2015/16 audit highlights memorandum and management letter

Spelthorne Borough Council

Year ended 31 March 2016

September 2016

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.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 Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to 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.

Section one

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Spelthorne Borough Council ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2015/16*, presented to you in April 2016, set out the four stages of our financial statements audit process.

Planning → Control Evaluation → Substantive Procedures → Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during August 2016.

It also includes any additional findings in respect of our control evaluation which we have identified during our interim visit that commenced on 5 April 2016.

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

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- Assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages;
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund;
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

We would like to take this opportunity to thank the staff and members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. Sections two and three of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified an audit adjustment with a total value of £85k. The Authority has not adjusted the 2015/16 accounts on the basis that this matter is not material. The impact of this unadjusted difference would be to: — Increase the balance on the general fund as at 31 March 2016 by £85k; — Decrease the deficit on provision of services for the year by £85k; and — Increase the net worth of the Authority as at 31 March 2016 by £85k. We have included a full list of significant audit adjustments at Appendix two. We have raised a recommendation in relation to the matter highlighted above, which is summarised in Appendix one.
Key financial statements audit risks	We identified the following key financial statements audit risk in our 2015/16 External audit plan issued on 1 April 2016. — Valuation of Land and Buildings — Management override of controls We have worked with officers throughout the year to discuss the key risk and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.
Accounts production and audit process	We received complete draft accounts by 27 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. The Authority has implemented one of the two recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2015/16 audit process. In particularly we would like to thank the Deputy Chief Executive, Principal Accountant, Deputy Principal Accountant, Payroll, HR and the authority staff who were available throughout the audit visit to answer our queries.

Headlines

VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2015/16 issued in April 2016. — Financial Resilience We worked with officers throughout the year to discuss the VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of significance arising as result of our audit work in the VFM risk area. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Review of final accounts. — Review of Whole of Governance Accounts 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 Section 151 Officer on 19 August 2016. We draw your 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 confirm that we have complied with requirements on objectivity and independence in relation to this year’s audit of the Authority’s financial statements.

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material. We identified one adjustment. Management is not adjusting for it. The impact would be:

- **Decrease the deficit on the provision of services for the year by £85k; and**
- **Increase the balance on the general fund account as at 31 March 2016 by £85k;**
- **Increase the net worth of the Authority as at 31 March 2016 by £85k.**

We anticipate issuing an unqualified audit opinion in relation to the financial statements, as contained in the Authority's Statement of Accounts by 30 September 2016.

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

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 29 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see appendix two) level for this year's audit was set at £1.4 million. Audit differences below £75,000 are not considered significant.

We did not identify any material misstatements. We identified an issue with completeness of accruals which has not been adjusted by management. This error is due to expenditure being recorded in the incorrect period as the council recognises transactions on invoice date and does not correctly identify the period the goods or services relate to or when expenditure is incurred. A review of all transactions which could be affected by this issue has been completed and it was determined that it does not have a material effect on the financial statements. All unadjusted differences are set out in Appendix 2.

The net impact on the General Fund as a result of unadjusted audit differences is to increase the balance as at 31 March 2016 by £85k. In line with ISA (UK&I) 450 we request that you adjust all misstatements; however the identified misstatements will not effect our audit opinion within our auditors report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £75,000 are reported.

In addition, we identified presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We made comments in respect of its format and content which the Authority has agreed to amend where significant.

Annual report

We reviewed the Authority's annual report and can confirm it is consistent with the financial information contained in the audited financial statements.

Significant audit risks

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

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16*, presented to you in April 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to Spelthorne Borough Council.

Valuation of land and buildings

— Risk

Local Authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. In accordance with the suggested accounting policies provided by the CIPFA code of practice, the Council has recently changed its approach and for the financial year 2015/16 has adopted a 5 year rolling revaluation of Land and Buildings.

The new programme was undertaken by Kempton Carr Croft (the Council's existing valuation specialists) with around 20% of all assets being tested each year with all assets being valued at least once in every 5 year period. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we considered this to be a significant audit risk for 2015/16

— Findings

We have undertaken the following work over the valuation of Land and Buildings:

- reviewed the revaluation basis and consider its appropriateness.
- reviewed management's challenge to any of the valuations and to any differences between the valuation report and the financial statements;
- assessed the basis upon which any impairments to land and buildings have been calculated and tested the associated assumptions;
- assessed the independence and objectivity of the surveyors and the terms under which they were engaged by management;
- understand the rationale for the change in valuation approach in 2015/16; and
- assessed what procedures have been undertaken by management in respect of the 80% of assets not subject to valuation and how this ensures that carrying values remain appropriate

We found the revaluation basis to be appropriate and the valuation adequately accounted for in the accounts.

Significant audit risks

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Level of prudence

0 1 2 3 4 5 6

Audit difference | Cautious | Balanced | Optimistic | Audit difference

Acceptable range

Assessment of subjective areas			
Asset/liability class	**15/16**	**Balance (£m)**	**KPMG comment**
Provisions	4	£1.9 million *(PY: £2.4 million)*	The council had opening provisions of £2.4m and has decreased its provision to £1.9m. This is a result of a decrease in the business rate appeals during the 2015/16 financial year due to a change by the Council in the methodology of calculating provisions. We have reviewed the new methodology and consider the provision disclosures to be acceptable but marginally more optimistic than in the prior year.
Debtors provisioning	2	1.4 million *(PY: £0.9 million)*	The council had opening balances of £0.9m and has increased its provision to £1.4m. This is a result of an increase in the outstanding business rates and housing benefit overpayments. We consider the provision disclosures to be acceptable but marginally more cautious than in the prior year.
Property, Plant and Equipment	3	£44.9 million *(PY: £46.8 million)*	We understand from our previous audit that a full valuation took place in 2014/15 before the adoption of a 5 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.
Pensions	3	£38.6 million *(PY: £34.7 million)*	The pension liability has been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. discounted to present values. We have reviewed the accounting entries for pensions supplied by the Surrey Fund actuary, Hymans Robertson and consider the disclosures to be appropriate.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented one of the two recommendations in our ISA 260 Report 2014/15.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a sound financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2016. The Authority have made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in June 2016 and discussed with the Principal Accountant, set out our working paper requirements for the audit. The quality of working papers provided was high and fully complied with standards specified in our *Accounts Audit Protocol*.
Response to audit queries	Officers resolved all audit queries in a timely manner.
Internal Audit	We have reviewed all reports issued by internal audit during the year and used their findings to aid our risk assessment; we have not placed direct reliance on their work.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented one of the two recommendations in our Report to those charged with governance (*ISA 260) 2014/15*.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Spelthorne Borough Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Spelthorne Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix four in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud.

The Authority should confirm that the information provided to the independent property valuation specialist was complete and accurate, including the number of properties and other information required by the valuer regarding the condition and nature of these properties and the information received from the valuation specialist has been recorded within the financial statements and is complete and accurate.

The authority should also confirm that the process through which year end accruals are identified is appropriate and the balance recorded within the financial statements is materially complete and accurate.

We have provided a template to the Deputy Chief Executive for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

Section four

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

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.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

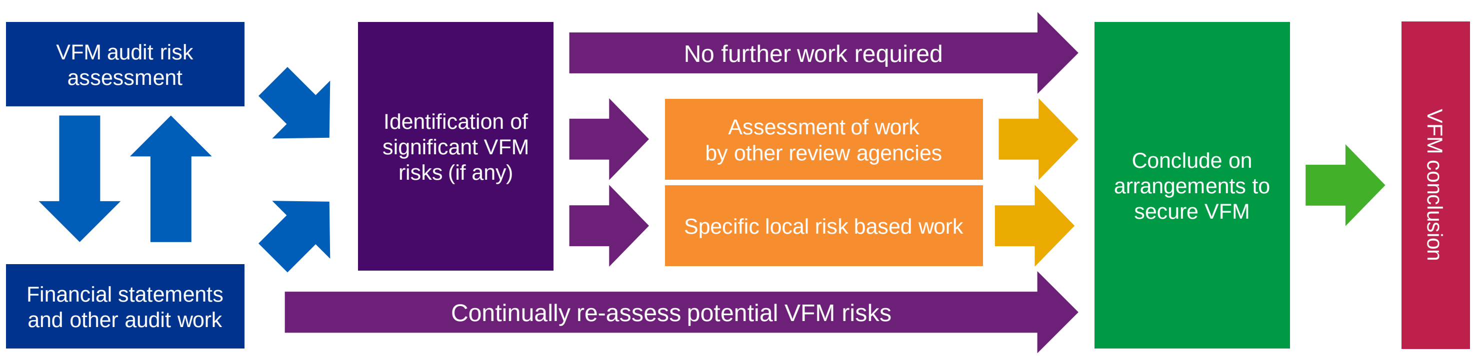
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making	Sustainable resource deployment	Working with partners and third parties
✓	✓	✓
Met	**Met**	**Met**



Specific VFM Risks

We have identified a specific VFM risk and undertaken work to date in response to the risk:

- **Financial Resilience**

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to the risk area is adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

— Completed specific local risk based work

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion
Financial resilience	Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. The Government announced in December 2015 that Spelthorne Borough Council's revenue support grant will be £1,330,000 in 2015/16 and reduced to £580,000 in 2016/17 with a transitional grant of £100,000 being paid to the Council in 2016/17and 2017/18. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion. **Assessment** We have undertaken the following work over VFM ▪ Reviewed the overall management arrangements that Spelthorne has for managing its financial position; ▪ Assessed the relevant findings from the financial statements audit work, including understanding the entity and work on key systems and controls; ▪ Reviewed reports from the audited body including internal audit, minutes of council meetings, medium term financial strategy plan, revenue and capital budgets, strategic risk registers, supporting documents and VFM profiles produced by the PSAA; ▪ Reviewed information disclosed or available to support the Annual Governance Statement and Annual Report; The council has a Medium Term Financial Strategy, ongoing monitoring of the annual budget, responsiveness to increasing costs of demand led services and changes in funding allocations and the governance arrangements of how the figures are reported through to Full Council and committees. **Specific risk based work required: Yes** As a result of our work, we have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❸	**Completeness of related parties** During our testing of related parties, we identified that three councillors did not sign a declaration of interest. In addition it was noted that a new public service mutual company Applied Resilience that was set up in 2015/16 was not included in the related party note. The council invested £10,000 in the company at launch equating to a 10% holding. The council has subsequently amended the related party note to reflect the interest in Applied Resilience. There is a risk that related party relationships and / or transactions disclosed in the financial statements are incomplete. We recommend that guidance on related party relationships and transactions should be reiterated to employees and members prior to completion of declaration of interests.	**Accepted** We will include in an upcoming Members training course on finance, a section on the importance of related party returns. For Staff members we will re- introduce during March 2017 a closing seminar where will we address the importance of members of staff completing the related party return. We will also review the guidance and examples that are sent out with the actual return. Date: 31st March 2017

Key issues and recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	**Completeness of accruals** During our testing of expenditure, creditors and cash & bank we identified five invoices that were recorded in the incorrect period. The net value of these transactions on expenditure and creditors are £85k in the 2015/16 financial year. These have been recorded as an unadjusted audit difference in appendix 2 on the basis that this matter is not material. The main cause is due to the council recognising transactions on invoice date or when invoices are received and not identifying the period the goods or services relate to or when the expenditure is incurred. Budget holders were not able to identify all transactions relating to 2015/16 during the year end processes. We requested that the Authority to review all invoices raised in March 2016 and April 2016 to identify if they were posted in the correct period. Two additional invoices were identified through this process that should have been recorded in the 2015/16 financial year. We have assessed these invoices and found their values to be insignificant. The impact of this is that expenditure is being set off in the incorrect budget year. We recommend that the Council review its control in place to account for accruals at year end and assess invoices before and after year end to ensure transactions are recorded in the correct period. Budget holders should review all orders initiated before year end and ensure that good and services relate to the correct financial year. The council should also maintain a record of expected expenditure and income at year end.	**Accepted** We will review the current process for accounting for accruals at year end and introduce enhanced checks on invoices paid either side of the year end date. We will hold seminars for staff during March 2017 where will issue further guidance and training on the completion of special creditor/accrual's forms at year end. Date: 31st March 2017
3	3	**Timeliness of reconciliations** During our testing of payroll controls it was noted that reconciliations are not being prepared and reviewed in a timely manner. 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. 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.	**Accepted** We will review our procedures around preparing and reviewing the reconciliations that are preformed and will look at the resilience issues within the team to cover short term absences. The problems around the testing of cash were not as a result of staff being unavailable or on sick leave. Date: 31st December 2016

Follow up of prior year recommendations

The Authority has partially implemented all of the recommendations in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the outstanding recommendation and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	1

#	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2016
1	2	**Valuation Frequency and Timing** 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. 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. 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. This is particularly important where the Authority elects to continue to obtain valuations dated 1 April.	**Agreed** 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. Principal Accountant and Head of Asset Management 30 June 2016	**Ongoing** 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. 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. Specific consideration should be given to management reporting to councillors in 2016/17. Action by: Principal Accountant and Head of Asset Management Revised deadline: 30 June 2017

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £75k.

The cumulative impact of uncorrected audit differences is £85k.

This is below our materiality level of £1.4 million.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

Only presentational improvements have been made to the draft financial statements.

Uncorrected audit differences

The following table sets out the uncorrected audit difference identified by our audit of Spelthorne Borough Council's financial statements for the year ended 31 March 2016.

	Impact £'000					
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Cr Expenditure £85			Dr Short term creditors £85		As noted in Appendix one, the Authority recognised transactions in the incorrect period. We requested the Authority reviewed all invoices raised in March 2016 and April 2016 to identify if they were posted in the correct period. Two additional invoices were identified through this process that should have been recorded in the 2015/16 financial year. We reviewed these invoices and found them to be insignificant. The Authority will review its treatment of such matters in future years but has not adjusted the 2015/16 accounts on the basis that this matter is not material.
	Cr £85	**-**	**-**	**Dr £85k**	**-**	**Total impact of uncorrected audit differences**

Materiality and reporting of audit differences

For 2015/16 our materiality is £1.4 million for the Authority's accounts.

We have reported all audit differences over £75k for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2015/16, presented to you in April 2016.

Materiality for the Authority's accounts was set at £1.4 million which equates to around two percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the 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 £75,000 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.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

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

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Spelthorne Borough Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Spelthorne Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit was £48,128 plus VAT in 2015/16. This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in April 2016. Our scale fee for other grants and claims was £7,102 plus VAT in 2015/16.

Non-audit services

We have not engaged in any non-audit services.

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