



# External Audit Report 2017/18

**Spelthorne Borough Council**

—

March 2023

# Content

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This report is addressed to Spelthorne 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.psa.co.uk](http://www.psa.co.uk)).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact 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, Tim Cutler ([tim.cutler@kpmg.co.uk](mailto:tim.cutler@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), or by writing to Public Sector Audit Appointments Limited, 18 Smith Square, London, SW1P 3HZ.

# 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 Spelthorne 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 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 has been undertaken over a prolonged period. Significant elements of the audit of the financial statements were completed in 2018 and 2019. Our initial work on the value for money work was undertaken in 2019 following completion of the 2016/17 audit. As a result of this work, we determined that significant additional procedures were required in relation to the purchase of investment properties. This required detailed and complex discussions concerning legal and governance issues and obtaining necessary specialist legal advice. This work resulted in us issuing a report in the public interest to the Council in November 2022. Following completion of this work our audit is now substantially complete. We are in the process of completing our final review procedures and final consultations needed. We will provide an oral update on the status of our audit at the Audit Committee meeting.

### Financial statements audit – see section 2 for further details

Our work in relation to the audit of the financial statements is substantially complete. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- We have identified one unadjusted audit difference and one unadjusted presentational difference, as set out in appendix 3. We are satisfied these differences are not material in quantitative (our materiality level is set at £1 million) or qualitative terms.
- There are six adjusted audit differences and eight adjusted presentational differences. These are shown in appendix 3.
- 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.
- In addition to our routine requests we are asking for management representations over the following, which are explained in section 2:
  - The valuation of land and buildings which have not been revalued in year are not materially misstated given movements in values
  - The valuation of investment property is fairly stated and that there have been no subsequent events that would impact the valuations as at 31 March 2018; and
  - The completeness and accuracy of disclosures and financial information relating to Knowle Green Estates Ltd.
- Subject to receiving an updated Annual Governance Statement, reflecting our audit reporting, we expect to 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.

### Value for money – see section 3 for further details

We have concluded that the Authority has not established proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Recommendations raised as a result of our 2016/17 audit, which resulted in an adverse conclusion on the arrangements that the Authority has in place, remained for the 2017/18 period.

Further risks and weaknesses were identified specifically in relation to the investment property purchases in 2017/18. A Report in the Public Interest was issued in November 2022.

### 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.).

#### Report in the Public Interest

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.

On 30 November 2022, we issued a report in the public interest under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014 to the Authority. The report raised significant concerns regarding the Authority's programme of investment in commercial properties and the implications of those transactions for its overall finances. In particular, these concerns arose from the purchase of three commercial properties during the financial year 2017/18.

#### Follow-up of recommendations

We identified six prior year recommendations that require further action by Management, and one further recommendation that was superseded by a new recommendation in 2017/18. Eight new recommendations have been raised in 2017/18. These relate to the bank and payroll reconciliations, preparation of Group/Subsidiary accounts in compliance with the CIPFA Code due to different interpretations of guidance, and purchase of commercial properties. All recommendations are shown in appendix 1.

#### Other work completed

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:

- Housing benefits: this was finalised in December 2018 in line with the statutory deadline.

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
<b>1. Business understanding:</b> review your operations	✓	✓	–
<b>2. Controls:</b> assess the control framework	✓	–	–
<b>3. Prepared by Management Request (PBM):</b> issue our prepared by management request	✓	–	–
<b>4. Accounting standards:</b> agree the impact of any new accounting standards	✓	✓	–
<b>5. Accounts production:</b> review the accounts production process	✓	✓	✓
<b>6. Testing:</b> test and confirm material or significant balances and disclosures	–	✓	✓
<b>7. Representations and opinions:</b> 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. We have also considered the impact of subsequent events to the date of this report.
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 have made three new recommendations which relate to the bank reconciliation, the payroll reconciliation and the presentation of balances relating to the subsidiary in the financial statements. We believe that these recommendations (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. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by management request (PBM)	We produced the PBM to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We tailored our request to the Authority and this was issued as a final document to the finance team. We have noted an improvement in the quality of working papers compared to the prior year. The Authority made good use of the SharePoint system for sharing working papers.

## Section Two

# Financial statements audit

4. Accounting standards	For 2017/18 these changes were minor disclosure changes.
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 year-end. We consider that the overall process for the preparation of your financial statements was adequate. The areas which you need to pay particular attention to in the future are: the completion of reconciliations, and the disclosure of the subsidiary in line with the code.</p>
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 presentational changes to the accounts along with audit adjustments which we have presented in Appendix 3.
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 an updated draft of this representation letter to the Chief Financial Officer on 17 March 2023. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking Management to provide specific representations on:</p> <ul style="list-style-type: none"><li>— The valuation of land and buildings which have not been revalued in year are not materially misstated given movements in values;</li><li>— Investment property is appropriately valued and that there have been no subsequent events that would impact the valuations as at 31 March 2018; and</li><li>— The completeness and accuracy of disclosures and financial information relating to Knowle Green Estates Ltd.</li></ul>

## 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 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.

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, investment properties, pension liabilities and faster close 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.



## 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	NBV £4,206K (PY £2,683K)	<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 land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.</p> <p>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.</p> <p>In addition, we considered movements in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values had moved materially over that time.</p> <p>In relation to those assets which have been revalued during the year 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 in reaching the year-end valuation).</p> <p>As a result of this work we determined that additions could be vouched to supporting information. We used a KPMG valuer to assess the valuation report provided by the Authority's valuer and provide challenge. Entries related to the valuation had been processed correctly, as such we are satisfied as to the valuation of the assets valued in 2017/18.</p> <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant &amp; Equipment at page 15.</p> <p>Our work in relation to the valuation of land and buildings is complete.</p>

## Section Two

# Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension liabilities	Pension liabilities £44,860K PY £44,129K	<p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of Surrey Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p> <p>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary. We liaised with the auditors of the Pension Fund to gain an understanding of the effectiveness of the controls operated by the Pension Fund. This included consideration of the processes and controls with respect to the assumptions used in the valuation.</p> <p>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 the actuary.</p> <p>In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.</p> <p>We have received a response from the Pension Fund auditor to the letter sent by KPMG requesting information under the PSAA regulations. This identified one misstatement relating to a £389k unadjusted error on benefits payable at a fund level (not specific to the Authority).</p>

## Section Two

# Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Faster close		<p>At the time of issuing our Audit Plan, the planned significant shortening of the timetable to prepare and audit financial statements (the revised deadlines would have required draft accounts by 31 May and final signed accounts by 31 July) was considered to represent a significant risk across the sector.</p> <p>However, subsequently the timetable for the production and audit of local government financial statements has been revised. This along with the delay to finalisation of our audit as a result of the Value for Money risks identified, has led to this no longer being assessed as a significant risk.</p>
Investment properties	<p>Fair value £635,745K PY £392,145K</p>	<p>The Authority has purchased a number of investment properties during the 2017/18 financial year, in addition to the BP Campus which was purchased in 2016/17. There was a risk that such assets, which are outside the Authority's core operations were overvalued and not accounted for correctly within the financial statements.</p> <p>We reviewed the approach that the Authority had adopted to assess the risk that the valuation of investment assets are not materially misstated and consider the robustness of that approach. 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). We reviewed the accounting entries to understand whether the purchase of the properties had been recorded correctly in the accounts. We understood and challenge management around whether there were any indicators of impairment.</p> <p>We have set out our view of the assumptions used in valuing investment properties at page 15.</p> <p>Whilst our work is complete and there are no specific issues to raise on the accounting entries in 2017/18, our work in this area is intrinsically linked to our work on our value for money conclusion and the report in the public interest that we have issued specifically relating to the Authority's purchases of commercial properties.</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 area of audit focus	Account balances effected	Summary of findings
Group accounts		<p>The Authority has a wholly owned subsidiary, Knowle Green Estates Ltd and is required to prepare Group Accounts in 2017/18 on the basis of materiality. There is a risk that the assets within the subsidiary are not valued appropriately and that the related party entries disclosed within the Authority accounts are materially misstated. There is also a risk that the disclosures required per applicable Accounting Standards and Code Guidance are not made appropriately within the financial statements.</p> <p>We have reviewed the valuation of the assets held within Knowle Green Estates Ltd, including assessing the professional competence of the valuer engaged and reviewing the instructions sent to the valuer. We have reviewed and checked the disclosures made within the Authority accounts for accuracy, presentation and compliance with applicable Accounting Standards and Code guidance.</p> <p>Financial statements had not been fully prepared for Knowle Green Estates Ltd as at 13 July 2018. The presentation of balances relating to the subsidiary within the Authority's accounts was incorrect in the first draft of the financial statements received. We required the completion of disclosures related to the subsidiary company in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and this included the provision of more detailed balances related to the subsidiary company.</p> <p>We have set out our view of the assumptions used in valuing assets held within Knowle Green Estates at page 16.</p>

## Section Two

# Financial statements audit

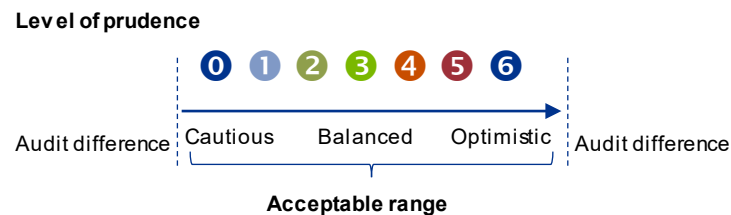
Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>We do not consider this to be a 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, 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 grants which have been received with conditions attached, and rental income.</p>	<p>We have completed cut off testing over a sample of income items to assess whether the sampled items had been recorded in the correct accounting period. This has not identified any issues in the samples we have completed to date.</p> <p>We compared the Authority's accounting policy for revenue recognition to the accounting policy within the CIPFA Code of Practice in Local Authority Accounting and did not identify any issues to bring to the Authority's attention.</p> <p>We completed detailed sample testing over a sample of revenue items (including grants received) to assess whether these had been accounted for in line with the Authority's accounting policies.</p> <p>We identified one grant which should be classified as ringfenced but was not. The impact was immaterial and is adjusted. We are satisfied the matter is not pervasive.</p> <p>There are no matters from this work which we need to bring to your attention from the testing completed to date.</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
Provisions (other than NDR)	3	3	£0.15 (PY: £0.15)	There are no individually material provisions that do not relate to NDR, and we have not identified any indicators that a provision has been omitted in error.
NDR provisions	3	4	£0.9 (PY: £1.5)	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. The disclosures relating to the provisions are appropriate. The provision has been adjusted to remove an amount for the NHS appeal, following the NHS Trusts having withdrawn their application to the Appeals Court in 2021.
Accruals de minimis level	3	3	-	We have completed our testing in this area, and have no matters to bring to your attention.

## Section Two

# Financial statements audit

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Property, plant and equipment	4	4	£55.8 (PY: £44.9)	<p>A full valuation took place in 2014/15 before the adoption of a five year rolling valuation programme in 2015/16. 20% of land and buildings were revalued in the current year with no material movements noted. We considered the revaluation basis to be appropriate. The Authority continues its use of the beacon methodology in line with the DCLG's Stock Valuation for Resource Accounting published in November 2016. The Authority has utilised an external valuation expert, Kempton Carr Croft to provide valuation estimates. We reviewed instructions provided and have assessed that the valuation exercise is generally in line with the instructions.</p> <p>The disclosures relating to PPE are proportionate.</p>
Debtors provisioning	2	2	£3.7 (PY: £3.1)	<p>The provision has increased since the prior year however has fallen as a percentage of trade receivables. Overall we consider management's approach to be appropriate and based on a reasonable policy.</p>
Pension liability	3	3	£44.8 (PY: £44.1)	<p>The Authority continues to use Hymans Robertson to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.</p> <p>We have reviewed the actual assumptions adopted by the actuary and consider that they fall within our expected ranges.</p>
Investment properties	3	3	£635.7 (PY: £392.1)	<p>We have engaged a valuation specialist to review the valuation reports related to the investment properties purchased by the Authority. The Authority has engaged professional valuers to value the investment properties. This includes the property held by the subsidiary, Knowle Green Estates Ltd.</p> <p>Our assessment of the assumptions in relation to the valuation is complete and we consider that the judgements that underpin it to be balanced.</p>

## Section Two

# Financial statements audit

### Group audit

We required the completion of disclosures related to the subsidiary company in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and this included the provision of more detailed balances related to the subsidiary company.

### 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.



## Section Two

# Financial statements audit

### Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We have now substantially completed our work. We are in the process of completing our final review procedures and final consultations needed. Once these have been completed, we expect to be in a position to issue our audit certificate.

### Whole of Government Accounts (WGA)

Due to the passage of time, the audit of the WGA consolidation pack was not required to be completed.

### 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:

- Housing benefits: work was completed in December 2018 in line with the statutory deadline.

### Audit fees

Our planned fee for the audit £48,128 excluding VAT (as reported in our plan approved in June 2018). We will report our final fee position upon completion of the audit. Our prior year was also set at £48,128, excluding VAT. Our overruns in respect of the prior year fee totalled £192,850, excluding VAT. In addition, £10,944 relating to external legal advice sought to support our audit opinion was re-imbursed by the Authority.

Our work on the certification of Housing Benefits (BEN01) has been completed. The fee charged was in line with the planned scale fee of £7,102 excluding VAT (£7,102 excluding VAT in 2016/17).

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

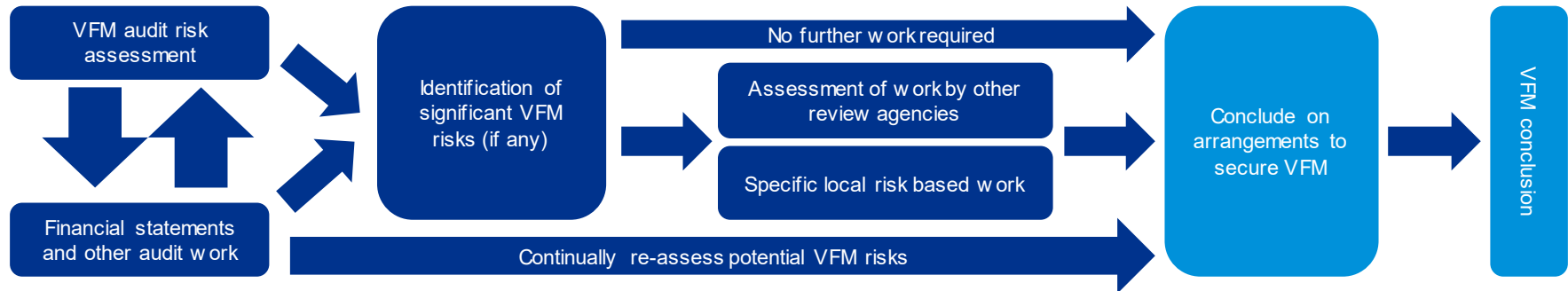
## Section Three

# 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 two significant VFM risks which are reported overleaf. Based upon our findings we will be issuing a non-standard, qualified 'adverse' conclusion on the arrangements that the Authority has for securing value for money.

## 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	Why this risk is significant	Our audit response and findings
Delivery of budgets	<ul style="list-style-type: none"> <li>— Informed decision making;</li> <li>— Sustainable resource deployment; and</li> <li>— Working with partners and third parties.</li> </ul>	<p>The Authority initially identified a budget gap of £1.5 million in 2017/18 which was subsequently balanced through income generation schemes such as the purchase of investment assets to generate rental revenue and operational savings. The current forecast shows that the Authority will deliver an underspend of approximately £0.58 million but is anticipating that further savings will need to be identified in order to meet the approved balanced budget over the term of the Medium Term Financial Plan.</p> <p>The Authority's budget for 2018/19 has been approved by Council, and a balanced draft budget has been set without the use of reserves, although the Medium Term Financial Plan recognises a need for £3.3 million savings cumulatively by 2021/22. The approved budget includes individual proposals to support the delivery of the overall savings requirement. Further savings will be required over the period to 2021/22 to principally address future reductions to local authority funding alongside service cost and demand pressures. As such the need for savings or increased revenue will continue to have a significant impact on the Authority's financial resilience.</p> <p>We reviewed controls the Authority has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.</p> <p>Our work in relation to this risk is complete. Whilst we have no issues to report relating specifically to this risk, it does need to be read in conjunction with the overall adverse conclusion and the concerns noted therein relating to long term finance risks.</p>

# Value for money

Significant VFM risk	Why this risk is significant	Our audit response and findings
<p>Investment property decision making</p>	<ul style="list-style-type: none"> <li>— Informed decision making; and</li> <li>— Sustainable resource deployment.</li> </ul>	<p>Over the past two years, starting with the purchase of the BP Campus in 2016/17, the Authority has purchased a number of commercial properties with the objective of diversifying income in the face of reducing grant funding. The aim of the investment purchases is to generate annual revenue surplus to support the provision of services to residents. The Authority has to date focused investment in or around the borough. Purchases of commercial properties have been funded via borrowing.</p> <p>It is critical that the decisions around the decisions to purchase the commercial properties, including the risk assessment, exposure limits, borrowing strategy, and sensitivity analysis (in terms of individual purchases and the commercial property portfolio as a whole) are quantified and discussed at appropriate levels within the Authority prior to decisions being made and in line with statutory and constitutional powers.</p> <p>We set out our concerns regarding the decision-making in relation to the BP Campus purchase in our adverse opinion on the Authority's value for money arrangements in our report on the accounts for 2016/17. During the course of 2017/18, the Authority borrowed over £225 million from the PWLB to fund the purchase of three additional properties located outside of the Borough as commercial property investments (3 Roundwood Avenue, Stockley Park; World Business Centre 4, Heathrow; and Hammersmith Grove).</p> <p>Our 2016/17 audit found significant weaknesses in the Authority's arrangements to ensure value for money. In particular, we found:</p> <ul style="list-style-type: none"> <li>• Poor audit trail in relation to the decision-making process; and</li> <li>• A lack of clarity around the potential financial impact for the Authority if BP were not to renew the lease after 20 years (the length of the lease), in circumstances where the costs of the loan need to be met for 50 years.</li> </ul> <p>Our review for the processes in place for the 2017/18 commercial property acquisitions found these weakness to remain. The audit trail remained poor and long-term loans (profiled over a 50-year period) were used to purchase the properties, which significantly exceeded the lease terms with tenants.</p> <p>We also consider that, at the time the three acquisitions in 2017/18 were made, the Authority continued to have inadequate governance arrangements in place, exposing the Authority to a potentially high level of financial risk.</p> <p>Based on the information we reviewed, we could not establish that the Authority had appropriate strategy, processes, and governance prior to investing in commercial real estate. Gaps that we have identified include:</p> <ul style="list-style-type: none"> <li>• a lack of a defined investment strategy at the time of making the acquisitions;</li> <li>• a lack of diversification in the investments;</li> <li>• significant inconsistencies between the time horizon in the financial model (20 years), the debt term (50 years) and the leases (&lt;20 years). More than £468 million of loans are structured for repayment between 21 and 50 years as at 31 March 2018;</li> </ul>

## Section Three

# Value for money

Significant VFM risk	Why this risk is significant	Our audit response and findings
Investment property decision making (continued)	<ul style="list-style-type: none"> <li>— Informed decision making; and</li> <li>— Sustainable resource deployment.</li> </ul>	<ul style="list-style-type: none"> <li>• no long-term strategy underpinning the acquisitions so that risks such as diversification, liquidity, correlation and systematic risk are managed across the whole investment portfolio;</li> <li>• at the time the acquisitions were made, there was a lack of in-house expertise and investment authorisation processes to invest in commercial real estate; and</li> <li>• the Authority's structure used to deliver/hold the commercial properties involves borrowing the funds directly onto its balance sheet and use the proceeds to purchase properties. As such, the Authority is exposing itself to debt repayment risk, irrespective of the underlying assets' performance.</li> </ul> <p>We have issued a Report in the Public Interest as a result of our findings, and further details of these issues are set out in this report.</p> <p>Having considered these weaknesses, we have concluded that in our view the Authority did not have proper arrangements in place for achieving value for money.</p>

# Recommendations raised and followed up

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

Priority rating for recommendations			
<b>1</b>	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.	<b>2</b>	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.
<b>3</b>	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
<b>Financial statements</b>			
1	<b>1</b>	<p><b>Bank Reconciliation</b></p> <p>Bank reconciliations were not completed on a consistent basis from July 2017. Although the year end bank reconciliation was completed we did identify some issues:</p> <ul style="list-style-type: none"> <li>There is no system in place for the preparation of the bank reconciliation on a periodic basis - the year end bank reconciliation had a number of adjustments which could have been avoided if reconciliations were prepared on a monthly basis throughout the year;</li> <li>The bank reconciliation is not completed on an individual bank account basis – the bank reconciliation at year end was completed for all four bank accounts in aggregate, resulting in differences arising on each bank account which could not be fully reconciled;</li> <li>The year end bank reconciliation had an unexplained difference of £12,653.</li> </ul> <p>Given the bank reconciliation is a core control, we recommend that a formal process is put in place for the completion of the bank reconciliation on a monthly basis. This should include back up procedures for when key members of staff are out of the office, for example, on annual leave or sick leave. We also recommend that the reconciliation is reviewed by the Chief Accountant each month, and evidence of the review retained. We recommend that bank accounts are reconciled on an individual basis, and not in aggregate.</p>	<p><b>Accepted</b></p> <p><b>Management response</b></p> <p>This issue has been progressed during the year and some additional resource was brought in to help with the backlog. Moving forward, this has been built into the team's work plan and a new post has been created which will help ease the burden on the team and progress this issue</p> <p><b>Due date:</b> 31 October 2018</p> <p><b>Responsible officer:</b> Deputy Chief Accountant</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
<b>Financial statements</b>			
2	1	<p><b>Accounting for the subsidiary</b></p> <p>At the start of our audit, financial statements were not yet prepared for the subsidiary. In addition to this, the Authority had not disclosed the transactions relating to the subsidiary in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p>We recommend that in future accounting periods, the Authority prepares financial statements for Knowle Green Estates Ltd concurrently with the financial statements for the Authority. We also recommend that the Authority review the CIPFA Code of Practice to ensure that all relevant disclosures have been made relating to the subsidiary.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b></p> <p>Approach for 17/18 was miscommunicated, once clarity was reached the process was undertaken as requested. This suggested approach will be incorporated into the plan for the 18/19 closedown process.</p> <p><b>Due date:</b> 31 March 2019</p> <p><b>Responsible officer:</b> Chief Accountant</p>
3	2	<p><b>Payroll Reconciliation</b></p> <p>Our audit noted that the payroll reconciliation had not been adequately prepared and reviewed throughout the year. It is critical that the Authority has strong controls in this area.</p> <p>We recommend that a formal process is put in place in order to ensure that the payroll reconciliation is completed and reviewed each month. This should include back up procedures for when the member of staff with responsibility for completing the reconciliation is on annual leave or sick leave. We recommend that the reconciliation is reviewed by the Chief Accountant each month with evidence of the review retained.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b></p> <p>Controls will be put in place to ensure that this reconciliation is reviewed monthly.</p> <p><b>Due date:</b> 31 October 2018</p> <p><b>Responsible officer:</b> Deputy Chief Accountant</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
<b>Value for Money – Purchase of Investment Properties</b>			
4	1	<p><b>Legal Advice</b></p> <p>The Authority should obtain legal advice on its powers to enter into specific transactions where those transactions are unusual or high value.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b></p> <p>Agreed. The Authority will always obtain legal advice as to its powers to enter into specific transactions where those transactions are unusual or high value or the regulatory regime relating to that type of transaction has changed recently.</p> <p><b>Due date:</b> Authority consider already implemented</p> <p><b>Responsible officer:</b> Deputy Chief Executive</p>
5	1	<p><b>Legal Advice</b></p> <p>Officer reports should clearly identify the legal powers relied on in relation to decisions or transactions and ensure that decision makers are aware of the relevant legal test to lawfully exercise those powers.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b></p> <p>Agreed. All reports to decision making committees or Authority include a section titled “Legal considerations” which clearly set out the legal basis for the recommendations proposed and highlight any legal risks.</p> <p><b>Due date:</b> Authority consider already implemented</p> <p><b>Responsible officer:</b> Deputy Chief Executive</p>
6	1	<p><b>Exercise of the Authority’s Powers – the Prudential Code</b></p> <p>The Council should ensure that it has regard to all relevant statutory guidance, including specific aspects of that guidance that apply to particular decisions or transactions, and specifically record its reasons for departing from such guidance if it decides to do so.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b></p> <p>Agreed. The Council has always had regard to all relevant statutory guidance seeking relevant expert advice and will continue to do so. It will in future more clearly record reasons for departure. Note moving forward the Council’s Capital Programme and Capital Strategy is focused on ensuring that all capital spend is consistent with the revised terms of the Public Works Loans Board and the CIPFA Prudential and Treasury Management Codes.</p> <p><b>Due date:</b> Authority consider already implemented</p> <p><b>Responsible officer:</b> Deputy Chief Executive</p>



# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
<b>Value for Money – Purchase of Investment Properties</b>			
7	1	<p><b>Financial Issues</b></p> <p>The Authority should develop its investment property portfolio modelling to bring these in line with the expected practice of an institutional investor. This should include robust stress testing and sensitivity analysis which incorporates scenarios that cover the highest level of risk for expenditure, revenue, tenant behaviour and external socio-economic factors. Consideration should also be given to the diversification of the portfolio and whether this should be addressed over medium to long term.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b></p> <p>Agreed. Since the commencement of the Pandemic, the Authority has been refreshing and reviewing on a weekly basis scenario modelling on a worst case and expected case basis to assess the adequacy of its sinking funds reserves. It is notable the PIR report omits to make any reference to the Authority's use of Sinking Funds reserves as its key mitigation measure against the risk of not being able to cover financing payments at any point in the future.</p> <p>The Authority is already committed to undertaking a review of its Sinking Fund Strategy covering the next 50 years bringing independent consultants to review assumptions about future income levels, rental activity and to make recommendations around levels of sinking funds contribution to reserves to ensure that we continue to have a sufficient level of reserves to cover any dips in income and to cover all financing and management costs.</p> <p><b>Due date:</b> Authority consider already implemented</p> <p><b>Responsible officer:</b> Deputy Chief Executive</p>
8	1	<p><b>Governance Issues</b></p> <p>The Authority should develop an action plan as part of the management of its investment portfolio which addresses each of the weaknesses identified in our report in the public interest. This should be linked to a portfolio risk register, which monitors each of the KPIs, tenant performance and risk to the debt repayment strategy for each investment property asset.</p>	<p><b>Accepted</b></p> <p><b>Management response:</b></p> <p>Agreed. Investment Strategy – the Authority approved a set of Strategic Investment Parameters in December 2017. The Authority during the period (up to 2018) when it was evaluating investment asset opportunities had a set of criteria focused on: best in class assets; located within the Heathrow functional economic area; located in close proximity to either the airport or public transport infrastructure; and undertaking due diligence on the financial strength of existing tenancies.</p> <p>The Authority's Governance arrangements have evolved since 2017-18, in part because in 2021-22 the Authority moved from a Cabinet governance system to a Committee system.</p> <p><b>Due date:</b> Authority consider already implemented</p> <p><b>Responsible officer:</b> Deputy Chief Executive</p>

# Recommendations raised and followed up

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

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
7	1	6

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
<b>Financial statements</b>				
1	1	<p><b>Financial statements production</b></p> <p>The draft accounts published by the Authority on 17 July 2017 had not been adequately prepared or reviewed by an appropriate member of the Authority's finance team.</p> <p>Due to staff turnover, both of the subsequent accounts preparers were new joiners and did not have historical knowledge of the Authority's systems or operations to prepare the accounts. There was limited evidence of independent review of the draft accounts.</p> <p>As a result, the accounts did not appropriately reflect significant transactions that took place during the year, such as the acquisition of the BP campus or the draw down of over £400m in loans. In addition, we identified a significant volume of presentational/disclosure errors, material inconsistencies within the accounts, and departures from the CIPFA guidance notes. This caused significant delays in the audit timetable, and we were required to postpone our work mid-audit and reschedule the remaining fieldwork until the accounts had been corrected.</p> <p>We recommend that the financial statements are prepared by individuals with sufficient knowledge and experience of the organisation. Following preparation, the accounts should be independently reviewed by a senior officer and any errors or discrepancies identified should be recorded in advance of the onsite audit period.</p> <p>The Authority must strengthen its financial reporting in order to put it in a good position to meet the new 2017/18 deadline of 31 July. Additional reviews of working papers, particularly those that involve key areas of judgement, should be made a matter of routine.</p>	<p>As the report highlights several key members of the Accountancy team left during the accounts process and there were issues with an interim individual. The Council now has in place a permanent Chief Accountant with many years experience of closing of accounts (and indeed has been involved recently in piloting CIPFA's "Big Red Button" process for speeding up accounts closure. We also now have in place a permanent Deputy Chief Accountant with a broad range of technical accounting experience. The Chief Accountant and Chief Finance Officer are undertaking a fundamental review of the close down process and will ensure that it is speeded up and additional review is built into the process to be completed before Christmas 2017. Other members of the team are being provided with additional training. The Accountancy team will also draw on its Treasury Management advisers to review relevant technical (financial instruments etc.) notes and treatment during the closure process.</p> <p>Action by: Chief Finance Officer / Chief Accountant</p> <p>Due date: 23 December 2017</p>	<p><b>In progress</b></p> <p>The quality of the first draft of the accounts received by KPMG was much improved compared to the prior year.</p> <p>We did, however, identify that key elements of the accounts (the disclosures relating to subsidiaries) were not completed to an appropriate standard, and have raised a recommendation relating to this.</p> <p>The Finance Team were responsive to queries from KPMG.</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
<b>Financial statements</b>				
2	1	<p><b>Resilience of Authority Finance Team</b></p> <p>Significant personnel changes have occurred across the Authority's financial team with further changes anticipated. As a result, there is increased risk around succession planning, retaining corporate memory and maintaining business as usual at the Authority.</p> <p>We recommended that the Authority develops a succession and stability plan to ensure that the finance team is resilient to personnel and structural changes and that stability is maintained when individuals leave. The Authority should also consider creating practical strategies that Management can use to engage and retain talent within its finance team.</p>	<p>As per response to Recommendation 1, we are undertaking a training plan to develop the skills and experience of the team and to build in more experience. We are examining options to help retain talent within the team.</p> <p>The Chief Accountant will be reviewing succession planning and looking to ensure that there is greater resilience in the accountancy team.</p> <p>Action by: Chief Finance Officer / Chief Accountant</p> <p>Due date: 23 December 2017</p>	<p><b>In progress</b></p> <p>Whilst the Finance Team has been relatively stable since September 2017, in order to produce a good draft of the financial statements the Authority has been reliant on a contractor. This is not sustainable in the longer term. In addition to this, we noted some key control failures in year (relating to the completion of bank and payroll reconciliations) which had occurred due to staff sickness. There is therefore more work for the Authority to do to develop the resilience of the finance team.</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
<b>Financial statements</b>				
3	1	<p><b>Journal approvals and segregation of duties</b></p> <p>During our testing of journals we identified issues relating to the way some transactions were processed and evidenced during the financial year 2016/17.</p> <p>The Authority has concluded that it is not possible to recreate the evidence for why these journals were processed. The individuals who processed and/or approved the journals have now left the Authority and have left no written record of why they were processed and the line descriptions are often inadequate.</p> <p>We recommend that for all journal entries, the Authority ensures:</p> <ul style="list-style-type: none"> <li>• All journal entries are approved by an individual separate from the person who uploads them;</li> <li>• Either the Deputy Chief Accountant or the Chief Accountant approves all journals over £20,000 in value;</li> <li>• A meaningful description is provided for each journal entry stating the reason why the journal was necessary and what the journal represents in accounting terms;</li> <li>• Adequate supporting evidence is kept on file for each journal raised; and</li> <li>• Accountancy team Management regularly review the files to monitor compliance and raise with individuals through one to ones or the annual appraisal system if there are recurring issues.</li> </ul>	<p>Chief Accountant will provide a quarterly review to Chief Finance Officer to confirm compliance. Action by Chief Accountant.</p> <p>Action by: Chief Finance Officer / Chief Accountant</p> <p>Due date: Now implemented</p>	<p><b>Implemented</b></p> <p>Management have confirmed that all journals over £20k are signed and a quarterly review is undertaken.</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
<b>Financial statements</b>				
4	2	<p><b>Valuation of land and buildings</b></p> <p>As part of our procedures to provide assurance over the valuation of land and buildings within the financial statements, a review of the year end Valuation Report produced by the external valuer and commissioned by the Authority was undertaken as well as a review of the Authority processes and controls in relation to the valuation exercise.</p> <p>From this review, we have identified a number of detailed recommendations to strengthen the approach that the Authority takes to the valuation of its land and buildings and have shared these with the Finance Team. This includes demonstration of the consideration and challenge of the assumptions applied by the external valuer and ensuring a robust data trail underpins the valuations applied to the accounts.</p> <p>We recommend that the Finance implement our action plan ahead of the next valuation exercise.</p>	<p>Agreed.</p> <p>Action by: Chief Accountant</p> <p>Due date: 1 February 2018</p>	<p><b>In progress</b></p> <p>We have completed our work in this area, but consider that this recommendation needs to be considered alongside item 6 on the following page - particularly with reference to the detail supporting the consideration that the value of assets between formal valuations remains appropriate.</p>
5	2	<p><b>Fixed asset registers</b></p> <p>During our testing of fixed assets we were unable to obtain Fixed Asset Registers in relation to IT equipment, intangible assets and heritage assets. Without a complete listing, the Authority is unable to effectively manage and report on the assets it holds.</p> <p>We recommend the Authority conducts an exercise to produce a full listing of assets held within the IT equipment, intangible and heritage asset categories. All assets should be assessed for impairment to ensure that the valuations held within the financial statements are materially correct.</p>	<p>We will conduct an exercise to produce a full listing of IT equipment. Whilst we have in recent years reviewed heritage assets we will conduct further review.</p> <p>Action by: Chief Accountant</p> <p>Due date: 31 March 2018</p>	<p><b>Outstanding</b></p> <p>A detailed fixed asset register was not available for IT equipment.</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
<b>Financial statements</b>				
6	2	<p><b>Valuation Frequency and Timing (relates to 2015/16)</b></p> <p>While the Authority is moving to a programme of rolling valuation from 2015/16, up until this point the Authority obtained a full valuation of its land and buildings portfolio once every 5 years on 1 April for the financial year in which the valuation was accounted for.</p> <p>We recommend that the Authority should seek to obtain valuations as at 31 March to minimise the risk of potentially significant changes in valuation during the course of the financial year, either impairments or upwards movements.</p> <p>Due to the new policy of revaluing some assets each year this creates a risk that significant asset changes for those assets not valued in that year are not recorded in the intervening period, potentially leading to material movements at the end of the revaluation cycle. As a matter of course we would recommend that as part of its annual reporting that management formally communicate to members their in-year assessment of any impairment or potential upward valuation of assets where those assets have not been subject to valuation at year end.</p> <p>This is particularly important where the Authority elects to continue to obtain valuations dated 1 April.</p>	<p>We will change the valuation dates to 31 March. As part of the formal annual reporting management will report to councillors their in-year assessment of any impairment or upward revaluation of assets where those assets have not been subject to valuation at year end.</p> <p>Action by: Principal Accountant and Head of Asset Management</p> <p><b>Deadline: 30 June 2016</b></p> <p>As part of the revaluation rolling programme, the valuers were instructed to value the properties which were due on the rolling programme valuation list for 2015/16 to be valued at 31 March 2016.</p> <p>Management has not reported to councillors on the in-year assessment of impairment and upward revaluation where those assets have not been subject to valuation at year end.</p> <p>Specific consideration should be given to management reporting to councillors in 2016/17.</p> <p>Action by: Principal Accountant and Head of Asset Management</p> <p><b>Revised deadline: 30 June 2017</b></p> <p>Action agreed outstanding.</p> <p>Action by: Chief Accountant in partnership with Commercial Property Manager</p> <p><b>Revised deadline: 1 March 2018</b></p>	<p><b>In progress</b></p> <p>This has been discussed with our municipal valuers (Kempton Carr Croft) and will be in place for 18/19.</p>

# Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
<b>Financial statements</b>				
7	3	<p><b>Timeliness of reconciliations (relates to 2015/16)</b></p> <p>During our testing of payroll controls it was noted that reconciliations are not being prepared and reviewed in a timely manner.</p> <p>During our testing of cash, it was noted that reconciliations were not performed for nine months. The main cause is due to the Council not having a contingency plan in place when staff are on sick leave or unavailable.</p> <p>We recommend that the Council implement a robust plan to ensure that there is sufficient resilience within the finance team to cope with short term absences.</p>	<p>We will review our procedures around preparing and reviewing the reconciliations that are performed and will look at the resilience issues within the team to cover short term absences.</p> <p>The problems around the testing of cash were not as a result of staff being unavailable or on sick leave.</p> <p><b>Date: 31st December 2016</b></p> <p>We reviewed two payroll reconciliations from the 2016/17 year and noted that neither had been reviewed within a month of the reconciliation being produced.</p> <p>We have therefore re-raised this recommendation to Management.</p> <p>Management Response: Action agreed outstanding. Sickness absences have impacted.</p> <p>Action by: Deputy Chief Accountant</p> <p><b>Revised deadline: 30 November 2017</b></p>	<p><b>Superseded</b></p> <p>We noted during our audit work that payroll reconciliations are still not being prepared and reviewed in a timely manner.</p> <p>Similar issues were found with the bank reconciliation.</p> <p>We have therefore raised a high priority recommendation to management as part of our work in 2017/18.</p>

# Materiality and reporting of audit differences

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

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in June 2018.

Materiality for the Authority's accounts was set at £1 million which equates to around 1.45% of gross expenditure.

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

### Reporting to Audit Committee

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.65 million for the Authority.

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



## Appendix 3

# Audit differences

### Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £50K are shown below.

Unadjusted audit differences (£'000s)				
No.	Detail	CIES Dr/(cr)	SOFP Dr/(cr)	Comments
1	Short term payables		(221)	There were some cut-off errors because some costs relating to 2017/18 were incorrectly recorded in 2018/19.
	Other expenses	221		
	<b>Total</b>	<b>221</b>	<b>(221)</b>	

Unadjusted presentational adjustments	
#	Basis of audit difference
1	The Adjustments and Transfers between Funds disclosures for the EFA do not agree with the detailed notes. The impact is c. £160k.

## Appendix 3

# Audit differences

### Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present a summary of adjusted audit differences (including disclosures) identified during the course of our audit. As our work is ongoing, we have not yet agreed a full list of adjustments with the Authority. We will provide an updated report upon concluding our work.

Adjusted audit differences (£'000s)				
No.	Detail	CIES Dr/(cr)	SOPF Dr/(cr)	Comments
1	Surplus on revaluation of PPE	(732)		The revaluation gain was incorrectly netted with an audit adjustment relating to the 2016-17 PPE revaluation.
	Property, plant and equipment		732	
	Adjustments between funding and accounting basis	732		
	Revaluation reserve		(732)	
2	Government grants credited to services	(325)		The flexible homelessness support grant is incorrectly shown as a non-ringfenced grant.
	Non-ringfenced government grant income	325		
3	Cash and cash equivalents		500	The draft accounts showed short term investments but none were shown in the trial balance.
	Short term investments		(500)	
4	Short term payables		1,503	Collection fund debtor/creditors were incorrectly shown as gross meaning a payable and receivable for the Council with itself was incorrectly shown, instead of the Council's position after preceptors.
	Short term receivables		(1,503)	
5	Short term payables		(8,723)	The portion of the rent free top-up from the Hammersmith Grove vendor was not recognised as a receipt in advance.
	Investment property income	8,723		
6	NNDR appeals provision		1,200	The NHS withdrew its appeal for charitable relief on business rates nationally in 2021. Therefore, the provision for such an appeal has now been removed. This adjustment reduces the provision balance by £3m in the collection fund; whereas SBC's 40% share is shown to the left.
	Business rates income	(1,200)		
	<b>Total</b>	<b>7,523</b>	<b>(7,523)</b>	

# Audit differences

## Presentational adjustments

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 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	
#	Basis of audit difference
1	The revaluation figure in the capital adjustment account is incorrectly netted with a disposal.
2	The operating lease disclosure is misstated as 1-5 years is overstated by £31m and 5+ years is under-stated by £31m. There is no impact on the total.
3	There was a decrease in the finance lease liability of £560k to account for a lease payment. This was correctly accounted but not shown in the disclosure.
4	There were various classification errors in the Financial Instruments disclosure.
5	The statement on accounting policies not yet adopted refers to IAS 17 and not IAS 7.
6	Group accounts were not prepared. Completion of disclosures related to the subsidiary company in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This includes the provision of more detailed balances related to the subsidiary.
7	The classification of debtors and creditors in the notes were incorrect (i.e. not correctly split between central government, other councils, and others).
8	The current year EFA figures exclude the impact to earmarked reserves (correctly) but this was not reflected in the prior period comparatives.

# Audit independence

### ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF SPELTHORNE 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.

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 and its controlled entities for significant professional services provided by us during the reporting period, 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	48,128	48,128
Overruns	TBC	203,794
<b>Total audit services</b>	<b>48,128</b>	<b>251,922</b>
Allowable non-audit services	-	-
Audit related assurance services	-	-
Mandatory assurance services	7,102	7,102
<b>Total Non Audit Services</b>	<b>7,102</b>	<b>7,102</b>

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 non-audit fees to audit fees for the year was 0.15:1. 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 £
<b>Mandatory assurance services</b>				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each the return. This work is required by the PSAA. As such we do not consider it to create any independence threats.	Fixed Fee	7,102	7,102
<i>Certification of the housing benefit subsidy return as required by PSAA</i>	The fee is set by PSAA.			

### 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 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.

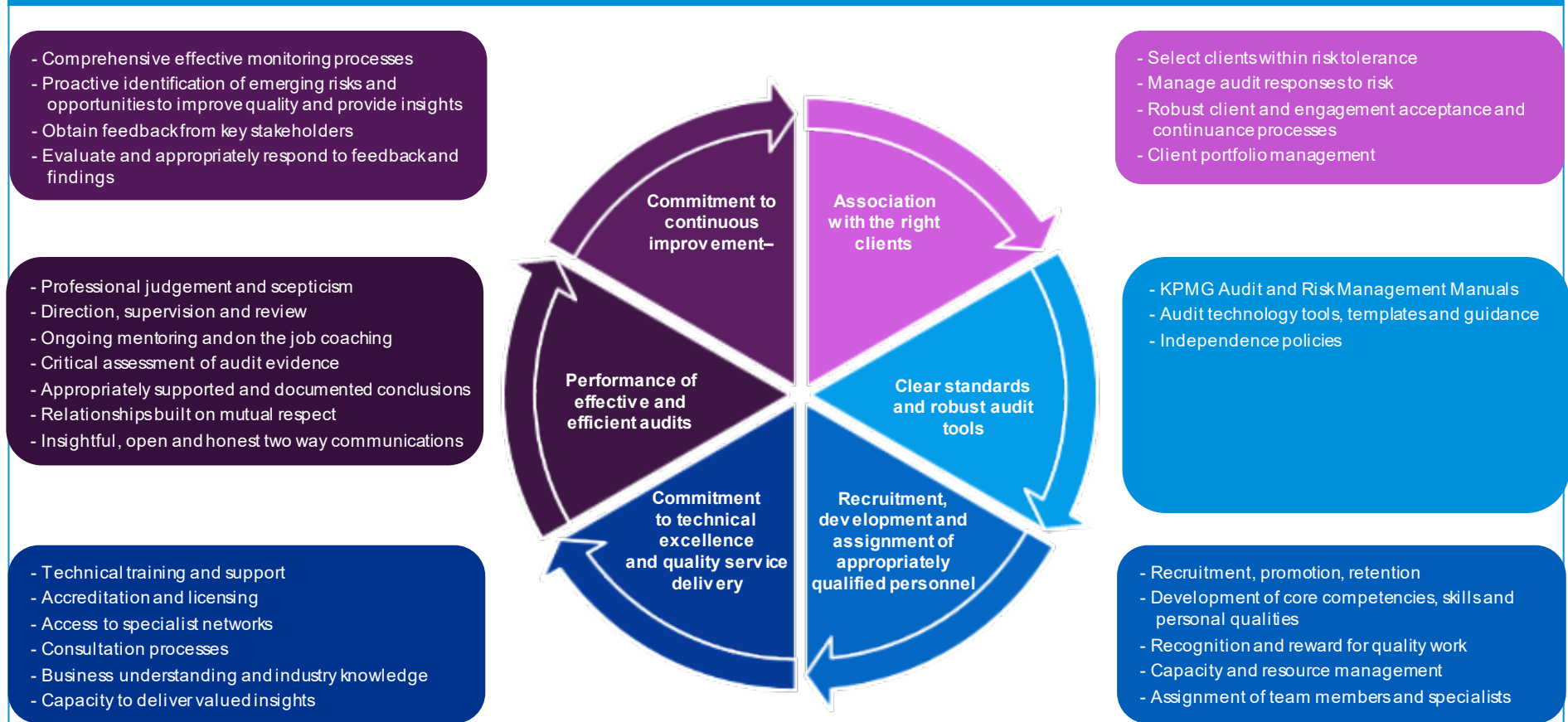
This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

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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