



REPORT OF:	DIRECTOR OF FINANCE AND ORGANISATION
AUTHORS:	Jocelyn Convey
TELEPHONE:	01737 276560
E-MAIL:	Jocelyn.Convey@reigate-banstead.gov.uk
TO:	OVERVIEW & SCRUTINY
DATE:	6 September 2018

SUBJECT:	ISA 260 EXTERNAL AUDIT REPORT 2017/18
RECOMMENDATION:	
To note the report from the Council's External Auditors, KPMG, which summarises the conclusions and significant issues arising from the audit of the 2017/8 Annual Financial Report.	
SUMMARY:	
Attached as Annex 1 is the cover report received by the Executive on 19 July 2018.	
Attached as Annex 2 is the External Audit Report for 2017/18, as received by the Executive on 19 July 2018.	
Attached as Annex 3 is the Management Representation Letter for 2017/18, as received by the Executive on 19 July 2018.	
The Executive was requested to note the report of the External Auditors and to agree the Management Representation Letter 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 2017/18, as set out in Annex 1.	

REPORT OF:	HEAD OF FINANCE (CFO)
AUTHOR:	Joss Convey
TELEPHONE:	01737 276341
E-MAIL:	Jocelyn.convey@reigate-banstead.gov.uk
TO:	EXECUTIVE
DATE:	19 JULY 2018
EXECUTIVE MEMBER:	COUNCILLOR T SCHOFIELD

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

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

- (i) That the report from the external auditors (ISA 260) on the 2017/18 audit be noted. (Annex 1 to follow)
- (ii) That the Management Representation Letter be agreed and signed by the Leader. (Annex 2 to follow)

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 2017/18 Annual Financial Report. This report is appended as Annex 1 (to follow pending completion of the audit by our external auditors). The information will be published with an addendum to the agenda.

The agreement of the Management Representation Letter is part of the standard audit process. This letter is set out in Annex 2 (to follow pending completion of the audit by our external auditors). The information will be published with an addendum to the agenda.

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 2015*.
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 in auditing the Council's 2017/18 Statement of Accounts.
5. The report is attached as Annex 1 (to follow). In particular, Member's attention is drawn to the auditors key messages set out at the beginning of their report.
6. For 2017-18, under the Accounts and Audit Regulations 2015, the date by which principal local authorities must publish their accounts along with the auditor's opinion moves forward by two months to 31 July 2018.
7. Officers have worked closely with KPMG (our external auditors) to meet this date. Our external auditors are expected to provide the final report (ISA 260) pending completion of the audit. The information will be published with an addendum to the agenda.

LEGAL IMPLICATIONS

8. There are no legal implications.

FINANCIAL IMPLICATIONS

9. There are no direct financial implications.

EQUALITIES IMPLICATIONS

10. There are no equalities implications.

COMMUNICATIONS IMPLICATIONS

11. There are no communications implications.

CONSULTATION

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

POLICY FRAMEWORK

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

Background Papers: [Executive 19 July 2018 Statement of Accounts 2017/18](#)



External Audit Report 2017/18

DRAFT

Reigate and Banstead Borough Council

—
July 2018

Content

**Contacts in connection with
this report are:**

Joanne Lees

Director

Tel: 07833 747 074

joanne.lees@kpmg.co.uk

Satinder Jas

Manager

Tel: 07979 612771

satinder.jas@kpmg.co.uk

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This report is addressed to Reigate and Banstead Borough Council (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. PSAA 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 PSAA'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 Joanne Lees, 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 (0207 694 8981, 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.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Reigate and Banstead Borough Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority'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.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Executive Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Executive Committee meeting. The following work is ongoing:

— Financial statements audit:

- PPE (one samples for additions outstanding and review of the basis of the revaluation split from the external valuers report)
- Pensions (awaiting final confirmation from Pensions auditors)
- Related party disclosures (query with management over including presentations)
- Final review of the accounts
- Receipt of management representations letter

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Executive Committee adopting them and receipt of the management representations letter.

We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There was one unadjusted audit difference, explained in section 2 and appendix 2.
- We identified four primary statement changes and presentational changes to the accounts, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- In addition to our routine requests we are asking for management representations over the following, which are explained in section 2:
 - Valuation of land and buildings
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our completion certificate on 30 July 2018. We also intend to issue our 2017/18 Annual Audit Letter in September 2018.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 31 July 2018.

Summary

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.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

We have raised two recommendations this year in relation to your bank reconciliation and the process for including the figures from your PPE valuers report into your fixed asset register.

We identified one prior year recommendations that require further action by Management and has been raised again this year. All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority which fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- BEN01 Housing benefit certification: audit fieldwork will commence in August 2018 and be completed in advance of the PSAA 30 November 2018 deadline.

The fees for this work is explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage		
	Before	During	After
1. Business understanding: review your operations	✓	✓	—
2. Controls: assess the control framework	✓	—	—
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	—	—
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	—
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	—	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made two recommendations which relates to the bank reconciliation and the process for updating your FAR with your external valuation figures. We believe that this recommendation (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Finance Manager and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails in the majority of areas.

Financial statements audit

4. Accounting standards	<p>We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to:</p> <ul style="list-style-type: none"> Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: No issues were found as a result of our audit; and Amended guidance on the Annual Governance Statement: No issues were found as a result of our audit.
5. Accounts Production	<p>We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.</p> <p>The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to the year-end to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is adequate. The areas which you need to pay particular attention to are ensuring reconciling items as per your bank reconciliations have a clear audit trail. We consider the Authority's accounting practices to be appropriate.</p> <p>We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We have identified presentational changes to the accounts along with audit adjustments to PPE and investment properties which we have presented in Appendix 2.</p>
7. Representations	<p>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 Head of Finance on 10 July 2018. We draw 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 Management to provide specific representations on:</p> <ul style="list-style-type: none"> Valuation of land and buildings.

Financial statements audit

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, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over valuation of land and buildings and pension liabilities which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	£113,127k, PY: £113,564k	<p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end. The procedures we undertook to address this included:</p> <ul style="list-style-type: none"> ▪ We reviewed the approach that the Authority adopted to assess the risk that the assets that were not subject to valuation could be materially misstated and considered the robustness of that approach. ▪ We considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time. ▪ In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate. ▪ We assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions). <p>As a result of this work we determined that there was one adjustment required in relation to the primary financial statements as detailed in appendix 3 and a small number of presentational adjustments.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 13</p>

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension liabilities	(£71,124k), PY: (£70,518k)	<p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Surrey County Council, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p> <p>Our procedures in respect of this risk included:</p> <ul style="list-style-type: none"> ▪ We have written to the Fund Auditors to seek assurance over the controls and processes in operation at the Pension Fund ▪ We reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary (Hymans Robertson), including the Authority's process and controls with respect to the assumptions used in the valuation. ▪ We evaluated the competency, objectivity and independence of Hymans Robertson. ▪ We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Hymans Robertson. ▪ We reviewed the overall actuarial valuation and considered the disclosure implications in the financial statements. <p>As a result of this work we determined that the pensions liabilities stated in the financial statements are appropriate and in line with our expectations.</p> <p>We have set out our view of the assumptions used in valuing pension liabilities at page 14.</p>

Financial statements audit

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Faster close	N/A	<p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years. A small number of adjustments were required, including four which impacted on the primary financial statements.</p> <p>In a number of areas the Authority made increased use of estimates. In these areas we considered the assumptions used and challenged the robustness of those estimates.</p> <p>As a result of this work we did not identify any significant issues relating to the Authority completing a faster close.</p>

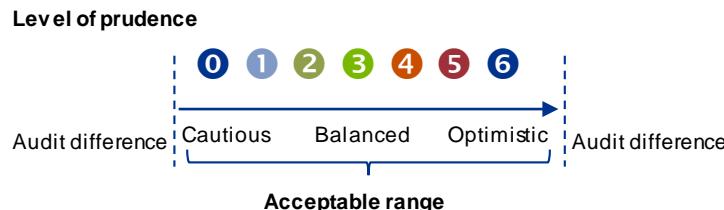
Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents, annual central Government grants and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to commercial revenue streams and will review these if they are material.</p>	<p>Our review of your commercial revenue streams confirmed these were not material and therefore no further work has been completed.</p>
Fraud risk from management override of controls	<p>Management is typically in a powerful position to perpetrate fraud owing to 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.</p> <p>In line with our methodology, we will carry out appropriate controls testing and substantive procedures, over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>There are no matters arising from this work that we need to bring to your attention.</p>

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas				
Asset/liability class	Current year	Prior year	Balance (£m)	KPMG comment
Land and Buildings and investment properties	③	③	L&B: £109.2m (PY: £109.4m) IP £66.1m (PY: £47.1m)	<p>The Authority utilise an external valuer, Wilkes, Head and Eve (WHE), to value their land, buildings and investment properties. All land and buildings are 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, as part of a rolling revaluation programme which ensures that all assets are revalued within a five year period.</p> <p>Land and buildings are valued at fair value, determined as the amount that would be paid for the asset in its existing use (existing use – EUV). These methods are in line with the Code of Practice on Local Authority Accounting 2017/18 and the RICS Red Book. Investment properties are valued initially at cost, and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. This valuation basis is in line with the Code of Practice on Local Authority Accounting 2017/18 and the RICS Red Book. Our audit work has included a detailed consideration of the valuation basis used and review of the WHE valuation reports by KPMG's expert valuer.</p> <p>From our work we have assessed the judgements made in the valuation of land, buildings and investment properties to be balanced.</p>

Financial statements audit

Assessment of subjective areas				
Asset/liability class	Current year	Prior year	Balance (£m)	KPMG comment
Debtors provisioning	③	③	£2.3m (PY:£2.2m)	<p>The Authority has recorded a provision for impairment of receivables of £2.3m for 2017/18 (£2.2m in 2016/17). Of this, the largest individual amount relates to Housing Benefits overpayment provisions, which are provided on the basis of 5% for those debts under one year old, and 100% for debts over one year old, which is consistent with the prior year. Other than Housing Benefits, other debtors provisions are maintained for Council Tax and NNDR debts, which have been maintained at consistent levels in 2017/18 as in previous years.</p> <p>Our procedures here have focussed on sample testing of individual bad debt provisions, as well as a variance analysis to ensure completeness, and enquiries of Management.</p> <p>From our work we have assessed the judgements made in the valuation of debtors and associated provisions to be balanced.</p>
Pension liability	③	③	£71.1m (PY:£70.5)	<p>In the previous year, the Local Government Pension Scheme for Surrey County Council (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The pension liability numbers to be included in the financial statements for 2017/18 are based on the output of the triennial valuation rolled forward to 31 March 2018. For 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>Our procedures here focussed on ensuring that the information provided to Surrey County Council Pension Fund were complete and accurate, and ensuring that the assumptions applied by the expert actuary Hymans Robertson were appropriate. We utilised KPMG's expert actuary to review the pensions valuation and the assumptions incorporated within it.</p> <p>From our work we have assessed the judgements made in the valuation of pensions to be balanced.</p>

Financial statements audit

Assessment of subjective areas				
Asset/liability class	Current year	Prior year	Balance (£m)	KPMG comment
Creditor accruals	③	②	£4.3m (PY £4.4m)	<p>The Authority recorded creditor accruals of £4.3m for 2017/18 (£4.4m in 2016/17). 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 2018. 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.</p> <p>Our procedures focused 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 2016/17 and agreed them to subsequent cash payments in 2017/18, to support the accuracy of methodologies to accrue expenditure.</p> <p>We consider the level of prudence in relation to accruals balances to be balanced.</p>

Financial statements audit

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by Kreston Reeves on the financial statements of the Authority's subsidiary Greensand Holdings Limited, as a material component.

There are no specific matters to report pertaining to the group audit. There were no issues to note in relation to the consolidation process.

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Audit certificate

We have completed all our responsibilities in relation to the audit of the accounts for the year end 31 March 2018 and anticipate issuing our audit certificate with our audit opinion.

Audit fees

Our fee for the audit was £48,812 excluding VAT (£48,812 excluding VAT in 2016/17). This fee was in line with that highlighted in our audit plan approved by the Executive Committee in April 2018.

Our work on the certification of Housing Benefits (BEN01) is planned for August 2018. The planned scale fee for this is £9,768 excluding VAT (£12,079 excluding VAT in 2016/17).

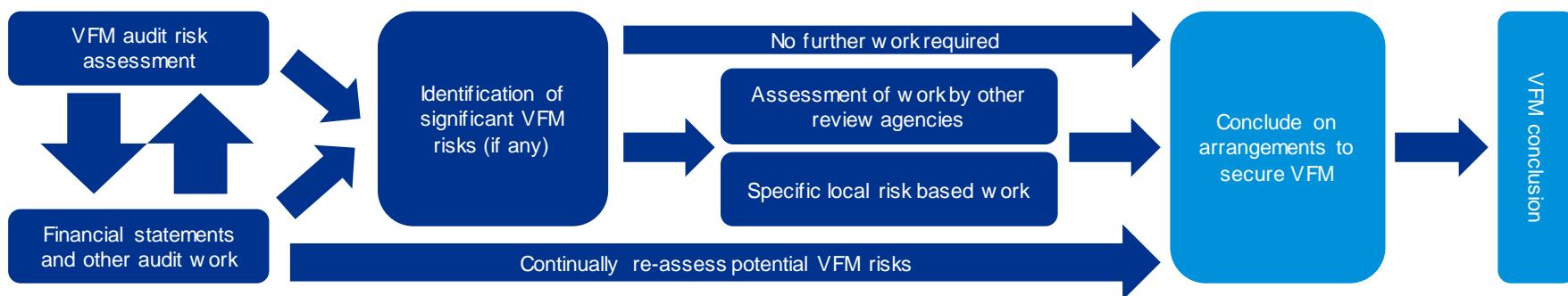
We have not completed any non-audit work at the Authority in the year.

Value for money

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.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We did not identify any significant VFM risks and provide a summary below of the other areas of audit focus arising from our VFM work. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

Value for money

Other areas of audit focus

Below we set out the detailed findings against other areas of audit focus for our VFM work.

VFM: other area of audit focus	Our audit response and findings
Budget performance	<p>For 2017/18 the Authority represented a budget which required savings of just over £1.5m. Despite continued challenging economic and market conditions in 2017/18 the Authority achieved a net revenue underspend of £850k and a net capital underspend of £2.6m against a forecast of £16.2m and £23.4m respectively.</p> <p>The Authority's budget for 2018/19 was approved at the Council meeting in November and result in a net budget for 2018/19 of £15.5m. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings of £2.6 million will be required in 2019/20 to principally address future reductions to local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.</p> <p>Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. The Authority reported an overall underspend of £0.8 million on its net expenditure budget for 2017/18 after the net contribution of £1.2 million from earmarked reserves. This enabled the General Fund balance to remain at £12.5 million as of 31 March 2018.</p> <p>The Authority's MTFP details a balanced budget for 2018/19 including savings of £0.62m million in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified. We carried out testing a number of the Authority's saving schemes and have found that whilst overall there are good-quality schemes and robust reporting, the Authority has further opportunities to leverage synergies between individual schemes to achieve greater savings.</p>

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations			
#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	②	<p>Bank reconciliations</p> <p>In the prior year our audit identified a number of weaknesses in bank reconciliations undertaken by the Authority. These included four out of five accounts had not been effectively reconciled in year, with either high value erroneous reconciling items identified, reconciliations not being completed correctly, delays in the preparation of the year end bank reconciliation (and included errors as part of our testing in 2016/17) and difficulties in identifying what reconciling items related to.</p> <p>For 2017/18, we identified that reconciliations were completed for four out of the five bank accounts. All four were the expenditure accounts used by the Authority. For one of the four accounts management were unable to provide supporting documentation for five samples of the reconciling items noted. This included not being able to find the expenditure leaving the bank account for three of the five samples. The total balance of these five items £612,235. We have included this as a unadjusted audit difference in our findings.</p> <p>For the fifth account, the 'general account', which is the income account, although reconciliations are being completed there are still unreconciled items, which management are unable to individually identify. We note, management have been working with their IT team to understand the differences, which are believed to be timing differences, but have not been able to resolve the matter for the 2017/18 financial year.</p> <p>Continued on next page</p>	

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	②	<p><i>Recommendation</i></p> <p>Regular effective reconciliations of the bank account to the general ledger are an essential internal control which enables any discrepancies with regards to cash to be identified and resolved in a timely manner. When reconciling items are identified, they should then be investigated and cleared on a monthly basis.</p> <p>We therefore recommend that management continue to review the reconciling balances with their IT team and also with their external systems supplier in order to understand what the reconciling income balance consists of.</p> <p>In addition, management should review their reconciling items to confirm they have supporting documentation for all items within the reconciliations produced. Management should also review the processes in place for ensuring there is an audit trail for expenditure which has occurred.</p>	
2	②	<p>Review between FAR and the external valuers report</p> <p>Our review of the FAR and external valuers report identified six PPE assets and four investment properties where the FAR did not agree to the value provided in the valuation report, resulting in audit adjustments to the core financial statements.</p> <p><i>Recommendation</i></p> <p>We recommend that management complete a review of the FAR to the external valuers report as part of the accounts compilation process.</p>	

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
4	3	1

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	2	<p>Bank reconciliations</p> <p>Our audit identified a number of weaknesses in bank reconciliations undertaken by the Authority. We identified that:</p> <p>Our interim audit in March 2017 identified that the bank reconciliation control had not operated effectively throughout the year. Testing of the reconciliations of the five bank accounts showed that four of the accounts had not been effectively reconciled in year, with either high value erroneous reconciling items identified, or reconciliations not completed correctly.</p> <p>The year end bank reconciliation for March 2017 was not prepared until 12/05/17, and was subsequently not reviewed until 06/07/17, two working days before the year end audit began.</p> <p>The year end audit identified a total of 6 erroneous reconciling items contained within the bank reconciliations. These included items which had been reconciling items for some time but which had not been appropriately investigated and cleared. Of these erroneous items, 3 items resulted in adjustments to the financial statements.</p> <p>Audit queries during the final accounts audit identified that the Finance Team did not know what all reconciling items related to, and investigation was required to establish the genesis and nature of transactions once queries were raised by KPMG.</p>	<p>Agreed</p> <p>To improve the bank reconciliation control process, Reigate & Banstead BC will:</p> <ul style="list-style-type: none"> Utilise external advice to redesign the bank reconciliation control process. Prepare the bank reconciliation on a monthly basis <p>Due Date: December 2017</p> <p>Identify, investigate and resolve discrepancies on a monthly basis</p> <p>Improve Finance Team understanding of the control process</p> <p>Due Date: March 2018</p> <p>Officer responsible: Head of Finance</p>	<p>In progress:</p> <p>Reigate & Banstead BC has made significant improvements to its bank reconciliation process. Redesign work is complete within existing systems. Further systems enhancements requiring investments are being considered. The Council has worked with external providers to test process and controls, and redesign work is ongoing. The Finance Team have developed, documented and agreed a new extended control process.</p> <p>This recommendation has been re-raised in 2017/18.</p>

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	②	<p>Bank reconciliations contd..</p> <p><i>Recommendation</i></p> <p>Regular effective reconciliations of the bank account to the general ledger are an essential internal control which enables any discrepancies with regards to cash to be identified and resolved in a timely manner. When reconciling items are identified, they should then be investigated and cleared on a monthly basis.</p> <p>We therefore recommend that management perform bank reconciliations on a monthly basis, to ensure that any discrepancies are identified and resolved in a timely manner. These bank reconciliations should be separately prepared and authorized to ensure sufficient segregation of duties, and all reconciling items should be investigated and cleared on a month by month basis.</p>		

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- 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; and
- 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 2017/18, presented to you in April 2018.

Materiality for the Authority's accounts was set at £2 million which equates to around 2% of gross expenditure.

Materiality for the group accounts was set at £2 million which equates to around 2% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to 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 £103k for the Authority and less than £103k for the group accounts.

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.

Audit differences

Adjusted audit differences

To assist the Executive Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr £1,551k		Cr PPE £1,991k		Dr RR £440k	We identified six assets where they were recorded as having a £NIL value in the valuers report but had a value in the FAR.
2	Dr £1,793k Cr £1,760k		Cr IP £1,758k Dr IP £1,760k			<p>Three adjustments were identified in relation to Investment Properties</p> <ol style="list-style-type: none"> 1) One asset which was recorded as having a £NIL value in the valuers report but had a value in the FAR (£33k value). 2) One asset (£1,725k) which was disposed of in the previous year and had been included in the FAR for 2017/18 and final accounts. 3) One asset valued which was not recognised in the FAR in the previous year. In 2017/18 it was identified as an asset omitted from the FAR and therefore included by creating a low value asset (of £1) and revalued by the valuers to £1,720k.
3	Cr Expenses £667k			Dr Creditors £667k		This resulted from an error in the calculation.
4			Cr Long Term investments £1,125 Dr Short term investments £1,100 Dr Debtors £25			Following the end of the reporting period, the ownership structure of Pathway for Care changed. The decision relating to this was made prior to the year end and therefore the long-term investment required reclassification to short term.

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Executive Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Executive Committee, details of all adjustments greater than £103K are shown below.

Authority unadjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr Expenditure £612k		Cr £612k			We identified five samples in as part of our bank reconciliation review where there was no supporting evidence for the expenditure which had occurred. In addition, for three of the samples there were unable to provide the bank statement which showed the cash leaving the bank.

Audit differences

Presentational adjustments – Authority

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a limited number of adjustments of a more significant nature and details of these are provided in the following table. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments – Authority	
#	Basis of audit difference
1	Senior officer remuneration - only three senior officers remuneration have been disclosed in final accounts whereas all 'senior employees' with salaries over £50,000 should be disclosed.

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF REIGATE AND BANSTEAD BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate.

We are satisfied that our general procedures support our independence and objectivity

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period below and on page 27. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	48,812	48,812
Total audit services	48,812	48,812
Mandatory assurance services	9,768	12,079
Total Non Audit Services	9,768	12,079

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of audit fees to non-audit fees for the year was 5:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole. We confirm that all non-audit services were approved by the Executive Committee or equivalent.

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	0	9,768

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period.

Contingent fees

We have not agreed any contingent fees with the Authority.

Audit independence

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Executive Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Executive Committee of the authority and should not be used for any other purposes.

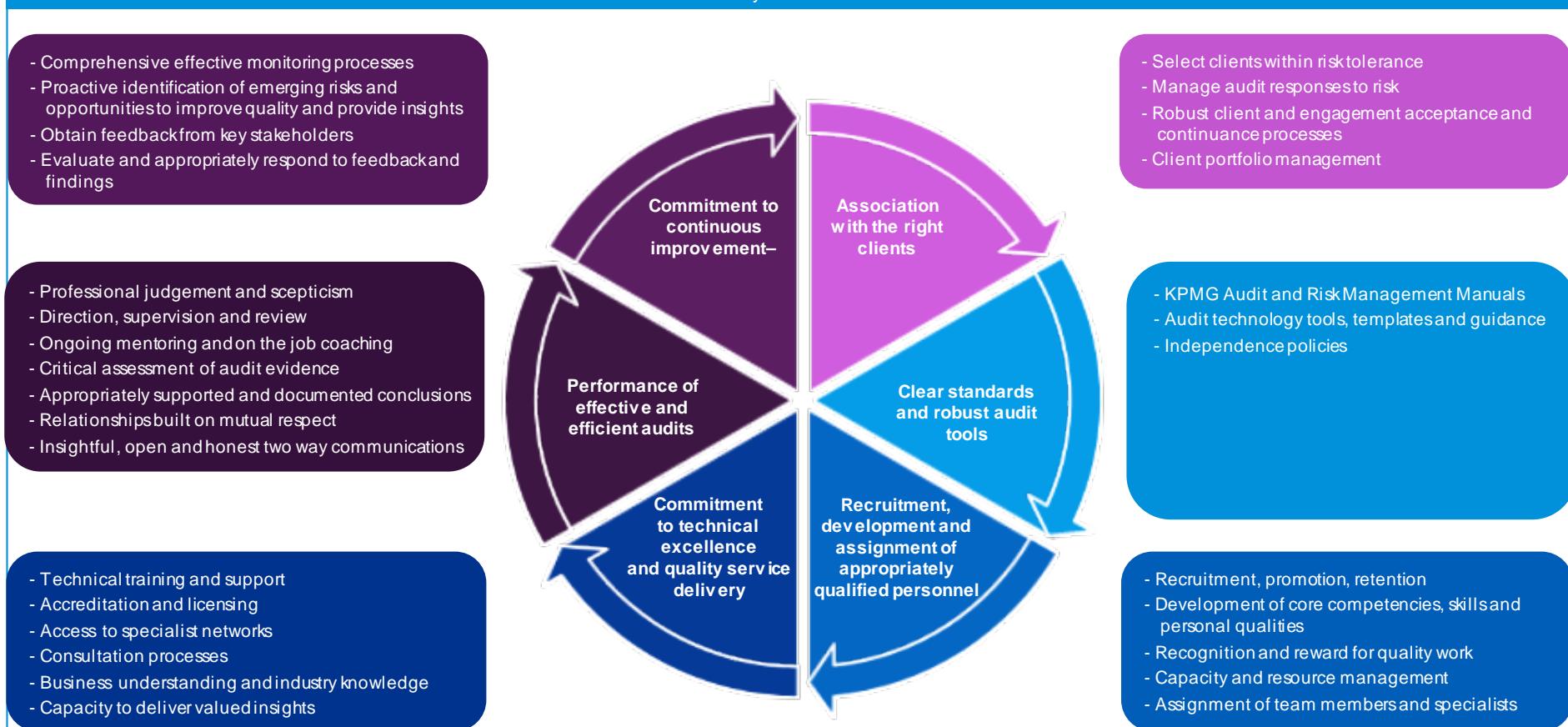
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP



Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework





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(Letterhead of Client)

*KPMG LLP
15 Canada Square
London
E14 5GL*

19 July 2018

Dear Joanne

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 2018, 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 and the Group as at 31 March 2018 and of the Authority’s and the Group’s expenditure and income for the year then ended; and
- 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 2017/18.

These financial statements comprise the Expenditure and Funding Analysis, the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, 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 and the Group as at 31 March 2018 and of the Authority’s and the Group’s expenditure and income for the year then ended;
 - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund’s assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and other benefits after the end of the scheme year;
 - iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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 and the Group 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:

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.

8. 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 the Group 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 and Group'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.

9. 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.
10. 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.
11. The Authority has disclosed to you the identity of the Authority's and the Group'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*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's and the Group'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 and the Group 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 plan amendments, curtailments and settlements have been identified and properly accounted for.

14. The Authority has included £111.1m of land and buildings within its financial statements. The Authority confirms it is satisfied with the valuation of land and buildings included on the balance sheet as at 31 March 2018

This letter was tabled and agreed at the meeting of the Audit Committee on 19 July 2018.

Yours faithfully,

Draft

Appendix 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 and the Expenditure and Funding Analysis.

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 2017/18.

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).
- viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting 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.

