



External Audit Report 2017/18

Runnymede Borough Council

—

July 2018

Content

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This report is addressed to Runnymede 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 Runnymede 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 Standards and Audit 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 complete.

Financial statements audit – see section 2 for further details

We have issued an unqualified audit opinion on the Authority's financial statements on 13 September 2018, following the Standards and Audit 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 is one unadjusted audit differences, explained in section 2 and appendix 2.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- 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 do not have any matters to raise with you.
- We did not receive any queries or objections from local electors this year.
- We have now completed the audit have issued our completion certificate on 13 September 2018. We intend to issue our 2017/18 Annual Audit Letter on 30 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 have issued an unqualified value for money conclusion on 13 September 2018

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 are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2016/17.

We undertake other grants and claims work for the Authority. 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 30 November 2018 deadline. This grant forms part of the PSAA framework
- Pooling of Capital receipts: audit fieldwork will be undertaken in August 2018.

The fees for this work is explained in section two.

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 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 team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails in the majority of areas.

Section Two

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 were minor but included:</p> <ul style="list-style-type: none">• Updates to clarify the reporting requirements for accounting policies and going concern reporting; and• The introduction of key reporting principles for the Narrative Report
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 yearend to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is adequate.</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. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the financial statements.</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 Corporate Head of Resources on 23 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.</p>

Section Two

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;
- 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.

Section Two

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	£295,136K, PY (£285,641K)	<p>Our work in respect of this risk is complete.</p> <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>Investment Properties are required to be revalued to fair value annually.</p> <p>Additionally, Local Authorities exercise judgment 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. Given the materiality in value and the judgment involved in determining the carrying amounts of assets we considered this to be a significant audit risk for 2017/18.</p>
Investment Properties	(£270,243K) PY (£168,261K)	<p>Our procedures in relation to this risk included:</p> <ul style="list-style-type: none"> We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. 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>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 13.</p> <p>We do not have any issues that we wish to draw to the attention of the Authority from our work completed to date.</p>

Section Two

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension assets and liabilities	£38,879K, PY (£37,729K)	<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 on the 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>We have set out our view of the assumptions used in valuing pension liabilities at page 14.</p> <p>We have not identified any issues from our work in relation to this risk that we wish to draw to the attention of the Authority.</p>

Section Two

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.</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>

Section Two

Financial statements audit

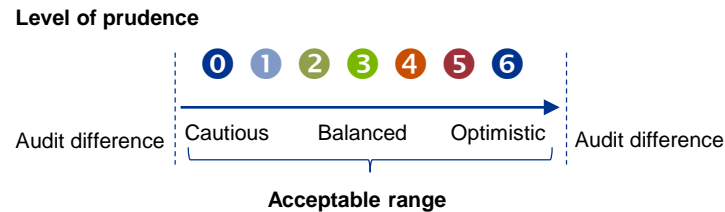
Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We do not consider this to be a 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 s106 monies that span financial years and often have to be used on specific projects.</p>	<p>Our review of your commercial revenue streams confirmed these were not material and therefore no further work has been completed</p>
<p>Fraud risk from management override of controls</p>	<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 carry 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>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>

Section Two

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 & Buildings and Investment properties	3	3	£334 (PY:£136)	<p>The Authority utilise an external valuer, GHT Property Services, 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 5 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>

Section Two

Financial statements audit

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
PPE: HRA assets	3	3	£295 (PY:£285)	The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority has used Nationwide housing index for house price to arrive at a valued figure, which is in consistence with last year approach.
Pension liability	3	3	£39, PY (£38)	<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>
NNDR Provisions	1	3	£3,129 PY (£7,100)	<p>In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates.</p> <p>During 2017/18, a court action has been issued by a number of NHS Trusts against a number of local authorities, in respect of the legality of business rates paid. The Authority has calculated its liability should that action go in the favour of the NHS Trust as up to £3.3 million. A provision has been included in the balance sheet as at 31 March 2018 for this amount. This has doubled the provision in respect of NNDR appeals.</p> <p>We consider this judgement to be within our acceptable range, but at the cautious end of the scale.</p>

Section Two

Financial statements audit

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by CSL Partnership on the financial statements of the Authority's subsidiary:

- RBC Investments(Surrey) Limited (RBCIS);and
- RBC Services(Addlestone ONE) Limited (RBCSO)
- RBC Heat Company Limited (RBCH)
- 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 have issued our audit certificate with our audit opinion.

Whole of Government Accounts (WGA)

We reviewed your WGA consolidation pack and there are no issues to report. We anticipate issuing an unqualified consistency report.

Audit fees

Our fee for the audit was £45,135 excluding VAT (£45,135 excluding VAT in 2016/17). This fee was in line with that highlighted in our audit plan approved by the Standards and Audit 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 £8,970 excluding VAT (£9,503 excluding VAT in 2016/17).

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

Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- Pooling of capital receipt is planned for August 2018. The planned fee for this is £2,500 excluding VAT (£2,500 excluding VAT in 2016/17).

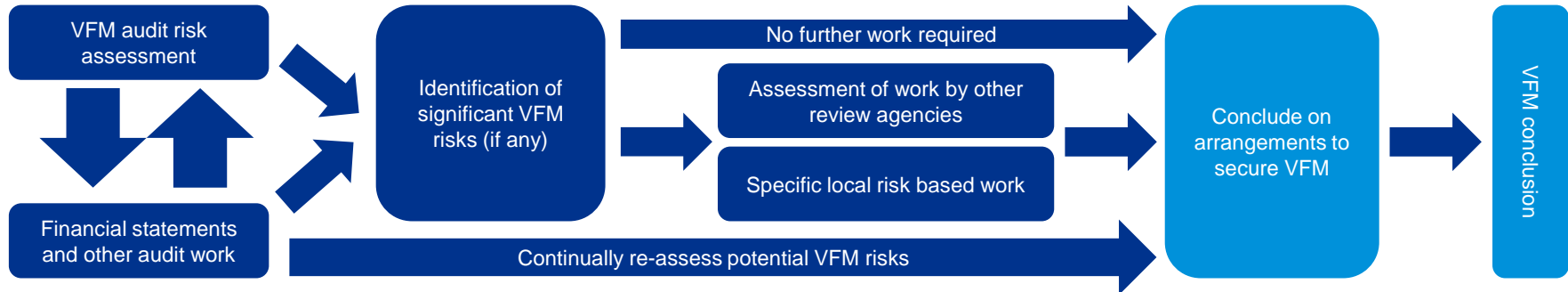
Section Three

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 identified one significant VFM risks which is reported overleaf. 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.

Section Three

Value for money

Significant risk based VFM audit work

Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Our audit response and findings
Delivery of budgets	<p>The Authority set a budget for 2017/18 in which no savings were identified. The current forecast shows that the Authority will deliver an underspend of approximately £95k, however, the outturn identified overspend of £688k.</p> <p>The Authority's budget for 2018/19 was approved at the Council meeting in February and it has been based on income generating strategy rather recognising a need for savings. The approved budget includes individual proposals to support the delivery of the overall income generating requirement. The total anticipated income generation amounting to £51m over the period [2019 to 2022] to principally address future reductions to local authority funding alongside service cost and demand pressures.</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 overspend position on its net expenditure budget for 2017/18.</p> <p>The Authority's The MTFS is still showing a call on the General Fund working balance greater than planned for 2017/18 to 2020/21, but in 2021/22 the general Fund revenue account returns to a surplus. During 2018/19 it is anticipated that the Council will make a small contribution to the General Fund working balance. We carried out testing a number of the Authority's 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 surplus.</p>

Appendix 1

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):
2	2	Nil

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at June 2018
Financial statements				
1	2	<p>Investment property valuation</p> <p>The Code of Practice on Local Authority Accounting 2016/17 requires that all investment properties are revalued to fair value annually. In 2016/17, the Authority did not revalue £13.7m of its investment properties. This is because they were purchased or completed too close to the valuation date of 31 January 2017. We are satisfied that it is improbable that the revaluation of these assets would have resulted in a material change in value, and hence are satisfied that recording these assets at cost is not inappropriate. However, if the Authority's investment strategy continues to increase, in future years the portion of investment properties which have not been revalued could potentially result in a material misstatement in the financial statements.</p> <p>We therefore recommend that the Authority review its processes for valuing its investment properties, to ensure that all significant investment properties can be incorporated into the annual revaluation exercise.</p>	<p>Accepted</p> <p>Officers will review any purchases undertaken during the year to ensure that as many are included in the annual revaluation exercise as possible. Any purchased after the revaluation exercise has been completed at the end of January will be assessed and a judgement made as to materiality. Any deemed material to the balance sheet will be subject to a separate independent review.</p> <p>Officer: Paul French, Head of Financial Services Due date: March 2018</p>	Implemented

Appendix 1

Recommendations raised and followed up

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

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at June 2018
Financial statements				
1	2	<p>Review of bank reconciliations</p> <p>Our audit identified that in year bank reconciliations were not always reviewed in a timely manner. The May 2016 reconciliation was reviewed in August 2016; and the December reconciliation was reviewed in March 2017. This raises the risk that discrepancies or errors may not be identified until it is too late to resolve them. This matter was also raised in our 2015/16 ISA 260 report, and results from a lack of contingency arrangements in the instance of staff sickness or other absences.</p> <p>We recommend that the Authority ensures it has appropriate plans in place to ensure it can always cover for staff absences without the impact on day to day operations.</p>	<p>Accepted</p> <p>Appropriate plans have been put in place to ensure more officers are trained in all aspects of the bank reconciliation process. It should be noted however that due to the resources required to undertake the Closing of Accounts Process and subsequent annual audit, full reconciliations during April to June will never be achievable, these will always have to be delayed until the summer. Whilst we appreciate the risks and additional delays this causes, it is purely a matter of prioritisation.</p> <p>Officer: Paul French, Head of Financial Services</p> <p>Due date: March 2018</p>	Implemented

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 £1.2 million which equates to around 2% of gross expenditure.

Materiality for the group accounts was set at £1.2 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 Standards and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Standards and Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £60k for the Authority and less than £60k 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 Standards and Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 3

Audit differences

Adjusted audit differences

To assist the **Audit 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 Cost of services £1,426 Dr Revaluation of non-current assets £724		Cr Property, plant and equipment £2,150			Error identified within the working paper for revaluation of Council Dwellings, this resulted in the draft accounts showing an incorrect figure. Client have adjusted the difference. This adjustment will have an impact on number of disclosure notes within the financial statements.
	Dr £2,150		Cr £2,150			Total impact of corrected audit differences

Appendix 3

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	The total number of Houses and Bungalows in Note 40 has been incorrectly stated as 1,858 and the total number of Flats and Maisonettes incorrectly stated as 967. Instead these should be: Houses and Bungalows total 1,855 and Flats and Maisonettes total 970.
2	A loan balance of £5.5m has been incorrectly classified as long term rather than short term within the notes only, this relates to the loan with North Yorkshire County Council for £5m which matures on 21/05/2018 and the loan with Hampshire County Council for £500k which matures on 30/09/2018. Agreed this mistake with the client.

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF Runnymede 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.

Appendix 4

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 for significant professional services provided by us during the reporting period in below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. 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	45,135	45,135
Total audit services	45,135	45,135
Audit related assurance services	2,500	2,500
Mandatory assurance services	8,970	9,503
Total Non Audit Services	11,470	12,003

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 4:1. 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.

Appendix 4

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 £
Audit-related assurance services				
Grant Certification – Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	0	2,500
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	8,970

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.

Appendix 4

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 Standards and Audit 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 Audit Committee of the authority and should not be used for any other purposes.

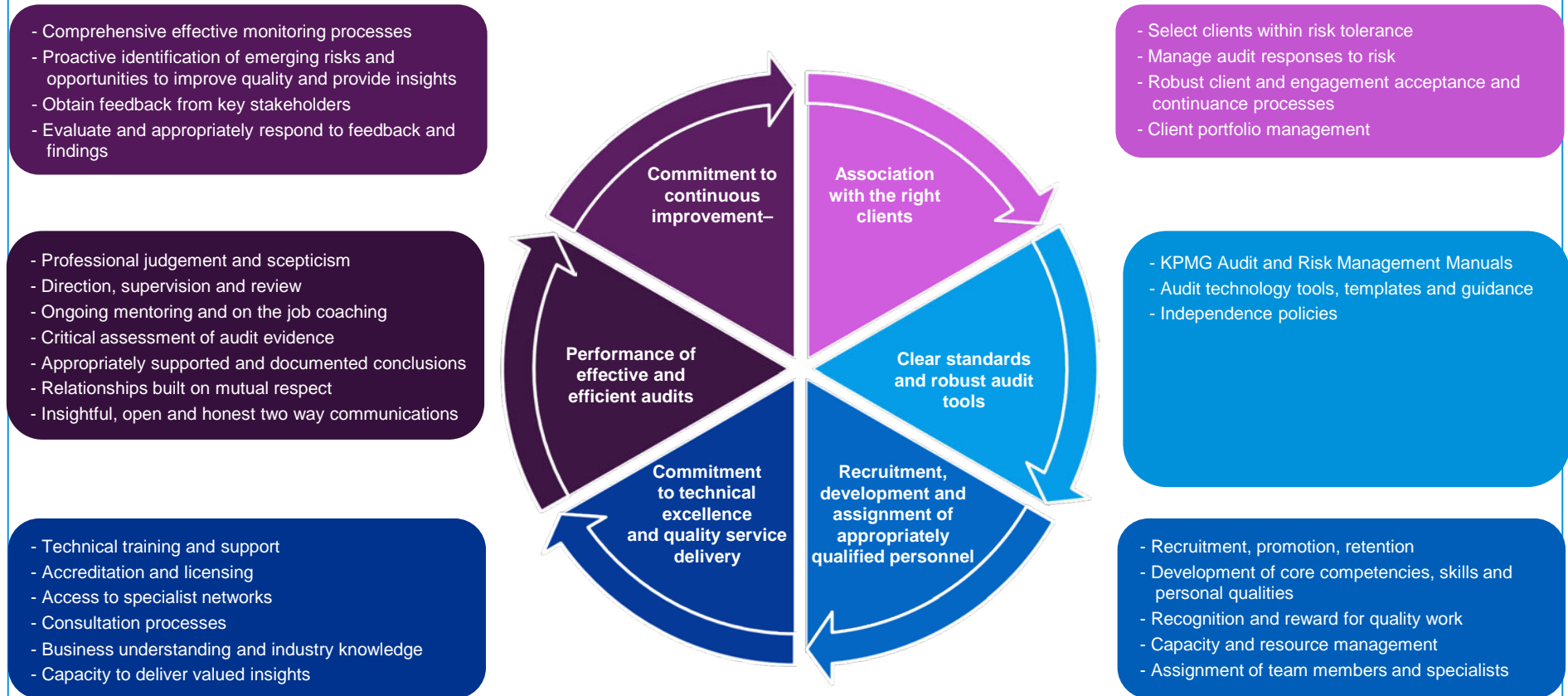
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

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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