audit of the 2014/15 Annual Financial Report.</b>	
<b>SUMMARY:</b> Attached as <b>Annex 1</b> is the report and two appendices to be received by the Executive on 10 September 2015. The Executive will be requested to note the report of the External Auditors (Appendix 1), and to agree the Management Representation Letter (Appendix 2) as part of the standard audit process. The Overview and Scrutiny Committee is requested to note the findings of the External Auditor on the Council's Annual Financial Report for the financial year 2014/15, as set out in Appendix 1. The Executive will be separately requested to approve the Statement of Accounts for 2014/15, incorporated in the aforementioned Annual Financial Report, on 10 September 2015. The Annual Financial Report was circulated to the Overview and Scrutiny Committee for their information following publication of the Executive Agenda on 1 September.	



EXECUTIVE  
10 September 2015

Agenda Item: 4  
Report from the External Auditors (ISA 260 Report)



<b>REPORT OF:</b>	HEAD OF FINANCE (CFO)
<b>AUTHOR:</b>	Bill Pallett
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<b>TO:</b>	EXECUTIVE
<b>DATE:</b>	10 SEPTEMBER 2015
<b>EXECUTIVE MEMBER:</b>	COUNCILLOR G KNIGHT

<b>KEY DECISION REQUIRED:</b>	NO
<b>WARD (S) AFFECTED:</b>	ALL

<b>SUBJECT:</b>	<b>REPORT FROM THE EXTERNAL AUDITORS (ISA 260 REPORT)</b>
<b>RECOMMENDATIONS:</b>	
<p>(i) That the report on the 2014/15 audit is noted.</p> <p>(ii) The Management Representation Letter is agreed.</p>	
<b>REASONS FOR RECOMMENDATIONS:</b>	
<p>The Executive is responsible for corporate governance. How we utilise and account for resources is intrinsic to good governance.</p>	
<b>EXECUTIVE SUMMARY:</b>	
<p>The report from the Council's external auditors (KPMG) summarises the conclusions and significant issues arising from the audit of the 2014/15 Annual Financial Report. This report is appended as Appendix 1.</p> <p>The agreement of the Management Representation Letter is part of the standard audit process. This letter is set out in Appendix 2.</p>	

**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 2014/15 Statement of Accounts.
5. Their report is attached as Appendix 1. In particular, Member's attention is drawn to the auditors "headlines" set out on page 3.

#### **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.

#### **CONSULTATION**

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

#### **POLICY FRAMEWORK**

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

**Background Papers:** Executive, 10 September 2015, *Statement of Accounts 2014/15*



*cutting through complexity*

# Report to those charged with governance (ISA 260) 2014/15

**Reigate and Banstead Borough Council**

27 August 2015

**The contacts at KPMG in connection with this report are:**

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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. The Audit Commission 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.psa.co.uk](http://www.psa.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, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@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](mailto: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 3HZ.

**This document summarises:**

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 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 2014/15 financial statements; and
- the work to support our 2014/15 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 2014/15*, issued in February 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2015.

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

**VFM conclusion**

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering results of relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

**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 2014/15 financial statements of the Authority; and
- Section 4 outlines our key findings from our work on the VFM conclusion.
- Our recommendations are included in Appendix 1.

**Acknowledgements**

We thank officers and Members for their continuing help and cooperation throughout our audit work. In particular, we would like thank our key contacts Bill Pallett and Helen Stocker for the time and effort invested in helping to ensure the smooth running of this audit.

**This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.**

<b>Proposed audit opinion</b>	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that the Annual Governance Statement complies with guidance issued by CIPFA / SOLACE in June 2007. This is subject to completion of our final quality and review procedures.
<b>Audit adjustments</b>	Our audit has identified a total three significant audit adjustments. None of these impacted on the reported results of the Authority.  We have included a full list of significant audit adjustments at Appendix 1. All of these were adjusted by the Authority.
<b>Key financial statements audit risks</b>	We review risks to the financial statements on an ongoing basis. We identified one financial statement audit risk in our 2014/15 external audit plan: valuation of land and buildings. This was because of the materiality of the value and the judgement involved in determining the carrying amounts of property assets.  We have worked with officers throughout the year to discuss this key risk and our detailed 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 this key risk areas.
<b>Accounts production and audit process</b>	The Authority have robust processes in place for the production of the accounts and continue to produce good quality supporting working papers. Officers dealt efficiently with audit queries, effectively prioritising them, and the audit process has been completed within the planned timescales. This year we have raised one low priority recommendation (Appendix 1).
<b>Completion</b>	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: completion of final and analytical review checks on the revised financial statements and post balance sheet events review (September 2015).  Before we can issue our opinion we require a signed management representation letter.  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.
<b>VFM conclusion and risk areas</b>	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.
<b>Public Interest Reporting (not discussed further in this document)</b>	In auditing the accounts we must consider: <ul style="list-style-type: none"> <li>■ whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit, in order for it to be considered by the Authority or brought to the attention of the public; and</li> <li>■ whether the public interest requires any such matter to be made the subject of an immediate report rather than at the conclusion of the audit.</li> </ul> <p>There are no matters in the public interest that we wish to raise at this time.</p>



## Financial Statements: proposed opinion and audit differences

**We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.**

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

**Our audit has identified a total of three significant audit adjustments.**

### 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 Executive Committee on 10 September 2015.

### 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 level for this year's audit was set at £2.1M. See Appendix 3 for more information on materiality. Audit differences below £105K are not considered significant.

Our audit identified a total of three significant audit adjustments, which we set out in Appendix 1. It is our understanding that these will be adjusted in the final version of the financial statements and we will confirm that they have been processed before issuing our audit opinion

Of the audit adjustments we have identified, there is only one item impacting on the prime financial statements is:

- A correction to the cash flow statement. This included amounts of £10.1M disclosed as the proceeds from the sale of PPE and Investment Property. This sum erroneously included £8.7M of movements on the capital receipts reserve when only actual capital receipts should be recorded. These totalled £1.4M. As a contra item within the cash flow statement there was no other impact on the Council's financial statements and no change to the Authority's reported total cash movements for the year

In addition we identified presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing all of these.

### Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed 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.

Section three


## Financial Statements: significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on the significant risk identified.



In our External Audit Plan 2014/15 we identified one significant risk affecting the Authority's 2014/15 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 this risk specific to the Authority.

Significant audit risk	Issue	Findings
	<p>In 2013/14 the Authority reported that it owned land and buildings valued at £76M.</p> <p>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.</p> <p>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 2014/15.</p> <p>At 31 March 2015 the Authority reported that it owned land and buildings valued at £73.5M.</p>	<p>We undertook the following work over the valuation of land and buildings</p> <ul style="list-style-type: none"> <li>▪ In 2014/15, the Authority commissioned Jones Lang LaSalle (JLL) to undertake a revaluation exercise on a selection of its land and buildings as at 1 April 2014, in line with its accounting policy to ensure that all assets are revalued over a five year period with high value assets valued annually. The total value of properties valued was £61M.</li> <li>▪ We considered the independence and experience of JLL and were satisfied that the valuer was appropriately qualified to undertake the valuation and that it was conducted in accordance with RICS principles, and was in line with the Authority's accounting policies for Property, Plant and Equipment, and the instructions provided.</li> <li>▪ We confirmed that the valuations provided by JLL were correctly recorded in the financial statements.</li> <li>▪ We considered the Council's arrangements for assessing the potential for material changes in valuation of property between the valuation date (1 April 2014) and the Balance Sheet date (31 March 2015). All properties are subject to a revaluation gain as well an impairment review by the Council's estates team and a revised value is provided by JLL if required (e.g. Churchfield Pavillions destroyed by fire). JLL reported the results of a valuation exercise undertaken in December 2014 and if there were any significant variations in valuations the Council would have been notified at that point.</li> </ul>

## Financial Statements: significant risks and key areas of audit focus

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are required by professional standards and report our findings to you. The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
 <p>Audit areas affected</p> <ul style="list-style-type: none"> <li>All areas</li> </ul>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. 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. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p>Audit areas affected</p> <ul style="list-style-type: none"> <li>None</li> </ul>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> 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.</p> <p>Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

Section three

## Financial Statements: accounts production and audit process

The Authority has a well established and strong accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

### 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
<b>Accounting practices and financial reporting</b>	<p>The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts on 24 June 2015.</p> <p>The Authority have made presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental. The audit adjustments identified were minimal.</p>
<b>Quality of supporting working papers</b>	<p>The quality of working papers provided was high and fully met the standards specified in our PBC request list.</p>
<b>Response to audit queries</b>	<p>Officers effectively prioritised all audit queries, collaborating with the audit team to resolve them in an efficient and timely manner.</p>

## Section three

# Financial Statements: 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 2015, 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 2 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 Finance Manager for presentation to the Executive Committee. We require a signed copy of your management representations before we issue our audit opinion.

### 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.

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

**Background**

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

**Work completed**

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

**Conclusion**

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



**This appendix sets out the audit differences.**

**The financial statements have been amended for all of the differences identified through the audit process.**

**There is no net impact on the General Fund and HRA as a result of the amendments.**

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.

#### **Uncorrected audit differences**

We are pleased to report that there are no uncorrected audit differences.

#### **Corrected audit differences**

##### **Material differences**

The cash flow statement required amendment to exclude the movements on the capital receipts reserve which were incorrectly reported as the proceeds from the sale of PPE and Investment Property. This reduced the amount disclosed from £10.1M to £1.4M; as a contra item within the cash flow statement there was no other impact on the Council's financial statements.

##### **Non-material audit differences**

Our audit identified non-material differences in the financial statements. These have been discussed with management and the financial statements have been amended for all of them. There were no changes made to the CIES or Balance Sheet.

- Whilst total income and expenditure agreed corrections were required to the analysis provided in Note 1.2 so that individual lines agreed to the analysis in Note 1.3.
- Correction to the disclosure of individual grants within Note 5. Total grant income reduced by £142,000 to agree to that reported through the CIES.

Some presentational changes were made to the financial statements and Annual Governance Statement to ensure full compliance with the CIPFA Code and internal consistency.

## Appendix 2: 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.

We will formally follow up these recommendations next year. There were no recommendations to follow up from previous years.

### Priority rating for recommendations

<p><b>1</b> <i>Priority one:</i> 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.</p>	<p><b>2</b> <i>Priority two:</i> 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.</p>	<p><b>3</b> <i>Priority three:</i> 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.</p>
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No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>3</b>	<p><b>Temporary Accommodation Account</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>We recommend that the Council corrects its ledger balance to enable the bank account to be accurately reported.</p>	<p><b>Implemented.</b></p> <p>The Council has adjusted its ledger balance to eliminate this historical discrepancy. The ledger now matches the temporary accommodation separate bank account balance.</p>



## Appendix 3: Declaration of independence and objectivity

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.**

### Requirements

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

*“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”*

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 Executive 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.

### 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.

## Appendix 3: 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.**

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 2015, we confirm that there were no relationships between KPMG LLP and Reigate and 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.

## Appendix 4: Materiality and reporting of audit differences

**For 2014/15 our materiality was £2.1M for the Authority's accounts.**

**We have reported all audit differences over £105K for the Authority's accounts to the Executive Committee.**

### 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 2014/15.

Materiality for the Authority's accounts was set at £2.1M which equates to c.2% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Executive 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 Executive 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 Executive Committee to assist it in fulfilling its governance responsibilities.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

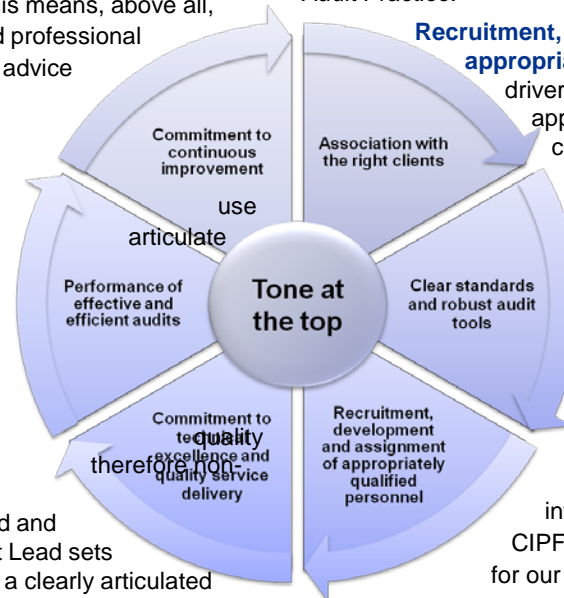
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit is part of our culture and values and negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Neil Hewitson as Engagement Lead sets the tone of the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



**Recruitment, development and assignment of appropriately qualified personnel:** One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**Quality must build on the foundations of well trained staff and a robust methodology.**

**Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

**Our quality review results**

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psa.a.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report issued June 2015 showed that we are meeting the overall audit quality and regulatory compliance requirements.



*cutting through complexity™*



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

10 September 2015

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 2015 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 2015 and of the Authority’s expenditure and income for the year then ended;
- ii. 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 2014/15.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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 regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:
  - i. give a true and fair view of the financial position of the Authority as at 31 March 2015 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 2014/15.

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.

### **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 it has considered the valuation of its land and buildings and is satisfied that the carrying value is not materially different from fair value. The Authority confirms that it is satisfied that land and buildings are included at an appropriate valuation in the balance sheet and that the Authority has not unduly influenced the valuers in determining the valuation of land and buildings.
- 12. 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.
- 13. 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 planned amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Executive on 10 September 2015.

Yours faithfully,

.....  
Cllr VW Broad, Leader/Chair of the Executive

.....  
Bill Pallett, Chief Finance Officer

## **Appendix to the 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
- 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 2014/15.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

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.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

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.