# External Audit Report 2016/17

**Runnymede Borough Council**

—

19 September 2017

# 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 Jo 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 Audit and Standards 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 substantially complete. We will provide an oral update on the status of our audit at the Audit and Standards Committee meeting. The following work is ongoing:

- Receipt of the bank confirmation letter
- Review and closedown procedures
- Casting of the financial statements and receipt of the Management Representation 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 30 September 2017, following the Audit and Standards Committee adopting them and receipt of the management representations letter.

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

- There are no unadjusted audit differences.
- There are 2 significant adjusted audit differences, relating to the reclassification of a loan between long and short term borrowings; and a reduction in the reversal of prior year impairments. Further details are given in appendix 3.
- We agreed presentational changes to the accounts with the Finance Team, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- In additional to our routine requests we are asking for management representations over the following, which are explained in section 2:

  - Valuation of land and buildings and investment properties; and

  - Valuation of pension liabilities
- 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 by 30 September 2017. We also intend to issue our 2016/17 Annual Audit Letter in October 2017.

**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 30 September 2017.

# 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.).

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 2016/17 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2015/16. We have made 2 new recommendations as a result of our 2016/17 work. They key recommendations relate to the valuation of investment properties, and the timely review of bank reconciliations. Both recommendations are shown in appendix 1.

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 summarised below:

- BEN01 Housing Benefits certification: audit fieldwork is currently in progress and is on track to be completed in advance of the PSAA deadline of 30 November 2017; and
- CFB06 Pooling of Housing Capital Receipts: audit fieldwork will commence in October in advance of the deadline of 30 November 2017.

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 2016/17 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 1 recommendation in this area, which relates to the timely review of the bank reconciliation. 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 Head of Financial Services 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. |

# Financial statements audit

| | |
|---|---|
| 4. Accounting standards | We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to:<br>• 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; and<br>• Amended guidance on the Annual Governance Statement.<br>The changes required were appropriately reflected by the Authority in the draft financial statements, and we have no matters to raise with regard to these items. |
| 5. Accounts Production | We received complete draft accounts by 19 June 2017 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 2016/17. We will debrief with the Finance Team to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. The Authority has strengthened its financial reporting by finalising the accounts in a shorter timescale this year. This puts the Authority in a good position to meet the new 2017/18 deadline.<br>We thank the Finance Team for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe. |
| 6. Testing | 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 one significant audit adjustment, relating to a reclassification between long and short term investments. We also identified a small number of presentational issues which have been amended by the Finance Team. |
| 7. Representations | 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 Director of Resources on 18 August 2017. 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:<br>• Valuation of land and buildings and investment properties; and<br>• Valuation of pension liabilities. |

# 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 2016/17 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 the valuation of land and buildings and investment properties 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

| SIGNIFICANT audit risk | Account balances affected | Summary of findings |
|---|---|---|
| Valuation of land and buildings and investment properties | Land and buildings: £334.7m (£305.0m)<br><br>Investment properties: £168.3m (2015/16: £80.9m) | We have undertaken the following work over the valuation of land and buildings and investment properties:<br>• We reviewed the revaluation basis and considered its appropriateness. We engaged KPMG's valuation experts to undertake an assessment of the valuation.<br>• We considered the independence and experience of GHT Property Services and were satisfied that the valuer was appropriately qualified to complete the valuation.<br>• We assessed the basis upon which any impairments to land and buildings have been calculated and tested the associated assumptions.<br>• We confirmed that the valuation was conducted in accordance with RICS principles, and in line with the instructions provided to the valuer, and the Authority's accounting policies.<br>• We reviewed the data provided to the valuer by the Authority for the purposes of the valuation and confirmed its completeness and accuracy with reference to the Fixed Assets Register.<br>• We confirmed that the accounting entries resulting from the valuation have been correctly reflected in the financial statements.<br>There are no matters to report to you in respect of the above. |
| Valuation of pension liabilities | Pensions liability: £37.7m (2015/16: £27.6m) | We have undertaken the following work over the valuation of pension liabilities:<br>• We considered the assumptions used by the actuary in the valuation, and engaged KPMG's actuarial experts to undertake an assessment of these assumptions.<br>• We confirmed that the accounting entries resulting from the valuation have been correctly reflected in the financial statements.<br>• We considered the independence and experience of Hymans Robertson LLP and were satisfied that the actuary was appropriately qualified to complete the valuation.<br>• We reviewed the data provided to Surrey County Council Pension Fund, as the administering authority, for the purposes of the valuation, and confirmed its completeness and accuracy.<br>• We have received confirmation from the auditors of Surrey County Council Pension Fund that there are no matters they wish to bring to our attention.<br>There are no matters to report to you in respect of the above. |

# Financial statements audit

## Other areas of audit focus

We identified 2 other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

| Other areas of audit focus | Account balances affected | Summary of findings |
|---|---|---|
| Disclosures associated with retrospective restatement of CIES, EFA and MiRS | CIES, EFA and MiRS | We have undertaken the following work over the disclosures associated with the retrospective restatement of CIES, EFA and MiRS:<br>• We reviewed the disclosures reported by the Authority to ensure they were presented in line with the *Code of Practice on Local Authority Accounting 2016/17*.<br>• We reconciled the disclosures in the EFA and MiRS to the CIES, from where detailed transactional testing was undertaken.<br>• We reviewed the Authority's Net Cost of Services categories reported in the CIES, to ensure they reflect the Authority's operational divisions and the reporting lines upon which the Authority reports internally.<br>There are no matters to report to you in respect of the above. |
| Preparation of group financial statements | Group Accounts | We have undertaken the following work over the Authority's Group financial statements:<br>• We reviewed the Authority's assessment to consolidate its subsidiaries to ensure this basis is appropriate for the financial statements in 2016/17.<br>• We reviewed the group accounts disclosures reported by the Authority to ensure they were presented in line with the *Code of Practice on Local Authority Accounting 2016/17.*<br>• We reviewed the group consolidation to ensure that the appropriate subsidiaries had been consolidated and that significant accounting policies aligned.<br>• We tested a sample of significant consolidation adjustments to ensure they had been accounted for correctly and eliminated as appropriate upon consolidation.<br>There are no matters to report to you in respect of the above. |

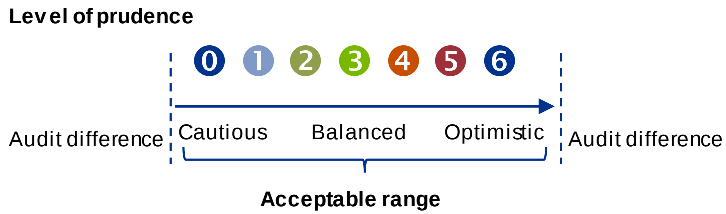
# Financial statements audit

| Risks that ISAs require us to assess in all cases | Why | Our findings from the audit |
|---|---|---|
| Fraud risk from revenue recognition | Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.<br><br>In our External Audit Plan 2016/17 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. | In our External Audit Plan 2016/17 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.<br><br>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work. |
| Fraud risk from management override of controls | 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.<br><br>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.<br><br>We have not identified any specific additional risks of management override relating to this audit. | There are no matters arising from this work that we need to bring to your attention. |

# 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** |
| Pension liability | 3 | 3 | £37.7m (PY:£27.6m) | During the 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.<br><br>The pension liability numbers to be included in the financial statements for 2016/17 are based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.<br><br>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.<br><br>From our work we have reasonable assurance that the judgements made in the valuation of pensions are appropriate. |

# Financial statements audit

| Assessment of subjective areas | | | | |
|---|---|---|---|---|
| **Asset / liability class** | **Current year** | **Prior year** | **Balance (£m)** | **KPMG comment** |
| Land and buildings | 3 | 3 | £334.7m (PY: £305.0m) | For Other Land and Buildings (OLB) the Authority utilise an external valuer, Gully Howard Technical (GHT) Services. All OLB 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.<br><br>The approach undertaken by external valuer GHT is to value OLB 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 2016/17* and the RICS Red Book. Our audit work has included a detailed consideration of the valuation basis used and review of the GHT valuation reports by KPMG's expert valuer.<br><br>The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016 for valuation of Council Dwellings. The Authority has utilised an internal valuer to provide a valuation of its Council Dwellings. The resulting increase of 6% is in line with regional indices. This figure is comprised of a 5% increase as per Nationwide's Housing Price Index and the Land Registry, and a 1% increase as per the discount factor applied for the EUV-SH (Existing Use Value for Social Housing) valuation methodology as per guidance issued by HMT.<br><br>Our audit testing identified one adjustment in the reporting of land and buildings, pertaining to the double counting of the reversal of previous impairments for Runnymede Civic Centre. This has been amended by the Authority, and further details are given in appendix 3.<br><br>From our work we have reasonable assurance that the judgements made in the valuation of land and buildings are appropriate to ensure revaluations and impairments which are materially accurate. |
| NNDR provisions | 3 | 3 | £3.1m (PY:£2.3m) | In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority provided for a further £800k of NNDR appeals in 2016/17, which are calculated based on the Valuation Office's report on the number and value of outstanding claims, and a retrospective review of the historic success rate. This methodology is consistent with previous years.<br><br>Our procedures focussed on understanding the basis for the provision and the increase during 2016/17. Based on this work we are satisfied that NNDR provisions reported in the financial statements are reasonable. |

# Financial statements audit

| Assessment of subjective areas | | | | |
|---|---|---|---|---|
| **Asset / liability class** | **Current year** | **Prior year** | **Balance (£m)** | **KPMG comment** |
| Investment properties | 4 | 4 | £168.3m (PY:£80.9) | 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. The valuation is undertaken by the expert valuer, GHT Services, and is in line with the *Code of Practice on Local Authority Accounting 2016/17* and the RICS Red Book.<br><br>The Authority underwent a revaluation of its investment properties as at 31 January 2017. Here, £95.7m of the Authority's £168.3m investment properties were revalued, recording a downward revaluation movement of £3.1m. The £72.6m of assets not revalued are comprised of £58.9m of assets currently under construction, and hence not appropriate for revaluation. The remaining £13.7m investment properties not revalued are those which were purchased in year, and were purchased either too close to the valuation date, or after the valuation date. Through analysis undertaken as part of the audit we are satisfied that it is improbable that these assets would have recorded material changes in value if they had have been revalued in 2016/17, and on this basis we are satisfied it is not inappropriate for them to be recorded at cost in 2016/17. However, the *Code of Practice on Local Authority Accounting 2016/17* requires that all investment properties are revalued to fair value annually.<br><br>Therefore though we are satisfied that investment properties are materially fairly stated, we have raised a recommendation regarding this in appendix 1. |
| Debtors provisioning | 3 | 3 | £1.8m (PY:£1.5m) | The Authority has recorded a provision for impairment of receivables of £1.8m for 2016/17 (£1.5m in 2015/16). Of this, the largest individual amount relates to Housing Benefits overpayment provisions, which are provided for based on 75% of the monies owed to the Authority, which is reviewed annually based on the amount recovered from claimants in the previous financial year. Other than Housing Benefits, other debtors provisions are maintained for Council Tax, NNDR and Housing Rents debts, which have been maintained at consistent levels in 2016/17 as in previous years.<br><br>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.<br><br>From our work we have reasonable assurance that the judgements made in the valuation of debtors provisions are appropriate to ensure provisions held are materially accurate. |

# Financial statements audit

| Assessment of subjective areas | | | | |
|---|---|---|---|---|
| **Asset / liability class** | **Current year** | **Prior year** | **Balance (£m)** | **KPMG comment** |
| Creditor accruals | ❸ | ❸ | £5.3m (PY:£3.2m) | The Authority recorded creditor accruals of £5.3m for 2016/17 (£3.2m in 2015/16). 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 2017.<br><br>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.<br><br>Our procedures focussed on considering the nature of accruals, selected on a sample basis, and whether the Authority has calculated the accrual using relevant supporting documentation and reasonable assumptions. In addition we have undertaken a retrospective review of accruals made in 2015/16 and agreed them to subsequent cash payments in 2016/17, to support the accuracy of methodologies to accrue expenditure. We have undertaken a comparison of 2015/16 accruals to 2016/17 accruals, to ensure completeness.<br><br>Our review supports our determination that the Authority has made reasonable judgements in estimating accruals. Our audit work has given us sufficient assurance that the Authority's judgements in the accruals process is balanced and the accruals stated in the financial statements is materially accurate. |

## Group audit

The Authority has two material subsidiaries, the audits for which are undertaken by CSL Partnership Ltd. These subsidiaries were scoped in for group reporting purposes, and CSL Partnerships, as component auditors, did not report any significant matters to group as a result of their work. The Authority's two material subsidiaries are:

— RBC Investments (Surrey) (Limited) (RBCIS);

— RBC Services (Addlestone ONE) Limited (RBCSO)

The Authority has two further subsidiaries; Applied Resilience, and Runnymede Heat Company (RBCHC). Applied Resilience is immaterial to the Authority, and Runnymede Heat Company has been dormant in 2016/17, therefore neither of these two entities require consolidation in the Authority's Group Accounts.

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

# Financial statements audit

### 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 2017 and anticipate issuing our audit certificate with our audit opinion by 30 September 2017.

### 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:

- BEN01 Housing Benefits certification: audit fieldwork is currently in progress and is on track to be completed in advance of the PSAA deadline of 30 November 2017; and
- CFB06 Pooling of Housing Capital Receipts: audit fieldwork will commence in October in advance of the deadline of 30 November 2017.

### Audit fees

Our fee for the audit was £45,135 excluding VAT (£45,135 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Audit and Standards Committee.

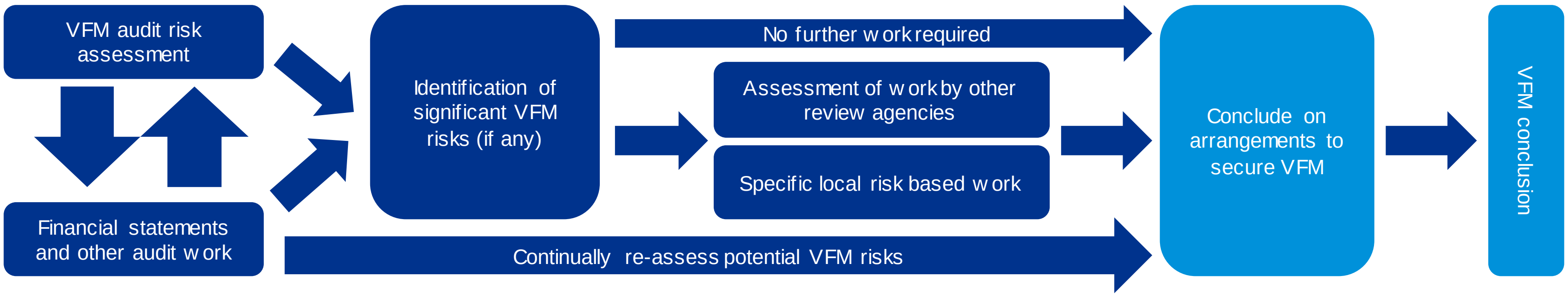
Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £9,503 excluding VAT (£8,970 excluding VAT in 2015/16). Planned fees for other grants and claims which do not fall under the PSAA arrangements are £2,250 excluding VAT (£2,250 excluding VAT in 2015/16).

KPMG did not directly provide any non audit services to the Authority during the year. However, KPMG were engaged by Mole Valley District Council to present a tax awareness briefing session during the year, which was paid for by Mole Valley District Council. The session was attended by representatives from a number of neighbouring district councils, who paid Mole Valley to attend. Runnymede Borough Council paid Mole Valley £200 (excluding VAT) for two members of staff to attend this session.

## Section Three

# Value for money

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We did not identify any significant VFM risks in 2016/17. During the year, we identified two areas of audit focus and provide a summary below of our work in this area. 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 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.




### 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** |
|---|---|
| Capital and investment property strategy | The Council has an ambitious capital and investment property strategy. The AddlestoneOne project, begun in 2015, will cost a total of £75m between March 2015 and November 2017. In addition, the Chiswick High Road investment property acquisition cost £67m in April 2017, the Egham Gateway development budgets to spend £89m over the next three years, and the Egham Leisure Centre development budgets to spend £19m over the same period.<br><br>We have reviewed the governance and reporting for these schemes, to ensure that schemes are appropriately analysed and costed for, and that Members are regularly appraised of progress against each plan. We have no matters to report in respect of the above work. |
| Commercial rents | During 2016 the Authority identified that rent reviews for the Authority's leased commercial properties had not always taken place regularly, and as a consequence, the Authority had missed the opportunity to raise rents on a number of properties in line with market conditions. It is estimated that the Authority has lost approximately £1.3m in revenues as a result of this over the period of the lease rent review terms.<br><br>We have reviewed the actions taken by the Authority since this was identified, and the governance arrangements for how Members are informed and updated of progress against this issue. We have no matters to report in respect of the above work. |

## Appendix 1

# Recommendations raised and followed up

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

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

| # | Risk | Recommendation | Management Response / Officer / Due Date |
|---|---|---|---|
| **Financial statements** | | | |
| 1 | ❷ | **Investment property valuation**<br><br>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.<br><br>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. | **Accepted**<br><br>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.<br><br>**Officer:** Paul French, Head of Financial Services<br><br>**Due date:** March 2018 |

# Recommendations raised and followed up

| # | Risk | Recommendation | Management Response / Officer / Due Date |
|---|---|---|---|
| **Financial statements** | | | |
| 2 | 3 | **Review of bank reconciliations**<br><br>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.<br><br>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. | **Accepted**<br><br>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.<br><br>**Officer:** Paul French, Head of Financial Services<br><br>**Due date:** March 2018 |

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

| Total number of recommendations | Number of recommendations implemented | Number superceded (repeated below): |
|---|---|---|
| 3 | 2 | 1 |

| # | Risk | Recommendation | Management Response / Officer / Due Date | Status at August 2017 |
|---|---|---|---|---|
| **Financial statements** | | | | |
| 1 | 3 | **Timeliness of reconciliations**<br><br>During our testing of housing revenue and cash and bank controls it was noted that some reconciliations are not being prepared in a timely manner.<br><br>The main cause is due to the Authority not having a contingency plan in place when staff are on sick leave or unavailable.<br><br>We recommend that the Authority implement a robust plan to ensure that there is sufficient resilience within the relevant teams to cover planned and unplanned absences. | Measures were put in place to rectify the delays encountered in 2015/16. Unfortunately, other long term staffing problems occurred in 2016/17 that meant that the implementation of those measures were postponed. Appropriate plans have now been put in place and additional officers began training in various aspects of the bank reconciliation process in August. | This has been re-raised as a recommendation in 2016/17, see above for full details. |

# 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 2016/17. Materiality for the Authority's accounts was set at £1.2m 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 the Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards 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.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.

## Appendix 3

# Audit differences

### Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit and Standards 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.

We are pleased to report there are no unadjusted errors.

### Adjusted audit differences

To assist the Audit and Standards 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 | Assets | Liabilities | Reserves | Comments |
|---|---|---|---|---|---|
| 1 | - | - | Dr Long Term Borrowings £5,000k<br>Cr Short Term Borrowings £5,000k | - | In the draft financial statements, a loan of £5m has been recorded as long term. However, review of supporting documentation shows that this item will mature within 12 months of the balance sheet date, and hence ought to be categorized as a short term borrowing.<br>This is a classification adjustment on the face of the balance sheet and has no overall impact on the reserves of the Authority. |
| 2 | Dr Reversal of previous impairments charged to the CIES £1,806k<br>Cr Corporate Management Committee expenditure £1,806k | | | Cr Capital Adjustment Account £1,806k<br>Dr Revaluation Reserve £1,806k | Our testing identified that the reversal of the prior year impairment relating to Runnymede Civic Centre was erroneously double counted. These adjustments reverse this item so it is only recorded once in the revised financial statements. |

## Appendix 4

# Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance.*

### Integrity, objectivity and independence

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

### 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 audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

### Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

# Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit and Standards Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

## Auditor declaration

In relation to the audit of the financial statements of Runnymede Borough Council for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and Runnymede Borough Council, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We summarise below the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

| Description of non audit services | 2016-17 fees for Runnymede Borough Council | Potential threat to auditor independence | Associated safeguards in place |
|---|---|---|---|
| Housing Benefits* and Pooling of Housing Capital Receipts grant certifications | £11,753 excluding VAT | Audit of the annual Housing Benefits and Pooling of Housing Capital Receipts returns. These are standard returns for which an agreed upon set of procedures is completed. There is no impact on the financial statements audit. | None required. |
| **Total fees** | £11,753 excluding VAT | | |
| Total fees as a % of the external audit fees | 26% | | |

*The BEN01 Housing Benefits grant claim certification is a mandatory requirement for external auditors to complete under the terms of the PSAA framework contract.

In addition, during 2016/17 KPMG was engaged by Mole Valley District Council to deliver a tax briefing session at Mole Valley District Council. Runnymede Borough Council was invited to attend by Mole Valley, along with a number of other neighbouring authorities, for which Mole Valley charged the Authority £200 excluding VAT. We therefore do not consider this a threat to auditor independence, but have included this here for completeness.

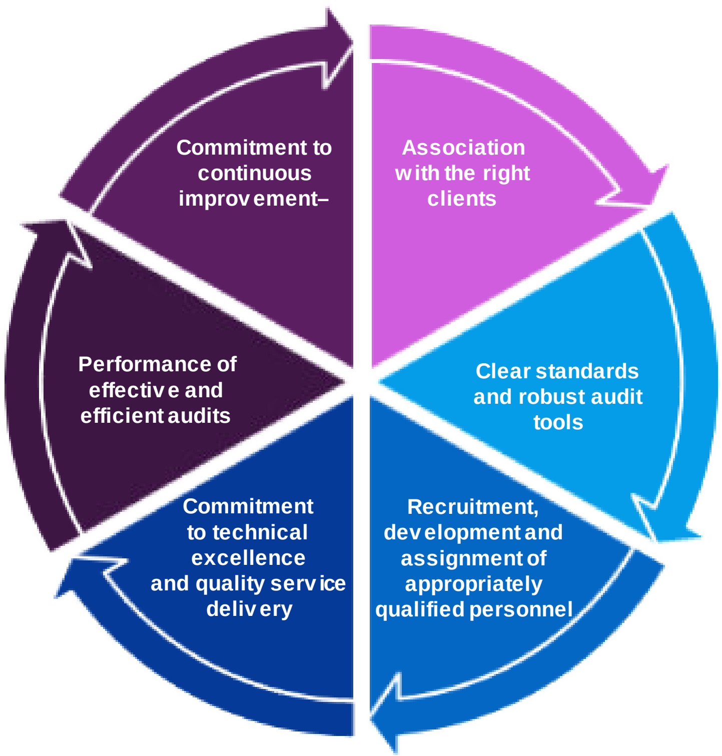
We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Authority's annual report and accounts.

# 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

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management




- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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