



Surrey Heath Borough Council
Surrey Heath House
Knoll Road
Camberley
Surrey GU15 3HD
Telephone: (01276) 707100
Facsimile: (01276) 707177
DX: 32722 Camberley
Web Site: www.surreyheath.gov.uk

Department: Democratic Services
Division: Corporate
Please ask for: Katharine Simpson
Direct Tel: 01276 707157
E-Mail: democratic.services@surreyheath.gov.uk

Friday, 15 March 2019

To: The Members of the **Audit and Standards Committee**
(Councillors: Oliver Lewis (Chairman), Jonathan Lytle (Vice Chairman), Rodney Bates, Edward Hawkins, Paul Ilnicki, Rebecca Jennings-Evans and Bruce Mansell)

In accordance with the Substitute Protocol at Part 4 of the Constitution, Members who are unable to attend this meeting should give their apologies and arrange for one of the appointed substitutes, as listed below, to attend. Members should also inform their group leader of the arrangements made.

Substitutes: Councillors Dan Adams, Ruth Hutchinson, David Lewis and Conrad Sturt

Dear Councillor,

A meeting of the **Audit and Standards Committee** will be held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on **Monday, 25 March 2019 at 7.00 pm**. The agenda will be set out as below.

Please note that this meeting will be recorded.

Yours sincerely

Karen Whelan

Chief Executive

AGENDA

	Pages
1 Apologies for Absence	
2 Minutes of Previous Meeting	3 - 6
To receive the minutes of the meeting of the Audit and Standards Committee held on 26 th November 2018.	
3 Declarations of Interest	
Members are invited to declare any disclosable pecuniary interests and non pecuniary interests they may have with respect to matters which are to be considered at this meeting. Members who consider they may have an interest are invited to consult the Monitoring Officer or the Democratic Services Manager prior to the meeting.	

- | | | |
|----------|---|----------------|
| 4 | Financial Statements Audit Plan | 7 - 42 |
| | To consider a report setting out the External Auditor's proposed plans for their audit of the Council's 2018/19 financial statements. | |
| 5 | Certification of Housing Benefits Claims and Returns 2017/18 | 43 - 46 |
| | To consider a report setting out the outcome of an audit of the Council's claims and returns in respect of Housing Benefits. | |
| 6 | Internal Audit Annual Plan 2019-20 | 47 - 50 |
| | To consider a report setting out the Internal Audit Service's Annual Plan for the 2019-20 municipal year. | |
| 7 | Appointment of a Pool of Independent Persons | 51 - 52 |
| | To consider a report providing an update on the recruitment of Independent Persons. | |

Date of Next Meeting

The next scheduled meeting of the Audit and Standards Committee will take place on Monday 22nd July 2019 at 7pm.

Minutes of a Meeting of the Audit and Standards Committee held at Council Chamber, Surrey Heath House, Knoll Road, Camberley, GU15 3HD on 26 November 2018

+ Cllr Oliver Lewis (Chairman)
+ Cllr Jonathan Lytle (Vice Chairman)

+ Cllr Rodney Bates
+ Cllr Edward Hawkins
- Cllr Paul Ilnicki

Cllr Rebecca Jennings-Evans
+ Cllr Bruce Mansell

+ Present
- Apologies for absence presented

Officers Present: Adrian Flynn, Chief Accountant
Karen Limmer, Head of Legal
Leigh Lloyd-Thomas, BDO
Kelvin Menon, Executive Head: Finance

5/AS Minutes of Previous Meeting

RESOLVED that the minutes of the meeting of the Audit and Standards Committee held on 23rd July 2018 be approved as a correct record and signed by the Chairman.

6/AS External Audit

The Committee received a report setting out the audit programme that the Council's External Auditor's intended to follow during the coming year.

The Committee was informed that following the conclusion of a national procurement exercise BDO had replaced KPMG as the Council's External Auditors. It was noted that changes were made every five years to every local authority in England to ensure that a Council's external audit function remained independent and objective.

It was noted that BDO would receive the audit files from KPMG in December and once these had been received a full audit plan would be developed and brought to the Committee's meeting in March 2019.

It was clarified that the Jersey Property Unit Trust (JPUT) which owned Camberley town centre, was audited by PWC in Jersey and that BDO would work closely with them as part of their audit of the Council's accounts.

The Committee noted the report.

7/AS Annual Standards Report

The Committee considered a report providing an update on the outcomes of any matters dealt with under the Council's Code of Conduct during the past twelve months.

It was reported that one formal investigation into a complaint brought against a Borough Councillor had found that there had been no breach of the Code of Conduct. Two further

complaints were currently being investigated; the outcome of these investigations would be reported to the Committee in due course.

It was noted that, in line with previous years, the majority of issues raised with the Monitoring Officer during 2017/18 related to planning matters and in particular when interests needed to be declared. It was acknowledged that there was a lack of understanding amongst the public in relation to the requirements governing the declaration of interests and this had contributed to the number of referrals made.

The Committee was informed that the Social Media Protocol was being reviewed and updated and a briefing note providing practical guidance would be produced to support the Protocol.

It was acknowledged that delineating between private personal messages on social media and those intended for a wider public audience was an ongoing concern. The Committee agreed that the public did not generally differentiate between Councillors' public and private posts consequently it was considered incumbent on Councillors to act professionally at all times when interacting with social media. It was agreed that further guidance and clarification on the use of social media would be welcomed.

The Committee noted the report.

8/AS Independent Persons Protocol

The Committee considered a report providing an update on work to appoint Independent Persons to assist with matters pertaining to the Code of Conduct as required by the Localism Act 2011.

It was reported that in May 2016, the Council had joined a consortium of Surrey local authorities which had appointed six people to act as Independent Persons across the consortium. It was reported that the current arrangements, which would expire in May 2019, had worked well and seven of the Surrey local authorities, including Surrey Heath, had expressed a desire to continue with the joint arrangements.

If the proposals were approved then the participating local authorities would simultaneously advertise the opportunity to join the Independent Persons Pool for a five year period. The Monitoring Officers from each local authority would then agree a shortlist of candidates for interview by an Appointments Panel, which was expected to include some chairmen of the local authorities' standards committees. The Appointments Panel's recommendations would then be referred to each Council for approval.

It was noted that a number of the current cohort of Independent Persons had expressed an interest in continuing in the role. It was requested that the Committee raise awareness of the opportunity through their networks.

RESOLVED that:

- i. The requirements of the joint arrangements be noted.
- ii. The Committee approves in principle the proposed joint arrangement and that the Monitoring Officer be authorised to progress the arrangements for appointing Independent Persons as set out in the report.

9/AS Date of Next Meeting

It was noted that the next scheduled meeting of the Audit and Standards Committee would take place on Monday 25th March 2019 at 7pm.

Chairman

This page is intentionally left blank

**FINANCIAL STATEMENTS AUDIT PLAN FOR
2018/19**

Portfolio:	Finance
Ward(s) Affected:	All

Purpose

To inform members on external audit’s plan for the audit of the 2018/19 financial statements

1. Background

- 1.1 This year, as a result of a national procurement, the Council has appointed new audits – BDO LLP, in the place of the previous auditors KPMG. The 2018/19 will be the first audit conducted by BDO LLP at Surrey Heath and as a consequence we have a completely new team. BDO LLP are also the new Auditors of a number of other Surrey Councils including Woking, Runnymede and Spelthorne.
- 1.2 The Council is required by law to have its financial statements audited by an external auditor and the report to be made public.
- 1.3 The auditors have set out their proposed audit plan for 2018/19 which includes any significant audit risks they have identified prior to the audit. Some of these, such as the management ability to override controls and the valuation of pensions and property, apply to all councils whereas the risks around the Joint waste and the JPUT are more specific to Surrey Heath.
- 1.4 The auditors are planning to do their work during June with a view to reporting back to this committee in July.

2 Resource Implications

- 2.1 The cost of the audit, as agreed nationally, is set out on page 7. There represents a reduction on the fee last year due to the results of a national procurement.
- 2.2 Mr Leigh Lloyd-Thompson will continue to be the new Engagement Partner and he will be assisted by Mr Bediako who will be the manager.

3. Recommendation

- 3.1 The Committee is asked to receive and comment on the proposed plan as appropriate.

Contact:

Kelvin Menon 01276 707257
Email: kelvin.menon@surreyheath.gov.uk

This page is intentionally left blank

Report to the Audit and Standards Committee

SURREY HEATH BOROUGH COUNCIL

Audit Planning: year ending 31 March 2019

CONTENTS

1	Introduction	3
	Welcome	3
2	Executive summary	4
	Scope and materiality	4
	Audit strategy	5
	Audit risk overview	6
	Independence and fees	7
3	Audit scope and objectives	8
	Overview	8
	Audit timeline	9
	BDO team	10
4	Audit risks	11
	Overview	11
	Management override of controls	12
	Revenue (and expenditure) recognition	13
	Property, plant & equipment and investment property valuation	14
	Pension liability valuation	15
	Accounting for Joint Waste and Recycling contract	16
	Classification and measurement of financial instruments (IFRS 9)	17
	Revenue from contracts with customers (IFRS 15)	18
	Accounting for investment in Jersey Property Unit Trust	19
	Sustainable finances	20
	Other matters requiring further discussion	21
	IT general controls	22
5	Independence	23
	Independence	23
6	Fees	24
	Summary	24
7	Appendices contents	25

WELCOME

CONTENTS

Introduction

Welcome

Executive summary

Audit scope and objectives

Audit risks

Independence

Fees

Appendices contents

Page 11

We have pleasure in presenting our Audit Planning Report to the Audit and Standards Committee of Surrey Heath Borough Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2019 in respect of our audit of the financial statements and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Audit and Standards Committee meeting on 25 March 2019 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.



4 March 2019



Leigh Lloyd-Thomas

Engagement Partner

t: 020 7983 2616

e: leigh.lloyd-thomas@bdo.co.uk



Michael Asare Bediako

Audit Manager

t: 020 7893 3643

e: michael.asarebediako@bdo.co.uk

This report has been prepared solely for the use of the Audit and Standards Committee and Those Charged with Governance and should not be shown to any other person without our express permission in writing. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the appendices.

SCOPE AND MATERIALITY

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Independence

Fees

Appendices contents

This summary provides an overview of the key audit matters that we believe are important to the Audit and Standards Committee in reviewing the planned audit strategy for the Council for the year ending 31 March 2019.

It is also intended to promote effective communication and discussion and to ensure that the audit strategy appropriately incorporates input from those charged with governance.

Audit scope

The scope of the audit is determined by the NAO's Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

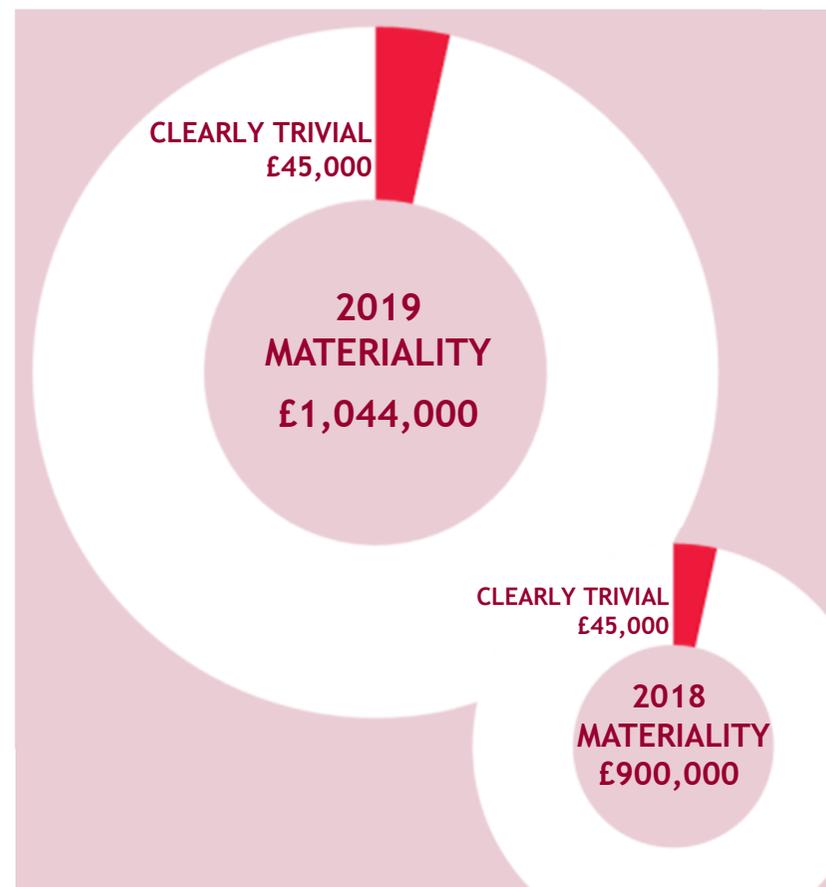
Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the NAO.

Materiality

Planning materiality for the Council will be set at 2% of gross expenditure for the year (prior year 2% by predecessor auditor) using the prior year gross expenditure figure. This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Audit and Standards Committee obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.

We usually set our trivial level for reporting misstatements at 2% of materiality (£21,000) although we can set a trivial level up to an upper range at 5% of materiality. We note that your previous auditor set this at 5%. We propose capping the trivial level at £45,000 (4.3% of materiality).



AUDIT STRATEGY

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Independence

Fees

Appendices contents



Our Audit Strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have discussed the changes to the organisation, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Councils activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

AUDIT RISK OVERVIEW

Executive summary

CONTENTS

Introduction

Executive summary

Scope and materiality

Audit strategy

Audit risk overview

Independence and fees

Audit scope and objectives

Audit risks

Independence

Fees

Appendices contents

Risk identified - Financial statements	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
Management override of controls	Significant	Yes	Substantive	Medium
Revenue (and expenditure) recognition	Significant	Yes	Substantive	Medium
Property, plant & equipment and investment property valuation	Significant	No	Substantive	High
Pension liability valuation	Significant	No	Substantive	High
Accounting for Joint Waste and Recycling contract	Normal	No	Substantive	Medium
Classification and measurement of financial instruments (IFRS 9)	Normal	No	Substantive	Medium
Revenue from contracts with customers (IFRS 15)	Normal	No	Substantive	Medium
Accounting for investment in JPUT (Jersey Property Unit Trust)	Normal	No	Substantive	High

Risk identified - Use of resources

Sustainable finances	Significant		Detailed review	Medium
----------------------	-------------	--	-----------------	--------

INDEPENDENCE AND FEES

Executive summary



CONTENTS
Introduction
Executive summary
Scope and materiality
Audit strategy
Audit risk overview
Independence and fees
Audit scope and objectives
Audit fees
Independence
Fees
Appendices contents

Independence

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

Fees

	2018/19 £	2017/18 £
Code audit fees	(1) 32,263	(2) 45,905
Total audit fees	32,263	45,905
Non audit fees		
Housing Benefit Subsidy certification	10,000	(2) 11,141
Non audit fees	10,000	11,141
Total fees	43,263	57,046

(1) PSAA has set the 2018/19 fee scale on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms’ costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

(2) KPMG were appointed as auditor for these audits in 2017/18 and we have reported their fees above. The planned Code audit fee for 2017/18 was £41,900. Additional fee of £4,005 was charged for the audit of the group accounts.

OVERVIEW

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Overview
Audit timeline
BDO team
Audit risks
Independence
Fees
Appendices contents

Key components of our audit objectives and strategy are highlighted and explained on the following pages.

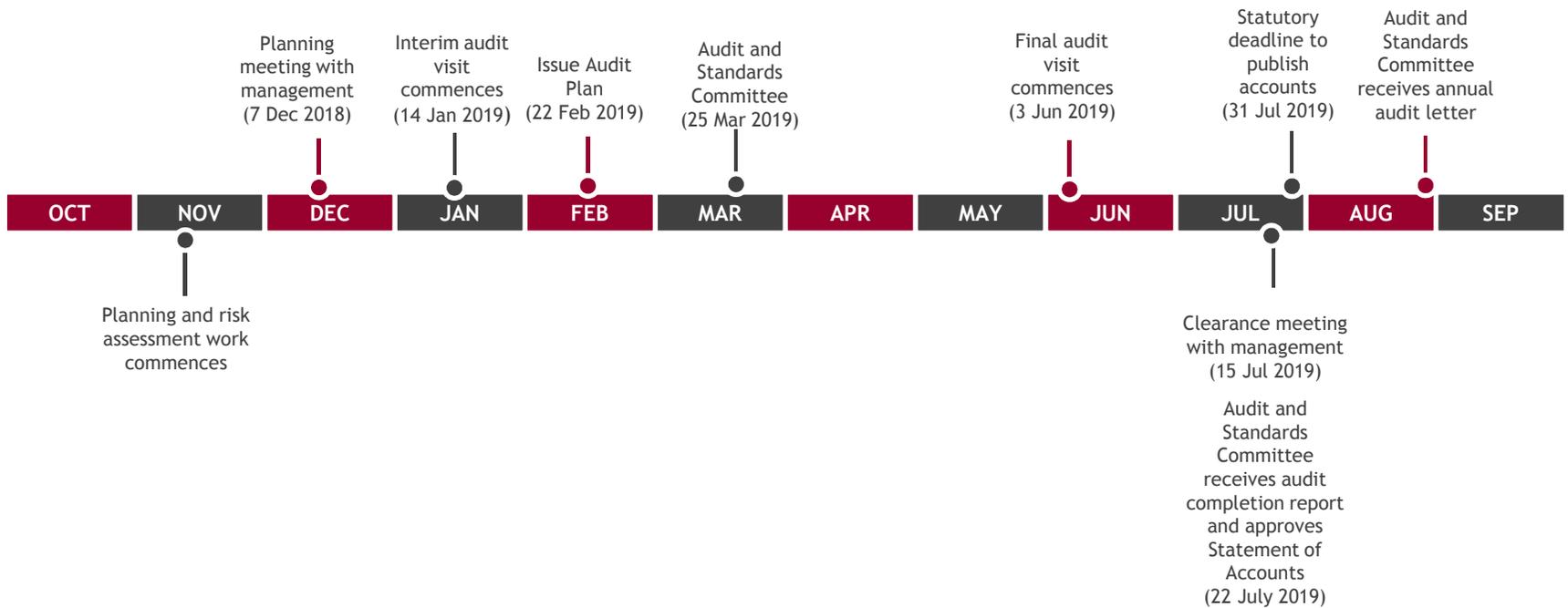
Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the NAO.
Financial statements	We will express an opinion on the financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2018/19 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Use of resources	We will report where we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
WGA	We will review the Whole of Government Accounts (WGA) return and express an opinion on the return whether it is consistent with the audited financial statements.
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Audit and Standards Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit and Standards Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

AUDIT TIMELINE

An overview of the key dates



CONTENTS
Introduction
Executive summary
Audit scope and objectives
Overview
Audit timeline
BDO team
Audit risks
Independence
Fees
Appendices contents

BDO TEAM

Team responsibilities



Leigh Lloyd-Thomas
Engagement Lead

t: 020 7893 2616
e: leigh.lloyd-thomas@bdo.co.uk

As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinions are given.

In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I will ensure that we have undertaken sufficient work to assess the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the NAO.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.



Michael Asare Bediako
Audit Manager

t: 020 7893 3643
e: Michael.asarebediako@bdo.co.uk

I will lead on the audit of the Council.

I work closely with Leigh to develop and execute the audit strategy. I will be a key point of contact on a day to day basis for the Council and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to Management and the Audit and Standards Committee are highlighted on a timely basis.



Martha Ndhlovu
Audit Senior

t: 020 3219 420
e: martha.ndhlovu@bdo.co.uk

I will be the assistant lead on the audit of the Council.

I work closely with Michael to execute the audit strategy. I will provide management support for audit.

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Overview
Audit timeline
BDO team
Audit risks
Independence
Fees
Appendices contents

OVERVIEW

We have assessed the following as audit risks. These are matters assessed as most likely to cause a material misstatement in the financial statements or on our use of resources conclusion and include those that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

- CONTENTS
- Introduction
- Executive summary
- Audit scope and objectives
- Audit risks**
- Overview
- Management override of controls
- Revenue (and expenditure) recognition
- Property, plant & equipment and investment property valuation
- Pension liability valuation
- Accounting for Joint Waste and Recycling contract
- Classification and measurement of financial instruments (IFRS 9)
- Revenue from contracts with customers (IFRS 15)
- Accounting for investment in Jersey Property Unit Trust
- Sustainable finances
- Other matters requiring further discussion
- IT general controls
- Independence
- Fees
- Appendices contents

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue (and expenditure) recognition			There is risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue. There is also a risk of manipulation of expenditure recognition by inappropriately deferring expenditure to the following year.
3. Property, plant & equipment and Investment Property valuation			There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Pension liability valuation			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
5. Accounting for Joint Waste and Recycling contract			The Council applies gross accounting to the Joint Waste and Recycling contract with three other local authorities. The arrangements suggest that Council may be acting as an agent in recharging costs rather than acting as principal in providing a service. There is a risk the Council’s application of gross accounting to this arrangement may not be appropriate.
6. Classification and measurement of financial instruments (IFRS 9)			There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.
7. Revenue from contracts with customers (IFRS 15)			There is a risk that relevant revenue streams are not recognised in accordance with the ‘5-step model’ of the new accounting standard.
8. Accounting for investment in JPUT			In the previous year the Council reclassified the investment properties held through the JPUT as direct holdings rather than an investment in a subsidiary, but still produced group financial statements comprising other sundry transactions and balances in the JPUT not reported in the Council’s single entity financial statements. There is a risk that the financial statements may not be reporting income / expenditure and assets / liabilities consistently based on the Council’s assertion that the JPUT is a ‘bare trust’ and should account for this as a joint operation.
9. Sustainable finances			The Council will need to deliver savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

MANAGEMENT OVERRIDE OF CONTROLS

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- ISA (UK) 240 - The auditor’s responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Planned audit approach

Our audit procedures will include the following:

- Review and verification of large and unusual journal entries made in the year and agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.



REVENUE (AND EXPENDITURE) RECOGNITION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

Under auditing standards there is a presumption that income recognition presents a fraud risk.

Risk detail

- Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).
- In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Planned audit approach

- Our audit procedures will include the following:
- Test a sample of grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met; and
 - Test a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTY VALUATION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

There is a risk over the valuation of land, buildings and investment properties where valuations are based on significant assumptions.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- Local authorities are required to ensure that the carrying value of land, buildings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.
- Revaluation of fixed assets are carried out on a rolling programme with the exception of investment property assets held in the JPUT which are valued annually. Assets which are expected to be subject to significant valuation movements are revalued on an annual basis. Valuations are carried out by external RICS qualified valuers.
- Due to the significant value of the Council's land, buildings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Planned audit approach

Our audit procedures will include the following:

- Review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirm that the basis of valuation for assets valued in year is appropriate based on their usage;
- Review accuracy and completeness of asset information provided to the valuer such as rental agreements and sizes; and
- Review assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up valuation movements that appear unusual.

PENSION LIABILITY VALUATION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

Significant risk	■
Normal risk	—
Fraud risk	—
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	■
Controls testing approach	—
Substantive testing approach	■
Risk highlighted by Council	—

Risk detail

- The net pension liability comprises the Council’s share of the market value of assets held in the pension fund and the estimated future liability to pay pensions administered by Surrey County Council.
- An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Planned audit approach

Our audit procedures will include the following:

- Agree the disclosures to the information provided by the pension fund actuary;
- Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data;
- Review the controls for providing accurate membership data to the actuary; and
- Check whether any significant changes in membership data have been communicated to the actuary.

ACCOUNTING FOR JOINT WASTE AND RECYCLING CONTRACT

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

Page 24

There is a risk the Council's application of gross accounting to this arrangement may not be appropriate.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- Waste and recycling bins across the Borough are emptied by Amey on behalf of Joint Waste Solutions (JWS). JWS manages waste and recycling services for Surrey Heath and three other local authorities in Surrey, with Surrey Heath Borough Council as the contract lead.
- The Council applies gross accounting to the Joint Waste and Recycling contract with three other local authorities. The arrangements suggest that Council may be acting as an agent in recharging costs to the local authorities rather than acting as principal in providing a service.
- There is a risk the Council's application of gross accounting to this arrangement may not be appropriate.

Planned audit approach

- Our audit procedures will include the following:
- We will review management's judgement in applying gross accounting to waste and recycling transactions having regard to the underlying arrangement between the Council and the other local authorities and concluded that the gross accounting principle applied is appropriate.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (IFRS 9)

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

There is a risk that financial instruments are not classified and measured in accordance with IFRS9.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation. CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.
- The Council has financial assets (CCLA Property Fund) designated as available-for-sale financial instruments that will need to be reclassified as Fair Value through Profit and Loss.
- The Council took a cash flow hedge on a forward starting loan in 2017/18 through to 2020/21 and 2021/22. The Council applied hedge accounting in the prior year. There is a risk that the adjustments to transition to IFRs 9 are not appropriately accounted for in the accounts.
- The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements.
- There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.

Planned audit approach

Our audit procedures will include the following:

- Review the work performed by the Council, once undertaken, to assess the new classification of financial instruments in accordance with the guidance; and
- Review the disclosures required relating to the adoption of the new accounting standard.

REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

There is a risk that revenue from contracts with customers is not measured in accordance with IFRS 15.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new ‘5-step model’ to determine the appropriate point at which revenue can be recognised.
- CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. Our initial review of revenue streams for local authorities suggests that there are unlikely to be material restatements required for the Council.
- The Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.
- There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard.

Planned audit approach

- Our audit procedures will include the following:
- Review the work performed by the Council, once undertaken, to assess the impact of the new ‘5-step model’ on revenue streams; and
 - Review the disclosures required relating to the adoption of the new accounting standard.

ACCOUNTING FOR INVESTMENT IN JERSEY PROPERTY UNIT TRUST

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

There is a risk that the accounting treatment of the investment in JPUT may not be appropriate.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

- In 2016/17, the Council acquired an investment property portfolio in the town through the purchase of a Jersey Property Unit Trust (JPUT). The JPUT is a non-corporate trustee arrangement common in Jersey for holding properties where the Council is the beneficiary but the JPUT is administered by trustees. These were shown in the Council's single entity financial statements as an investment in a subsidiary. In 2017/18, the Council reclassified the investment in its single entity financial statements as directly held investment properties and also produced group accounts to report sundry other amounts.
- It is necessary to consider whether the legal form of JPUT vehicle confers separation from the Council and, if there is no separation, the Council will account for this as a joint operation. In this case, management assert that the JPUT is a 'bare trust' so should account for the income / expenditure and assets / liabilities directly.
- It is unclear why the Council included the investment property directly but was also required to produce group accounts to include sundry other amounts through the JPUT.
- There is a risk that the financial statements may not be reporting income / expenditure and assets / liabilities consistently in the Council's single entity financial statements, or why there is a need to prepare group financial statements, based on the assessment that the JPUT is a 'bare trust'.

Planned audit approach

- Our audit procedures will include the following:
- Review management's judgement that the JPUT is a 'bare trust' based on the control exercised by the Council over the Trust and the role of the trustees;
 - Review the appropriateness of the basis of accounting for the income / expenditure and assets / liabilities of the JPUT through the Council's single entity financial statements; and
 - Understand the basis for including other amounts through group financial statements.

SUSTAINABLE FINANCES

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

The Council will need to deliver significant savings to maintain financial sustainability in the medium term and there is a risk that these savings may not be delivered.

Risk detail

- The Council set a Medium Term Financial Strategy (MTFS) covering the period 2020 to 2023. The MTFS identified a budget gap of £1.5 million created by reductions in income from property, grants and funding for capital programme. The gap is however forecast to reduce over time as property income from Camberley Town Centre recovers and debt is repaid.
- The Council identified savings plans and the delivery of additional income through investments as means to address the budget gap in the MTFS. The achievement of these efficiency targets are inherently challenging. The Council acknowledges that utilisation of reserves to cushion the gap will not be viable in the long term.

Planned audit approach

Our audit procedures will include the following:

- Review the assumptions used in the Medium Term Financial Strategy and assess the reasonableness of the cost pressures and the amount of Government grant reductions applied;
- Monitor the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and
- Review the strategies to close the budget gap after 2019/20.

Significant risk	■
Normal risk	—
Fraud risk	—
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	—
Controls testing approach	—
Detailed review	■
Risk highlighted by Council	—

OTHER MATTERS REQUIRING FURTHER DISCUSSION

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

Fraud

Whilst the Executive Head of Finance has ultimate responsibility for prevention and detection of fraud, and councillors have a duty to ensure there are adequate controls to reduce losses to fraud and corruption, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have been made aware of a number of low value actual, alleged or suspected incidences of fraud committed by users of the Council's services (claiming of council tax etc.). We request confirmation from the Audit and Standards Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Significant estimates

We will report to you on significant estimates. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historic judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Laws and regulations

We will consider compliance with Laws and regulations. The most significant of these for your business includes VAT legislation and Employment Taxes. We will make enquiries of management and review correspondence with the relevant authorities.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

Any other matters

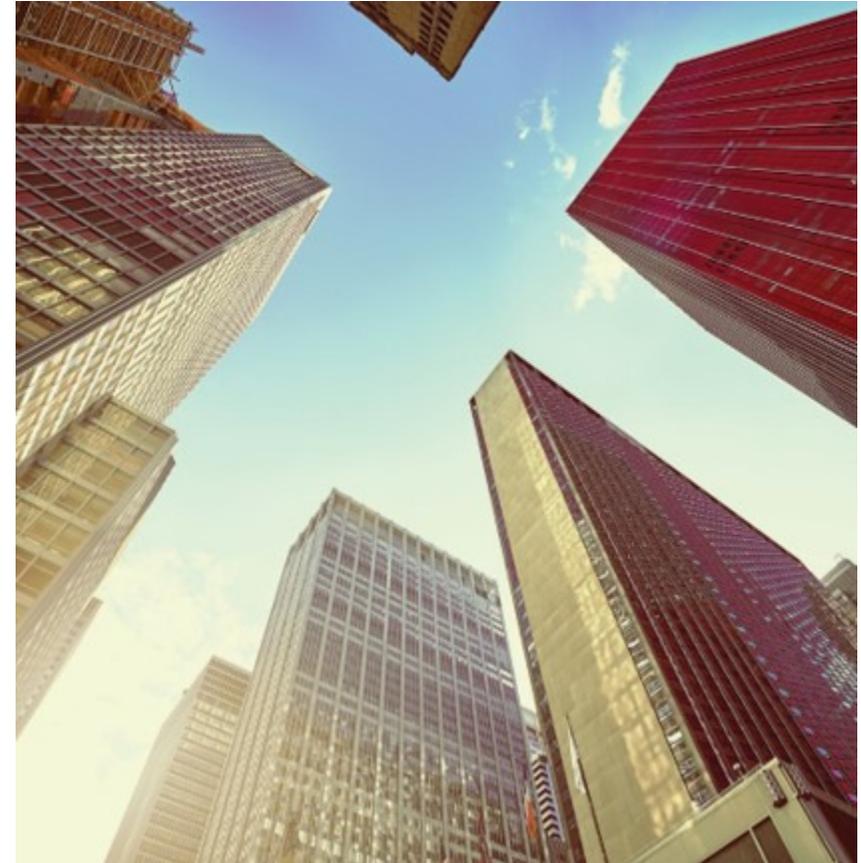
We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

IT GENERAL CONTROLS

IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.



CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Overview
Management override of controls
Revenue (and expenditure) recognition
Property, plant & equipment and investment property valuation
Pension liability valuation
Accounting for Joint Waste and Recycling contract
Classification and measurement of financial instruments (IFRS 9)
Revenue from contracts with customers (IFRS 15)
Accounting for investment in Jersey Property Unit Trust
Sustainable finances
Other matters requiring further discussion
IT general controls
Independence
Fees
Appendices contents

INDEPENDENCE

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Independence
Independence
Fees
Appendices contents

Under ISAs (UK) and the FRC’s Ethical Standard we are required, as auditors, to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ending 31 March 2019.

Non-audit services

Details of services and fees other than audit, provided by us to the Council during the period and up to the date of this report are set out in the appendices.

Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

Details of other threats and safeguards applied are given in the appendices.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council.

We also confirm that we have obtained confirmation of independence external audit experts involved in the audit comply with relevant ethical requirements including the FRC’s Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

SUMMARY

CONTENTS
Introduction
Executive summary
Audit scope and objectives
Audit risks
Independence
Fees
Summary
Appendices contents

Fees summary for year ending 31 March 2019

	2018/19 £	2017/18 £
Code audit fees	(1) 32,263	(2) 45,905
Total audit fees	32,263	45,905
Non audit fees		
Housing Benefit Subsidy certification	10,000	(2) 11,141
Non audit fees	10,000	11,141
Total fees	43,263	57,046

(1) PSAA has set the 2018/19 fee scale on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the fees applicable scale fee for 2017/18. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms’ costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs.

(2) KPMG were appointed as auditor for these audits in 2017/18 and we have reported their fees above. The planned Code audit fee for 2017/18 was £41,900. Additional fee of £4,005 was charged for the audit of the group accounts.

APPENDICES CONTENTS

A	Responsibilities	26
	Council's responsibilities	26
	Our responsibilities	27
	Communication with you	28
B	Independence	29
	Team Member rotation	29

C	Materiality	30
	Materiality: Definition and application	30
	Materiality: Definition and application	31
D	Audit quality	32
	Audit quality	32

COUNCIL’S RESPONSIBILITIES

The Council’s Responsibilities and Reporting

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality

Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council’s financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury’s Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing an Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Use of resources

Councils are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.

In preparing its governance statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

OUR RESPONSIBILITIES

Responsibilities and reporting

Our responsibilities and reporting - financial statements

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Annual Report such as the additional narrative reports. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the NAO and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

What we don't report

Our audit is not designed to identify all matters that may be relevant to the Council and Audit and Standards Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.



CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality

COMMUNICATION WITH YOU

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality

Those charged with governance

References in this report to Those Charged With Governance are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit and Standards Committee.

Communication, Meetings and Feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Planning Report

The Planning Report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal Controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit Completion Report

At the conclusion of the audit, we will issue an Audit Completion Report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the Audit Completion Report with you and having resolved all outstanding matters we will issue a final version of the Report.

TEAM MEMBER ROTATION

- CONTENTS
- Appendix contents
- Responsibilities
- Our responsibilities
- Communication with you
- Independence
- Materiality
- Materiality: Definition and application
- Audit quality

These tables indicate the latest rotation periods normally permitted under the independence rules for the terms of appointment by PSAA.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Leigh Lloyd-Thomas Engagement Lead	1	5 years
Michael Asare Bediako Audit Manager	1	10 years

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality

Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Instances when greater precision is required (e.g. senior managers remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

MATERIALITY: DEFINITION AND APPLICATION



If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit and Standards Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

CONTENTS

Appendix contents

Responsibilities

Our responsibilities

Communication with you

Independence

Materiality

Materiality: Definition and application

Audit quality

Page 39

AUDIT QUALITY

CONTENTS
Appendix contents
Responsibilities
Our responsibilities
Communication with you
Independence
Materiality
Materiality: Definition and application
Audit quality

BDO’s audit quality cornerstones underpin the firm’s definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external regulators, the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for all listed and public interest entities.

More details can be found in our Transparency Report at www.bdo.co.uk



FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7983 2616

e: leigh.lloyd-thomas@bdo.co.uk

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO is an award winning UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,500 offices in over 160 countries.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

© 2019 BDO LLP. All rights reserved.

www.bdo.co.uk

This page is intentionally left blank

**CERTIFICATION OF CLAIMS AND RETURNS
– ANNUAL REPORT 2017/18**

Portfolio	Corporate
Ward(s) Affected:	n/a

Purpose

To update Members on the outcome of the certifications of claims and returns for Housing Benefit for 2017/18

1. Background

- 1.2 The Council’s auditors KPMG are required to certify the accuracy of the Council’s claims and returns for Housing Benefit.
- 1.3 The purpose of this is to ensure that Benefit payments have been calculated correctly and then reclaimed from Government in line with regulations

2. Outcome

- 2.1 The Auditors have given an unqualified report for the return and their audit report is attached. They are not recommending any changes to processes or procedures.

3. Resource Implications

- 3.1 None other than audit fees.

4. Recommendation

- 4.1 Members are asked to note the report as attached and comment as appropriate.

Annex:

Annex A – Certification of Claims audit report 2017/18

Report Author: Kelvin Menon – Executive Head – Finance
kelvin.menon@surreyheath.gov.uk

Service Head: Kelvin Menon – Executive Head – Finance
kelvin.menon@surreyheath.gov.uk

This page is intentionally left blank



KPMG LLP
Audit
 15 Canada Square
 London E14 5GL
 United Kingdom

Tel +44 (0) 20 7311 1791
 Fax +44 (0) 20 7311 3311
 neil.hewitson@kpmg.co.uk

Private & confidential

Kelvin Menon
 Surrey Heath Borough Council
 Surrey Heath House
 Knoll road
 Camberley
 GU15 3HD

Our ref SHBC-01

Contact Satinder.jas@kpmg.co.uk

27 February 2019

Dear Kelvin

Surrey Heath Borough Council - Certification of claims and returns - annual report 2017/18

Public Sector Audit Appointments requires its external auditors to prepare an annual report on the claims and returns certified for each audited body. This letter is our annual report for the certification work we have undertaken for 2017/18.

In 2017/18 we carried out certification work on one claim: the Housing Benefit Subsidy claim. The certified value of the claim was £15.6million, and we completed our work and certified the claim on 29 November 2018.

Matters arising

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Our work identified three initial errors relating to miscalculating claimant income, not including eligible service charges to claimants rent and miscoding of the Housing Association provider. In addition, our extended sample testing due to these three errors identified two further errors in relating to calculating the claimant income. The total impact of the errors resulted in underpayments to the respective claimants. Therefore, the form has not been amended.

We did not raise any recommendations in relation to our work carried out in 2017/18.

Certification work fees

Public Sector Audit Appointments set an indicative fee for our certification work in 2017/18 of £11,411 exc. VAT. Our actual fee was £11,411 exc. VAT. This compares to the 2016/17 fee for this claim of £8,430 exc. VAT.

Yours sincerely



Neil Hewitson
Director, KPMG LLP

Internal Audit Report

Portfolio	Finance
Ward(s) Affected:	n/a

Purpose

To consider and approve the 2019-20 Annual Plan for the Internal Audit service

1. Background
 - 1.1 The Accounts and Audit Regulations require local authorities to maintain an adequate and effective system of internal audit of accounting records and of the system of internal control, in accordance with internal audit Standards. An Annual Plan for Internal Audit demonstrates how the Council will fulfil this requirement in accordance with the Public Sector Internal Audit Standards.
2. The Annual Plan
 - 2.1 The Annual Plan is a proposed work programme for the Internal Audit service for the next financial year. A copy of the plan is attached at Annex A, and covers the period April 2019 to March 2020. The Plan is a combination of reviews that are conducted every year, together with those audits that are undertaken less regularly such as ad hoc pieces of work, or audits conducted every 3 years.
 - 2.3 The Plan is based on the audit Strategic Plan, the 3-year medium term plan which is agreed at Members and senior officer level. This is the last year of the 3-year plan as it expires in March 2020.
3. Resourcing
 - 3.1 A total sum of 430 officer days will be required to deliver the Plan, and this doesn't take into account days off for annual leave, bank holidays and staff training. There are currently two FTE members of the audit team, a fully qualified Senior Auditor and a part qualified auditor. Additional resources may be brought in should it be necessary and after consultation with management.
4. Requirements of External Audit
 - 4.1 The Annual Plan includes a range of audits that have been required by the Council's external auditors in the past who have placed reliance on the work undertaken by Internal Audit as part of their audit of the Council's set of accounts. We understand that the external auditors reserve the right to re-perform or undertake additional testing in the areas that internal audit have reviewed such as debtors and creditors. Potentially this could lead to an additional cost to the Council.
5. Monitoring and reporting
 - 5.1 Progress against the Annual Plan is monitored throughout the year and reported to senior management and to Members every July at Audit and Standards. Material changes to the plan will be discussed and agreed in advance with the Executive Head and the Section 151 Officer as necessary.

5.2 Significant risks and findings identified by Internal Audit during the course of the year will be brought to the attention of the Chief Executive, the Section 151 Officer and senior management, and reported to Audit & Standards committee. Significant risks are also brought to the attention of the Council's Corporate Risk Management Group and considered for inclusion in the Corporate Risk Register, which is updated on an annual basis. Internal Audit recommendations are followed up and any that have not been implemented or discharged in line with agreed timescales are reported to senior management and the Audit & Standards committee.

6. Corporate Plan

6.1 The work of Internal Audit supports the Council's Corporate Annual Plan and helps to meet its corporate objectives and key priorities. The Internal Audit service is also an integral part of the Council's performance management system.

7. Resource implications

7.1 There are no resource implications arising from this report.

8. Recommendation

8.1 Members are asked to note and agree the internal audit Annual Plan for 2019-20.

Annex A: Annual Plan for 2019-20

Background Papers: None

Report Author: Alex Middleton 01276 707303
e-mail: alex.middleton@surreyheath.gov.uk

Executive Head: Louise Livingston 01276 707403
e-mail: louise.livingston@surreyheath.gov.uk

SURREY HEATH BOROUGH COUNCIL
INTERNAL AUDIT
ANNUAL PLAN 2019-20

BUSINESS ACTIVITY	IA PLAN ALLOCATION	CYCLE	LAST AUDIT
FINANCE/ FUNDAMENTAL SYSTEMS			
Debtors and Income	7 days	annual	18/19
Creditors and Expenditure	7 days	annual	18/19
Main Accounting system	7 days	annual	18/19
Housing Benefits	7 days	annual	18/19
Revenues	7 days	annual	18/19
Treasury Management	7 days	annual	18/19
Cash and Bank	7 days	annual	18/19
Capital Accounting	7 days	annual	18/19
CORPORATE			
Customer Services/Contact Centre	10 days	every 3 years	16/17
COMMUNITY			
Joint Waste	15 days	annual	18/19
Community Transport	10 days	every 3 years	16/17
Emergency Planning, Business Continuity	10 days	annual	18/19
Health & Safety	15 days	every 3 years	16/17
Licensing	15 days	every 3 years	16/17
BUSINESS			
Parking	15 days	annual	18/19
Camberley Theatre	15 days	annual	18/19
Leisure Centres	15 days	every 3 years	16/17
Event Management- inc. SH Show, FL Live	10 days	annual	18/19
Parks & Open Spaces	10 days	every 3 years	16/17
TRANSFORMATION			
ICT	15 days	annual	17/18
Payroll	7 days	annual	18/19
Economic Development	10 days	every 3 years	new
REGULATORY			
Planning Policy & Conservation	10 days	every 3 years	new
FINANCE			
Fraud Prevention & Detection	15 days	annual	17/18
LEGAL & PROPERTY			
Investment & Development	15 days	annual	new
Facilities	10 days	every 3 years	16/17
Corporate Property	15 days	annual	15/16
Building Control	12 days	every 3 years	16/17
MULTI SERVICE ACTIVITIES			
Grants	15 days	every 3 years	16/17
Procurement	15 days	every 2 years	16/17

TOTAL AUDIT DAYS

335

PLUS:

CONTINGENCY

30

MANAGEMENT AND COMMITTEE

15

ADVICE, CONSULTANCY, WORKING GROUPS

30

TEAM SUPERVISION, PLANNING

20

TOTAL DAYS REQUIRED TO COMPLETE PLAN

430

This page is intentionally left blank

APPOINTMENT OF POOL OF INDEPENDENT PERSONS

Portfolio:	Non Executive Function
Ward(s) Affected:	All

Purpose: To appoint a pool of Independent Persons until May 2023 as required by the Localism Act 2011.

1. Background

- 1.1. Previously the Council has appointed a pool of Independent Persons in accordance with the Localism Act 2011 until May 2019. It is now necessary to appoint a pool for a further term of four years as from May 2019.

2. Current Position

- 2.1. The current appointments will expire in May and advertising for replacements has been carried out by the participating authorities in accordance with the Localism Act. The consortium of councils consists of Mole Valley, Guildford, Waverley, Spelthorne, Epsom and Ewell and Reigate and Banstead, as well as Surrey Heath Borough Council. There are currently five people who form part of the pool across the authorities.

3. Options

- 3.1. Following advertising and interviews four existing IP's have expressed a wish to continue and three new applicants were interviewed by a group of Monitoring officers. The CV's of all seven candidates are attached. It is proposed that all seven be appointed by Surrey Heath Borough Council. The consortium authorities have been operating a protocol to deal with the practical issues of dealing with complaints, including any conflicts of interest, common processes and arrangements for dealing with complaints. Training will be provided to the pool members.
- 3.2. Surrey Heath Borough Council is able to join this consortium.

4. Proposal

- 4.1. It is therefore proposed to appoint the following persons to carry out the role of Independent Persons:

- Roger Pett
- Vivienne Cameron
- Bernard Quoroll
- John Smith
- Liz Lawrence
- Bill Donnelly
- Paul Eaves

5. Resource Implications

- 5.1. None

6. Recommendation

6.1. It is recommended that the Audit and Standards Committee recommend to Full Council that they appoint the following persons to be Independent Persons in accordance with the Localism Act 2011 until May 2019:

- Roger Pett
- Vivienne Cameron
- Bernard Quoroll
- John Smith
- Liz Lawrence
- Bill Donnelly
- Paul Eaves

Background Papers: None
Author: Karen Limmer Monitoring Officer
karen.limmer@surreyheath.gov.uk