



Report to the Audit and Standards Committee

# SURREY HEATH BOROUGH COUNCIL

Audit Completion Report: Year ended 31 March 2019

IDEAS | PEOPLE | TRUST

**BDO**

# CONTENTS

1	Introduction	3	6	Audit differences	31
	Welcome	3		Unadjusted audit differences: summary	31
2	Executive summary	4		Unadjusted audit differences: detail	32
	Overview	4		Unadjusted disclosure omissions and improvements	34
	The numbers	5		Adjusted audit differences: summary	35
	Other matters	6		Adjusted audit differences: detail	36
3	Financial statements	7		Adjusted disclosure omissions and improvements	39
	Audit risks overview	7	7	Other reporting matters	40
4	Significant risks	8		Reporting on other information	40
	Management override of controls	8		Whole of Government Accounts	41
	Revenue and expenditure recognition	9	8	Use of resources	42
	PPE and investment properties	10		Audit risks overview	42
	Pension liability valuation	16		Sustainable finances	43
5	Other risks	19	9	Control environment	44
	Accounting for Joint Waste and Recycling contract	19		Significant deficiencies	44
	Financial instruments (IFRS 9)	20		Other deficiencies	45
	Revenue from contracts (IFRS 15)	21	10	Audit report	46
	Accounting for investment in JPUT	22		Overview	46
	Other matters	23	11	Independence and fees	47
	Matters requiring additional consideration	30		Independence	47
				Fees	48

# WELCOME

## Introduction

### Contents

#### Introduction

#### Welcome

#### Executive summary

#### Financial statements

#### Significant risks

#### Other risks

#### Audit differences

#### Other reporting matters

#### Use of resources

#### Control environment

#### Audit report

#### Independence and fees

#### Appendices contents

We have pleasure in presenting our Audit Completion Report to the Surrey Heath Borough Council. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

This report updates the Committee of the findings and conclusion from the remaining issues from the audit that we brought to your attention in our report and presentation to you on 22 July 2019.

It summarises the results of completing the planned audit approach for the year ended 31 March 2019, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of our audit of the financial statements and use of resources comprising: audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit and Standards Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.



Leigh Lloyd-Thomas

25 February 2020



**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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Standards Committee and those charged with governance. 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.

# OVERVIEW

## Executive summary

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

This summary provides an overview of the audit matters that we believe are important to the Audit and Standards Committee in reviewing the results of the audit of the financial statements of the Council and use of resources of the Council for the year ended 31 March 2019.

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



### Overview

Our audit work is complete and we anticipate issuing our opinion on the financial statements and use of resources for the year ended 31 March 2019.

We are required to bring to your attention a significant change to the audit approach from that reported in the Audit Plan. At the meeting to discuss the Audit Plan on 25 March 2019, we reported that overall financial statements materiality would be set by reference to gross expenditure levels.

We have since adopted an assets based overall financial statements materiality. This is due to the Council now directly accounting for the assets of the Jersey Property Unit Trust (JPUT) and the significant value of land, buildings and investment property held by the Council to generate income to support the activities of the Council. We continue to apply a lower specific materiality to the Comprehensive Income and Expenditure Statement where this impacts on the reported financial outturn from revenue resources and the impact on revenue reserves.

Details of the materiality levels adopted are shown on the next page.

There were no additional significant audit risks identified.

No restrictions were placed on our work.

### Audit report

We anticipate issuing an unmodified audit opinion on the financial statements.

We are proposing to issue an unqualified use of resources conclusion.

# THE NUMBERS

## Executive summary

Contents
Introduction
Executive summary
Overview
The numbers
Other matters
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

### Final materiality

The financial statements materiality of £4.5 million was determined based on a benchmark of 2% of long term assets (£224 million).

Specific materiality for the comprehensive income and expenditure statement (CIES) of £1.3 million was based on 2% of gross expenditure (£69 million).

### Material misstatements

We identified the following material misstatement that management has corrected:

- Freehold interest in the JPUT land £4.5 million was included in both the Council's assets and valuation of the shopping centre.
- Net gain from property disposals had been incorrectly presented as gross income £4.9 million and expense £3.6 million in net cost of services rather than other operating costs.
- While JPUT assets and income transferred to the Council were included in the financial statements, other income £3.3 million, expenditure £3.1 million, assets £6.4 million and liabilities £6.1 million were omitted.
- Financial liability for the forward loan agreement of £1.1 million should not be included as a financial derivative liability.
- £19.7 million of expenditure for pension cost, depreciation and impairments had been incorrect included as other costs rather than reported in cost of services.

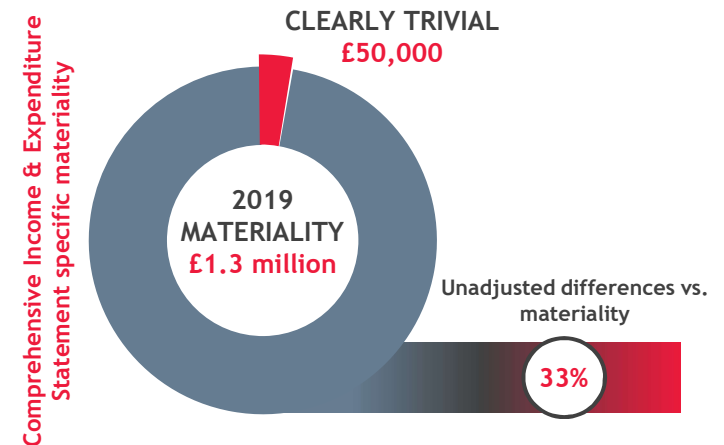
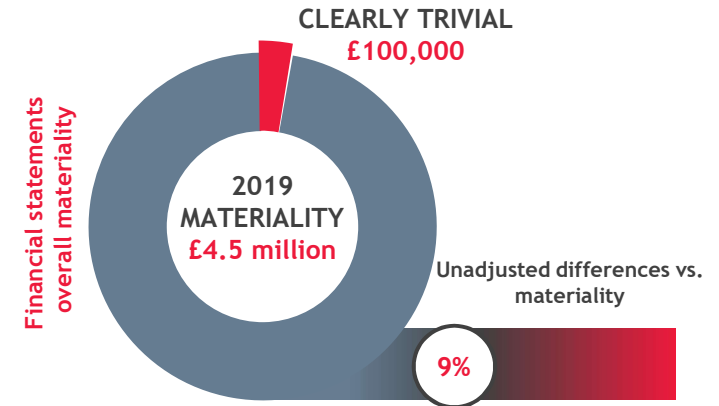
As a result of some of these also being misstatements in the prior year, the opening balance sheet at 1 April 2018, 2017/18 CIES and 31 March 2018 balance sheet have also required restatement.

The overall impact of these material and other non-material adjustments has been to decrease net assets at 31 March 2019 by £4.672 million (to £24.043 million) and increase the deficit on the provision of services for the year by £5.032 million (to £14.927 million).

Many of these misstatements relate to items that are subject to statutory adjustments and the impact on the General Fund balance was an increase of £0.272 million.

### Unadjusted audit differences

We identified remaining audit differences above our trivial reporting threshold that, if corrected, would increase the deficit on the provision of services by £423,000 and reduce net assets by the same amount.



# OTHER MATTERS

## Executive summary

### Contents

Introduction

Executive summary

Overview

The numbers

Other matters

Financial statements

Significant risks

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

### Financial reporting - Significant policy changes

The Council has implemented a significant accounting policy change in respect of the JPUT. In previous years, the Council included the property asset held in the JPUT in its own financial statements (that perhaps should have been recorded as an investment in a subsidiary), and prepared Group financial statements to consolidate the remaining amounts from the JPUT.

It has since been determined that through the nature of the trust relationship, the Council has control over the underlying assets and liabilities of the JPUT and therefore should account for all transactions and balances directly into the Council's financial statements.

### Financial reporting - Other matters

We noted that the Council disclosed the accounting policies before the primary statements which is inconsistent with the CIPFA code guidance.

No other significant accounting policy changes have been identified impacting the current year. IFRS 9 financial instruments and IFRS 15 revenue from contracts with customers has not had a material impact.

Going concern disclosures are deemed sufficient.

The Narrative Report and other information included in the Statement of Accounts with the financial statements is consistent with the financial statements and our knowledge acquired in the course of the audit.

The Annual Governance Statement is not inconsistent or misleading with other information we are aware of.

We have completed our review of the Whole of Government Accounts Data Collection Tool (DCT) after we have completed our audit of the financial statements.

### Other matters that require discussion or confirmation

- Confirmation on fraud, contingent liabilities and subsequent events.
- Letter of Representation.

### Independence

We confirm that the firm and its partners and staff involved in the audit remain independent of the Council in accordance with the Financial Reporting Council's Ethical Standard.



## AUDIT RISKS OVERVIEW

As identified in our Audit Plan dated 4 March 2019 we assessed the following matters as being the most significant risks of material misstatement in the financial statements. These include those risks which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit and the direction of the efforts of the engagement team.

Audit Risk	Risk Rating	Significant Management Estimates or Judgement	Use of Experts Required	Error Identified	Significant Control Findings	Discussion points / Letter of Representation
Management override of controls	Significant	No	No	No	No	No
Revenue and expenditure recognition	Significant	No	No	No	No	No
Property, plant and equipment and investment property valuation	Significant	Yes	Yes	Yes	No	JPUT valuation and benchmark yields
Pension liability valuation	Significant	Yes	Yes	Yes	No	To note the impact of McCloud and GMP on pension liabilities
Accounting for Joint Waste and Recycling contract	Normal	Yes	No	No	No	
Classification and measurement of financial instruments (IFRS 9)	Normal	No	No	Yes	No	To note restatement for forward rate loan and financial liability derivative
Revenue from contracts with customers (IFRS 15)	Normal	No	No	No	No	No
Accounting for investment in JPUT	Normal	Yes	No	Yes	No	To note the change in basis of accounting for the JPUT

 Areas requiring your attention

Contents
Introduction
Executive summary
Financial statements
Audit risks overview
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# MANAGEMENT OVERRIDE OF CONTROLS

Contents
Introduction
Executive summary
Financial statements
<b>Significant risks</b>
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

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

<b>Significant risk</b>
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

**Risk description**

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.

Under auditing standards there is a presumed significant risk of management override of the system of internal controls that could conceal fraudulent transactions or result in material misstatement in the financial statements.

**Work performed**

We carried out the following planned audit procedures:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Reviewed unadjusted audit differences for indications of bias or deliberate misstatement.

**Results**

Our detailed testing of a sample of journals has not identified any significant issues.

We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report and we draw your attention to the assumptions used in the valuation of the JPUT shopping centre.

We have identified no significant or unusual transactions to date which we consider to be indicative of fraud in relation to management override of controls.



# REVENUE AND EXPENDITURE RECOGNITION

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

## Risk description

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 fees and charges in the comprehensive income and expenditure statement (CIES). In our Audit Plan we referred to the risk in relation to recognition for revenue and capital grants that are subject to performance conditions. This revenue was deemed not to present fraud risk as the revenue for grants with conditions was £1.05 million, and therefore our testing focused on fees and charges revenue.

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.

## Work performed

We carried out the following planned audit procedures:

- Tested a sample of fees and charges in income to documentation and checked whether income has occurred during the year and recognised appropriately; and
- Tested 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.

## Results

Our sample testing of fees and charges did not identify any errors in the recognition of income.

Our expenditure cut off testing did not identify any errors in the recognition of expenditure in the correct period.

However, we noted that invoices totalling £170,000 relating to 2019/20 were raised before year end and initially recorded as income and debtors. The correcting journal to remove this from income in 2018/19 was incorrectly processed by increasing creditors rather than reducing debtor, resulting in a grossing up error in debtors and creditors. This presentational misstatement has not been corrected (Unadjusted #Ref 1).

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# PPE AND INVESTMENT PROPERTIES

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

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

## Risk description

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.

Revaluations 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.

## Work performed

We carried out the following planned audit procedures:

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

## Results

Our review of instructions to the valuer including the valuer's skills and expertise did not identify any issues. We also confirmed the basis of valuation for assets valued in year is appropriate and in line with Code, although we have requested a specific representation to confirm that it is appropriate to include the JPUT shopping centre as operational Property, Plant and Equipment rather than Investment Property based on the purpose for holding this asset. We have confirmed the accuracy and completeness of asset information provided to the valuer by agreeing information to source data such as lease agreements and floor plans.

The results of our review of the assumptions and estimates used by the valuer for classes of assets is reported on the following pages.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# PPE AND INVESTMENT PROPERTIES 2

## Significant estimate

### Other land and buildings at Existing use value (Council £2 million revalued in year)



Other land and buildings, excluding the JPUT shopping centre, valued at existing use current value has been revalued upwards by £0.45 million (0.3%). 6 assets were revalued in the year.

MCSI regional capital growth indices show regional price movements of -4.1% for retail, +1.7% for office, +4.30% for industrial, and -0.40% for houses for the period Q1 2018 to Q1 2019 (as the effective date of the Council's valuations is 31 December 2018 with further review on 31 March 2019).

The Council's other land and building comprise a mix of asset types.

The variances observed is largely as a result of upward movements on London road recreational grounds of £0.23 million. We noted that the valuation for recreational grounds applies a cost price that reflects commercial or residential land. This more appropriately reflects the price of acquiring replacement land in the borough since it is likely that such land would obtain mixed use planning consents.

We are satisfied that the valuations for other land and buildings directly held by the Council at existing use value is reasonable.

### Other land and buildings at Existing use value (JPUT shopping centre £82 million)



Other land and buildings include The Main Square Camberley Shopping Centre with a valuation of £82 million. The Council considers this asset as supporting its long term regeneration strategy and therefore has classified this as Property, Plant and Equipment (PPE) rather than investment properties. The Code does allow such assets to be classified as PPE where assets are not held 'solely' for income generation or capital appreciation. Whilst it would appear that the net income generated from rents is being used to support the Council's budget, rather than deliver of services, we accept that it may be appropriate to classify this asset as PPE where this forms part of the Council's economic regeneration strategy. We have requested a specific representation to confirm that this asset is held for economic regeneration rather than income.

Our review of the asset register found that the Council had included its freehold in the land (and ground rents) at £4.5 million and that this had also been included in the JPUT valuation, resulting in double counting of the land / marriage value of the shopping centre freehold and leasehold.

The Council has corrected this by reducing the value of the shopping centre for the double counted element of the land (Adjusted #Ref 1).

*Continued next page*

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# PPE AND INVESTMENT PROPERTIES 3

## Significant estimate

### Other land and buildings at Existing use value (JPUT shopping centre £82 million) continued

The valuation of the shopping centre was undertaken by Montague Evans as at 31 December 2018. This used the passing rents and forecast reversionary rents for each lease at the next rent review date, along with assumptions around potential leases for vacant units, and discounted these rents at a yield based on the covenant strength of the tenant to provide a valuation for the centre. This resulted in a blended overall yield at 6.37%. The valuer provided an updated valuation at 31 March 2019 using the same yields from the December valuation but to reflect changes to negotiated rents in that subsequent three months. This resulted in a blended yield falling to 6.32%.

We compared the yield applied to the valuation of the shopping centre with benchmark yields used by other valuers based on recent sales and expectations:

	Regional dominant	Dominant Prime	Town Dominant	Secondary
<b>Knight Frank</b>				
Dec 2018	5.25%	7.25%	9.00%	10.00+%
March 2019	5.25%	7.25%	9.00%	10.00+%
<b>CBRE</b>	<b>Prime</b>		<b>Best secondary</b>	<b>Secondary</b>
Dec 2018	5.25%		7.75+%	9.50+%
March 2019	5.25%		8.00%	10.00+%

The valuer of the Council's directly held retail assets, Wilks Head and Eve, have valued the retail units and Princes Way at 9% market yields.

Our expectation for the overall yield applied to the shopping centre at March 2019 would be between 8.0% to 9.0%. We note that yields on sales for the retail sector, including shopping centres, have softened for all except the most desirable locations as buyers price in rent risks from CVAs and void units, and would have regard to the loss of BHS in the town and the difficulties experienced by the anchor tenant, House of Fraser, and its renegotiated rents when assessing the risk to the quality of the rents on this asset.

We discussed this with the valuer who responded that local factors such as the quality and strength of the existing leases and tenants, relative wealth of residents in the area as well as recent capital expenditure on improvements would make this shopping centre more attractive to investors who would use lower yields when valuing the strength of the rental income.

We consider that a blended yield of 6.32% at 31 March 2019 is optimistic and tends towards the very top an acceptable range, but not unreasonable based on the explanations provided by the valuer. We estimate that the valuation would reduce by an additional £12 million at 7.5% yield, £16 million at 8% and £23 million at 9%.

However, we have sought specific representations from you, having taking appropriate professional advice and noted our comments above, that you confirm that the use of a blended yield of 6.32% is appropriate for the valuation of the shopping centre.

*Continued next page*

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# PPE AND INVESTMENT PROPERTIES 4

## Significant estimate

### Other land and buildings at Existing use value (JPUT shopping centre £82 million) continued

The valuers have separately assessed the value of the House of Fraser store and adjoining unit at £5 million.

The unit remains occupied at ground and first floor level although no rent is currently receivable under the re-negotiated position with the new owners. The current valuation has been based on the assumption of potential future income from the current tenant reverting to the original lease payments or an alternative tenant. The valuers have assumed the upper floors will be converted to a serviced office use at a cost of £2.5 million and will generate income to support the £5 million overall valuation of the unit.

We consider the valuation reasonable given the possibility of a new tenant and the potential income available from the converted office space.

### Surplus assets at fair value (£1 million revalued in year)

< lower valuation



> Higher valuation

Surplus assets are valued at fair value (highest and best use) by reference to similar sales and potentially including an increase where the purchaser may be able to amend the consents for use and increase the value of the asset.

Surplus assets have seen an overall revaluation increase of £36,700 (3.8%) from £961,200 to £997,000.

We are satisfied that the valuations for surplus assets are reasonable.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# PPE AND INVESTMENT PROPERTIES 5

## Significant estimate

### Buildings at Depreciation Replacement Costs including theatre and leisure centres (£17 million revalued in year)



Specialised assets such as theatres and leisure centres are valued on Depreciated Replacement Cost basis and it involves estimating the build cost of a modern equivalent asset to which adjustments are made for physical, economic and functional obsolescence and external environmental factors. The Council valued its two specialised assets in year (Camberley Theatre and the Arena Leisure Centre).

The theatre valuation decreased by 16% from £5.6 million to £4.8 million and the leisure centre valuation decreased by 13% from £12.9 million to £11.6 million.

BCIS Public Sector TPI index suggests that the rebuild costs would increase by 2.4% based on national indices.

We noted that the valuer has used appropriate tender rebuild prices provided by RICS with a location cost adjustment, using an appropriate rebuild cost per square foot for each type of property. The valuer has applied an ageing adjustment using the original build date of the property and standard useful economic lives for each type of property to reflect the percentage of the remaining economic. The fall in valuation resulted from the valuer reducing the remaining expected useful economic life for these buildings compared to the assumptions used in the previous valuations (theatre now 51 years and leisure centre 50 years).

We are satisfied that the valuations for other land and buildings based on depreciated replacement cost valuations are reasonable.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# PPE AND INVESTMENT PROPERTIES 6

## Significant estimate

### Investment properties at fair value (£71 million including £23 million acquired in-year)



Investment properties are valued at fair value (highest and best use) usually based on the current and future potential rent yields or land sales for development land. This could potentially include an increase where the purchaser may be able to amend the consents for use or develop the property and increase the value of the asset.

Investment property valued in year was £71 million that included £23 million in year acquisition. Investment property has seen an increase in valuation of £1.2 million (3%) when the revalued additions are excluded. MCSI regional capital growth indices show regional price movements of -4.1% for retail, +1.7% for office and +4.30% for industrial for the period Q1 2018 to Q1 2019 (as the effective date of the Council's valuations is 1 December 2018 and 31 March 2019).

The valuer has applied yields on car park income at 8% to 9%, offices at 8% to 9%, business park and light industrial units at 5.5% to 8%, retail at 9% and ground rents at 4.5%. Development land has been estimated at £75,000 per hectare.

We noted that upward increase was mainly due to an increased valuation on THE Albany warehouse by £0.58 million. The site was acquired in December 2016 with multiple lettings with both fixed and open market rent reviews. There is only one year left on the existing lease and valuer applied a higher rent reversion amount to support this increased valuation.

The Council also acquired two properties during the year and valued these properties. The purchase price for these properties was £27 million and was subsequently valued down to £23 million. The valuer has based valuation on rent reversion based on recent lettings within the estate. The property consists of 9 industrial units with various existing lease terms on acquisition and all expiring within the next 2 years.

Overall we are satisfied the valuation of investment properties is within a reasonable range.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# PENSION LIABILITY VALUATION

**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	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

## Risk description

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. 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.

## Work performed

We carried out the following planned audit procedures:

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

## Results

We have agreed the disclosures to the information provided by the actuary and identified no issues. We noted that the Council did not disclose the basis for estimating the scheme's assets and liabilities. The composition of the scheme's assets was not disclosed in the accounts. We have reported these as disclosure errors.

We have obtained assurance over the controls operated by the administering authority over the accuracy of the membership data and the information communicated to the actuary to support the liability valuation at 31 March 2019.

Management confirmed that there are no significant changes in membership and this is consistent with our knowledge of the Council.

Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents



# PENSION LIABILITY VALUATION 2

## Significant estimate

### Pension liabilities (£126 million)

< lower valuation

> Higher valuation

The Council's pension liability has increased from £116 million to £126 million and its share of the scheme assets increased from £77 million to £82 million. The net deficit increased by £5 million to £44.5 million mostly due to changes in financial assumptions including annual salaries increases above CPI at 2.8% (previously 2.7%), annual pension increases of 2.5% (previously 2.4%), and a change in the rate of discounting scheme liabilities to 2.4% (previously 2.6%).

We have compared the key financial and demographic assumptions used to an acceptable range provided by a consulting actuary commissioned for local public auditors by the NAO.

	Actual used	Acceptable range	Comments
<b>Financials:</b>			
- RPI increase	3.5%	3.4 - 3.50%	Reasonable
- CPI increase	2.5%	2.4 - 2.50%	Reasonable
- Salary increase	2.8%	1.0 - 3.50%	Reasonable - short term assumption of +1% and post 2020 set in line with RPI
- Pension increase	2.5%	2.4 - 2.50%	Reasonable
- Discount rate	2.4%	2.4 - 2.50%	Reasonable
Commutation:	25% / 63%	25 - 75%	Reasonable - pre 2008 scheme 25% and post 2008 63%
<b>Mortality:</b>			
- Male current	24.1 years	23.7 - 24.4	Reasonable
- Female current	26.4 years	26.2 - 26.6	Reasonable
- Male retired	22.5 years	21.5 - 22.8	Reasonable
- Female retired	24.6 years	24.1 - 25.1	Reasonable
Mortality gains	CMI 2013 (+1.25% improvement rate) with Club Vita local adjustments		Reasonable

We consider that the assumptions and methodology used by the Council's actuary are appropriate, and will result in an estimate of the net pension liability which falls within a reasonable range.

We note that the consulting actuary has stated that the assumptions used by Hymans Robertson do tend to produce slightly higher liabilities calculations than the other actuaries, and the relative liability compared to assumptions used by others could result in a liability being at 103.1% using an average of all the actuaries.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Management override of controls
Revenue and expenditure recognition
PPE and investment properties
PPE and investment properties 2
PPE and investment properties 3
PPE and investment properties 4
PPE and investment properties 5
PPE and investment properties 6
Pension liability valuation
Pension liability valuation 2
Pension liability valuation 3
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# PENSION LIABILITY VALUATION 3

## Significant estimate

### McCloud age discrimination

Following the ruling on age discrimination in the McCloud case, where members approaching retirement age received protected benefits moving to the career average relevant earnings scheme from the final salary scheme but employees more than 10 years from retirement did not receive this underpin of benefits, Government will have to remedy the discrimination in the LGPS.

The Government Actuary Department has undertaken an LGPS-wide impact assessment and a worse case scenario suggests that the liability could increase by up to 3.2% for active members where the remedy would be for all staff to receive the underpin, and using a model with an average member age of 46 and salaries increasing at +1.5% above CPI.

At the time of drafting the financial statements, Government had announced that it would seek leave to appeal the High Court judgement and CIPFA had advised reporting this potential pension cost as a contingent liability disclosure rather than including a liability in the balance sheet. Subsequent to the draft accounts being prepared, the Government was refused leave to appeal and this required the recognition of the liability as an adjustment to the draft accounts.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Council's liability could increase by £183,000 (0.15%). This is lower than forecast by GAD using a worse case scenario.

Management has agreed to correct this error (Adjusted #Ref 2).

### GMP equalisation

Following a ruling on gender discrimination in the Lloyds Banking Group case, the courts found that UK defined benefit schemes must equalise Guaranteed Minimum Pensions (GMP). The Government's interim solution, originally in place from 2016 to 2018, has been extended to 2021 and it is not yet clear whether the LGPS (through employers) or Government will fund these additional costs after 2021.

An LGPS wide assessment of additional liabilities arising from GMP equalisation for the interim solution between 2016 to 2018, the extension from 2018 to 2021, and potential post 2021 costs falling on the LGPS could increase liabilities by +0.3%.

The Council has obtained an updated valuation of the liability to take account of the impact of this ruling. This suggests that the Council's liability could increase by £413,000 (0.34%) and within our expectations.

Management has agreed to correct this error (Adjusted #Ref 3).

#### Contents

Introduction

Executive summary

Financial statements

Significant risks

Management override of controls

Revenue and expenditure recognition

PPE and investment properties

PPE and investment properties 2

PPE and investment properties 3

PPE and investment properties 4

PPE and investment properties 5

PPE and investment properties 6

Pension liability valuation

Pension liability valuation 2

Pension liability valuation 3

Other risks

Audit differences

Other reporting matters

Use of resources

Control environment

Audit report

Independence and fees

Appendices contents

# ACCOUNTING FOR JOINT WASTE AND RECYCLING CONTRACT

Contents
Introduction
Executive summary
Financial statements
Significant risks
<b>Other risks</b>
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

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

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

**Risk description**

Waste and recycling services across the Borough are provided 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 brought it to our attention that they have applied 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.

**Work performed**

We carried out the following planned audit procedures:

- We have reviewed management’s judgement in applying gross accounting to waste and recycling transactions in the previous year’s financial statements having regard to the underlying arrangement between the Council and the other local authorities.

**Results**

Ahead of the Council preparing the financial statements for 2018/19, we reviewed the contract to assess whether the Council was acting as agent (net accounting) on behalf of each council or as principal (gross accounting) thereby taking the contracting risks on behalf of the other councils. Our review of these arrangements suggested that the Council is acting as a host agent for each of the participating councils and should not be accounting for this as a principal (gross accounting), only accounting for its share of the costs of the services. Transactions on behalf of the other councils should simply be recorded as balance sheet personal account balances to recognise the difference between amounts paid on behalf the other councils and the amounts collected.

During our interim audit we identified that management had applied gross accounting to the Joint Waste Solutions contract. We brought the issue to management’s attention and they correctly prepared the 2018/19 financial statements on the net basis of accounting.

# FINANCIAL INSTRUMENTS (IFRS 9)

There is a risk that related party disclosures are not complete and accurate.

## Risk description

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.

There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard.

## Work performed

We carried out the following planned audit procedures:

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

## Results

The Council has applied the historical default rates (incurred losses) using system data to determine the credit losses on trade receivables within the scope of IFRS 9, but has not updated this to reflect expected (future) credit losses. However, this is unlikely to result in a material difference in the amount of credit losses recognised. The disclosures around forward looking information used, the use of the simplified approach and the type of debtors this has been applied to should also be improved

The Council reclassified the CCLA property Fund from available-for-sale financial instruments to fair value through profit and loss as required. All other financial instruments have been appropriately reclassified.

We noted that the Council has applied hedge accounting to its loan commitment of £50 million with Phoenix Life. Our review would suggest that a loan commitment does not meet the requirements to be included as a financial liability under IFRS 9 requirements and once drawn the loan is likely to be measured at amortised cost with no fair value adjustment through the financial statements. The Council recognised fair value movements as a hedge liability of £0.86 million in the current year and £1.98 million in the prior year in other comprehensive income due to a change in fair value of the loan commitment, and a total derivative liability of £1.12 million in the balance sheet.

Management has corrected this (Adjusted #Ref 4).

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# REVENUE FROM CONTRACTS (IFRS 15)

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

## Risk description

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. 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.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the work performed by the Council to assess the impact of the new ‘5-step model’ on revenue streams on both the Council and JPUT; and
- Reviewed the disclosures required relating to the adoption of the new accounting standard.

## Results

Our review of the revenue streams suggests that the recognition of revenue in terms of IFRS 15 is not different to how revenue was not recognised previously and no restatement in opening reserve would be required for the Council.

Significant risk
Normal risk
Significant management judgement
Use of experts
Unadjusted error
Adjusted error
Additional disclosure required
Significant Control Findings
Letter of Representation point

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# ACCOUNTING FOR INVESTMENT IN JPUT

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

## Risk description

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 2016/17. 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 in the JPUT.

There is a risk that the financial statements may not be reporting the JPUT appropriately in the Council's accounts and the JPUT may be a 'bare trust' arrangement where the transactions and balances should be recorded directly into the Council's financial statements.

## Work performed

We carried out the following planned audit procedures:

- Reviewed the arrangements for the administration of the trust and the Councils control over the Trust; and
- Reviewed 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.

## Results

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, following detailed review, we agreed with management that the JPUT is a 'bare trust' and it would be appropriate for the Council to directly account for the income / expenditure and assets / liabilities directly into the Council's accounts. No separate Group consolidated financial statements would be required.

However, the financial statements included only the investment property and the dividends received from the JPUT of £3.926 million in its financial statements but failed to include the JPUT's expenditure of £3.093 million, income £7.291 million, creditors £6.998 million, cash and bank £1.982 million, interest expense £0.208 million and debtors £2.537 million (Adjusted #Ref 6).

Management corrected these errors in the current year and restated the prior year financial statements to include all the transactions and balances of the JPUT within the Council's single entity financial statements.

We identified that £158,000 long term creditors of the JPUT was misclassified as short term creditors. Management has corrected this misclassification (Adjusted #Ref 11).

Significant risk	
Normal risk	
Significant management judgement	
Use of experts	
Unadjusted error	
Adjusted error	
Additional disclosure required	
Significant Control Findings	
Letter of Representation point	

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# OTHER MATTERS

The following are additional significant and other matters arising during the audit which we want to bring to your attention.

Issue	Comment
We identified that £4.9 million proceed from disposal and £3.2 million carrying value of the property disposed was included on a gross basis in the net cost of service line in the Comprehensive Income and Expenditure Statement instead of a net basis in the other operating and expenditure line in the Comprehensive income and Expenditure line as part of the gain and loss on disposal (Adjusted #Ref 9).	Management has corrected this error.
We identified that investment property with a carrying value of £843,000 disposed off during the year was incorrectly shown in the property plant and equipment note as held for sale instead of disposal. Management has incorrectly classified this in the note as a disposal of property plant and equipment rather than as a disposal of investment property (Unadjusted #Ref 7).	Unadjusted error.
We noted that NDR safety net payment of £129,435 due to Surrey County Council was incorrectly classified as grant income (Unadjusted #Ref 2).	Unadjusted error
We identified that the Council netted its share of the NDR appeals provision of £534,000 against its debtors balance at year end. This resulted in understatement of debtors and provisions (Adjusted #Ref 8).	Management has corrected this error.
As part of the revised pension liability report from the actuary, we note that the actuary has decreased the Council's share of the pension fund assets from £81.878 million to £80.916 million, a decrease of £962,000 (Adjusted #Ref 7).	Management has corrected this error.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# OTHER MATTERS 2

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

Issue	Comment
<p>We identified that the Code and IAS 7 requirement to for an additional cash flow disclosure to reconcile the movement in financial liabilities in the balance sheet with the cash flow statement for cash movements and other non-cash movements was not complied with it.</p> <p>We have reported this as a presentation error.</p>	Management has corrected this error.
<p>We identified that NDR debts of £366,000 was incorrectly included as part creditor balance at year end resulting in overstatement of creditors and debtors. We have included this in our schedule of unadjusted errors (Unadjusted #Ref 3).</p>	Management has not corrected this error.
<p>We identified that Council tax debts of £249,000 impaired was incorrectly included as part of creditor balance at year end resulting in overstatement of creditors and debtors. We have included this in our schedule of unadjusted errors (Unadjusted #Ref 4).</p>	Management has not corrected this error.
<p>We identified creditors totalling £214,000 was misclassified as debtors resulting in understatement of debtor and creditor balance at year end. We have included this in our schedule of unadjusted errors (Unadjusted #Ref 5).</p>	Management has not corrected this error.
<p>We identified that NDR transitional protection payment of £415,000 was incorrectly included as debtors even though £65,000 net payable to central government had already been accounted for (Unadjusted #Ref 8).</p>	Management has not corrected this error.



# OTHER MATTERS 3

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

Issue	Comment
<p>We identified that £22.124 million of depreciation charges and impairment was incorrectly presented below net cost of services but should have been allocated to the appropriate service line in the CIES. However, management in correcting this presentational error adjusted £24.771 million which included £2.647 million which should be presented below the line (Adjusted #Ref 10) and (Unadjusted #Ref 8).</p>	<p>Management has partly corrected this error.</p>
<p>We identified the following presentational and disclosures issues in the cash flow statement:</p> <ul style="list-style-type: none"> <li>Comparative cash and cash equivalent at the beginning and end of the reporting period did not agree to the cash and cash equivalent balance in the balance sheet.</li> <li>Comparative adjustments for non cash items did not agree to the corresponding notes by £2.789 million.</li> </ul> <p>We have reported this as a presentation error.</p>	<p>Management has corrected this error.</p>
<p>We identified that the EFA analysis did not include adjustments to net cost of services even though there were cost items that needed to be included in the net cost of service.</p> <p>We have reported this as a presentation error.</p>	<p>Management has corrected this error.</p>
<p>We identified that there was no restatement note disclosing the impact of the restatement on the primary statements.</p> <p>We have reported this as a presentation error.</p>	<p>Management has corrected this error.</p>

# OTHER MATTERS 4

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

Issue	Comment
<p>Management did not disclose the critical judgments applied in accounting for joint waste services and the JPUT.</p> <p>We have reported this as a presentation error.</p>	<p>Management has corrected this error.</p>
<p>We identified that management disclosed investment properties as level 3 investments however there was no disclosure of the reconciliations required of level 3 investments. We identified that disclosures around assumptions made about uncertainties regarding the valuation of PPE and investment properties were very light and did not detailed the key assumptions applied in valuing PPE and investment properties and the impact of any changes in the assumptions.</p> <p>We have reported this as a presentation error.</p>	<p>Management has not corrected this error.</p>
<p>We identified that a number of inconsistencies that between the financial instrument notes and the primary statements.</p> <p>We have reported these as presentation errors.</p>	<p>Management has corrected this error.</p>
<p>We identified that the amount in the CIES reversed out through adjustments to revenue resources did not agree to the amount disclosed in the capital adjustment account by £1.446 million. Management could not identify or reconcile this difference.</p> <p>We have reported this as a presentation error.</p>	<p>Management has not corrected this error.</p>

# OTHER MATTERS 5

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

Issue	Comment
<p>We identified that the impairment amount per property plant and equipment note was not consistent with the amount disclosed in the Capital Adjustment Account by £255,000 (prior year £103,000).</p> <p>We have reported this as a presentation error.</p>	<p>Management has not corrected this error.</p>
<p>Management did not disclose the estimation uncertainty regarding property valuations and NDR appeals provision.</p> <p>We have reported this as a presentation error.</p>	<p>Management has corrected this error.</p>
<p>We noted that the Reserve Statement includes Other Comprehensive Income amounts from the CIES as usable reserve adjustment (£1.451 million 2018/19 and £469,000 2017/18). Upon further investigation we noted the adjustment relates to receipts that are adjusted in the MIRs for statutory accounting purposes and not through the OCI to useable reserve</p> <p>We have reported this a presentational error.</p>	<p>Management has not corrected this error.</p>
<p>We also identified that JPUT cash balance of £1.983 million at year end was disclosed as short term deposits as opposed to cash at bank.</p> <p>We have reported this as a presentation error.</p>	<p>Management has not corrected this error.</p>

# OTHER MATTERS 6

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

Issue	Comment
<p>We identified that the Council made a specific bad and doubtful debt impairment provision of £405,000 for NDR income relating businesses known to be in financial distress for NDR income in respect of the 2019/20 financial year. However, this is not income or debt as at 31 March 2019 and should not be included in the impairment allowance. In the event that this debt becomes uncollectable in 2019/20 it will require an impairment in 2019/20. This has resulted in an overstatement of the impairment allowance and understatement of NDR income in the collection fund.</p> <p>The Council’s share of the NDR collection fund in 2018/19 is 30% and therefore the Council’s NDR debtors balance is understated by £122,000 and its accrued share of the surplus to recognise in the CIES is understated by the same amount. The remaining 70% of the NDR income relates to other parties.</p> <p>This is included in our schedule of unadjusted errors (Unadjusted #Ref 9).</p>	<p>Management has not corrected this error.</p>
<p>The Senior Officers’ Remuneration note includes additional pay of £37,500 for the Chief Executive in the ‘Allowances’ column relating to additional allowances pay uplift of £15,000 per annum, backdated to October 2016. There is some concern that this pay increase had not followed proper processes and has been subject to an independent legal review. The Chief Executive has taken extended leave during this investigation. The initial findings report has been provided to the Council’s Employment Committee and has raised issues that may impact on the decision to award the additional duties allowance. This matter is subject to negotiations between the Council and with the Chief Executive.</p> <p>We are satisfied that the remuneration note is currently properly prepared on the basis that this payment was made to the Chief Executive. However, in the event that the decision to award this additional duties allowance is found to be irregular, the Council may seek to recover these sums or to regularise the decision made.</p>	<p>We will continue to monitor the decisions made by the Council in this matter.</p>

# OTHER MATTERS 7

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

Issue	Comment
<p>In the previous year, management included a provision for NHS trusts seeking to appeal business rates paid where the Council had not awarded mandatory relief for business rates. In this year, management released the entire amount relating to this part of the provision, resulting in a gain in respect of the Council’s share of business rates income of £2.091 million on the expectation that the NHS trusts would not be able to successfully appeal this decision. We note that the High Court dismissed the challenge brought by 17 NHS trusts on 4 November although we understand that they may yet seek to appeal this decision.</p> <p>We have accepted management’s view based on the information at balance sheet date that it was not probable that NHS trusts would be able to successfully claim mandatory relief and therefore the provision to refund overpaid business rates is no longer required.</p> <p>We challenged management whether this should also have been the view in the previous year and whether the provision at 31 March 2018, based on the information available at that time, was incorrect since this may require a correction to the prior year financial statements. Management has asserted that it was reasonable to include a provision in the previous year based on it’s understanding of the likelihood of having to repay NHS trusts. We note that we are not aware of other councils audited by BDO last year that included a provision but this position was accepted by your previous auditor.</p> <p>Furthermore, the Council has additionally benefited from this adjustment as Surrey councils agreed to a 100% business rate pooling arrangement in 2018/19 where all additional amounts are retained in full by the Council and Surrey County Council.</p> <p>We have requested specific representation from management on this issue to confirm that it was reasonable to include a provision for NHS trusts to appeal the decision not to award mandatory relief.</p>	<p>Management has included a specific representation regarding this matter in the letter of representation.</p>

# MATTERS REQUIRING ADDITIONAL CONSIDERATION

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Accounting for Joint Waste and Recycling contract
Financial instruments (IFRS 9)
Revenue from contracts (IFRS 15)
Accounting for investment in JPUT
Other matters
Other matters 2
Other matters 3
Other matters 4
Other matters 5
Other matters 6
Other matters 7
Matters requiring additional consideration
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

## Fraud

Whilst the members and Director of Finance have ultimate responsibility for prevention and detection of fraud, 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 procedures did not identify any fraud.

We will seek confirmation from you whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the audit plan to the Audit and Standards Committee.

## Laws and regulations

We have made enquiries of management regarding compliance with laws and regulations and reviewed correspondence with the relevant authorities.

We did not identify any non-compliance with laws and regulations that could have a material impact on the financial statements.

## Internal audit

We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage.

## Component audit matters

The JPUT produces its own financial statements that are then consolidated into the financial statements of the Council as a joint operation. While this removes the requirement to produce separate Group and Council single entity financial statements, we rely on the work of the auditors of the JPUT (as a component entity) to support transactions and balances included in the Council's financial statements.

# UNADJUSTED AUDIT DIFFERENCES: SUMMARY

Summary for the current year

- Contents
- Introduction
- Executive summary
- Financial statements
- Significant risks
- Other risks
- Audit differences**
- Unadjusted audit differences: summary
- Unadjusted audit differences: detail
- Unadjusted audit differences: detail
- Unadjusted disclosure omissions and improvements
- Adjusted audit differences: summary
- Adjusted audit differences: detail
- Adjusted audit differences: detail
- Adjusted audit differences: detail
- Adjusted disclosure omissions and improvements
- Other reporting matters
- Use of resources
- Control environment
- Audit report
- Independence and fees
- Appendices contents



**We are required to bring to your attention unadjusted differences and we request that you correct them.**

A schedule of unadjusted audit differences are shown in the tables on the following pages.

If corrected, these adjustments would increase the deficit on the provision of services by £423,000 and reduce net assets by the same amount.

Many of these misstatements relate to correct classification of items in the CIES and balance sheet or are subject to statutory adjustments. The impact on the General Fund balance would be to reduce the balance by £0.544 million.

**Management response**

You consider these misstatements, individually and in aggregate, to be immaterial in the context of the financial statements as a whole.

# UNADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Council				
	Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Unadjusted audit differences</b>					
Deficit on provision of service / Net assets	14,927			24,043	
1. Incorrect reversal of a debtor raised in advance					
Dr Creditor				170	
Cr Debtor					(170)
2. NDR safety net payment due classified as grant					
Dr Income	129	129			
Cr Creditors					(129)
3. Business rate debtors classified as creditors					
Dr Debtors				366	
Cr Creditors					(366)
4. Council tax debts impairment included in creditors					
Dr Creditors				249	
Cr Debtors					(249)
5. Trade creditors incorrectly classified as debtors					
Dr Debtors				214	
Cr Creditors					(214)

<b>Contents</b>
Introduction
Executive summary
Financial statements
Significant risks
Other risks
<b>Audit differences</b>
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Unadjusted audit differences: detail
Unadjusted disclosure omissions and improvements
Adjusted audit differences: summary
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents



# UNADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Council				
	Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Unadjusted audit differences</b>					
6. Incorrect classification of asset disposed					
Dr Asset disposed (PPE)				843	
Cr Asset disposed (IP)					(843)
Dr Loss on disposal (financing and investment income)		843			
Cr Loss on disposal (cost of services)			(843)		
7. NDR transitional protection payment incorrectly recognised					
Dr NDR income	415	415			
Cr Debtors					(415)
8. Incorrect presentation of investment property impairment in the CIES					
Dr Finance and investment income expenditure	2,647	2,647			
Cr Cost of services (CIES)	(2,647)		(2,647)		
9. Understatement of NDR debt and collection fund surplus					
Dr Debtors (NDR arrears)				121	
Cr CIES taxation income	(121)				
<b>Total unadjusted audit differences</b>	<b>423</b>			<b>(423)</b>	
<b>Deficit on the provision of services / net assets after differences</b>	<b>15,350</b>			<b>23,620</b>	

<b>Contents</b>
Introduction
Executive summary
Financial statements
Significant risks
Other risks
<b>Audit differences</b>
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Unadjusted audit differences: detail
Unadjusted disclosure omissions and improvements
Adjusted audit differences: summary
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

---

# UNADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

**We are required to bring to your attention other financial reporting matters that the Audit and Standards Committee is required to consider.**

The following unadjusted disclosure matters were noted:

- Impairment amount per property plant and equipment not was not consistent with the amount disclosed in the capital adjustment account.
- Level 3 investment property reconciliation note not disclosed.
- Amount in the statement of comprehensive income and expenditure statement reserved out through adjustment to revenue resource did not agree to the amount disclosed in the capital adjustment account.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Unadjusted audit differences: detail
Unadjusted disclosure omissions and improvements
Adjusted audit differences: summary
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# ADJUSTED AUDIT DIFFERENCES: SUMMARY

## Summary for the current year



A schedule of adjusted audit differences are shown in the tables on the following pages. The overall impact of these material and other non-material adjustments has been to decrease net assets at 31 March 2019 by £4.672 million (to £24.043 million) and increase the deficit on the provision of services for the year by £5.032 million (to £14.927 million).

Many of these misstatements relate to items that are subject to statutory adjustments and the impact on the General Fund balance was an increase of £0.272 million.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
<b>Audit differences</b>
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Unadjusted audit differences: detail
Unadjusted disclosure omissions and improvements
Adjusted audit differences: summary
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Council				
	Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
Deficit on provision of service / net assets	9,895			28,715	
1. Value of freehold of the shopping centre double counted					
Dr CIES financing and investment income and expenditure	4,500	4,500			
Cr Land and buildings					(4,500)
2. Increase in pension liability due to McCloud Judgement					
Dr CIES service expenditure - past service cost	183	183			
Cr Pension liability					(183)
3. Increase in pension liability due to GMP equalisation					
Dr CIES service expenditure - past service cost	413	413			
Cr Pension liability					(413)
4. Remove hedge accounting financial instrument liability for forward loans					
Dr Financial liabilities - short term derivatives				1,122	
Cr Cash flow hedge reserve					(1,122)
Continued					

<b>Contents</b>
Introduction
Executive summary
Financial statements
Significant risks
Other risks
<b>Audit differences</b>
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Unadjusted audit differences: detail
Unadjusted disclosure omissions and improvements
Adjusted audit differences: summary
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Council				
	Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
6. Removing distributions consolidate JPUT income and expenditure					
Dr CIES service expenditure	3,093	3,093			
Cr CIES service income	(3,365)		(3,365)		
Dr CIES Financing expenditure	208	208			
Dr PPE				2,751	
Dr Debtors				1,638	
Dr Cash				1,982	
Cr Creditors					(6,107)
Dr Opening balances General fund				264	
7. Decrease in Council's share of pension fund asset					
Dr Pension reserve				962	
Cr Pension liability					(962)
8. Business rate appeals provision incorrectly classified as debtors					
Dr Debtors				534	
Cr Creditors					(534)
Continued					

<b>Contents</b>
Introduction
Executive summary
Financial statements
Significant risks
Other risks
<b>Audit differences</b>
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Unadjusted audit differences: detail
Unadjusted disclosure omissions and improvements
Adjusted audit differences: summary
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# ADJUSTED AUDIT DIFFERENCES: DETAIL

## Details for the current year

	Council				
	Income and expenditure			Balance sheet	
	CIES £'000	DR £'000	(CR) £'000	DR £'000	(CR) £'000
<b>Adjusted audit differences</b>					
9. Grossing up of sale of property in net cost of service					
Dr Income		4,955			
Cr Expenditure			(3,581)		
Cr Profit on disposal			(1,374)		
10. Incorrect presentation of depreciation charges/impairment in the CIES					
Dr Cost of services-CIES		24,771			
Cr Other items not included in cost of services			(24,771)		
11. Reclassify long term creditors to short term creditors					
Dr Long term creditors				158	
Cr Short term creditors					(158)
<b>Total adjusted audit differences</b>	<b>5,032</b>			<b>(4,568)</b>	
<b>Deficit on the provision of service / net assets</b>	<b>14,927</b>			<b>24,043</b>	

<b>Contents</b>
Introduction
Executive summary
Financial statements
Significant risks
Other risks
<b>Audit differences</b>
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Unadjusted audit differences: detail
Unadjusted disclosure omissions and improvements
Adjusted audit differences: summary
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# ADJUSTED DISCLOSURE OMISSIONS AND IMPROVEMENTS

## Disclosure omissions and improvements

### We are required to report other material presentation corrections

The following adjusted disclosure matters were noted:

- Cash flow disclosure to reconcile the movement in financial liabilities in the balance sheet with the cash flow statement.
- Comparative cash and cash equivalent at the beginning and end of the reporting period did not agree to the cash and cash equivalent balance in the balance sheet
- Comparative adjustments for non cash items did not agree to the corresponding notes.
- No restatement note disclosing the impact of the restatement on the primary statements.
- EFA analysis did not include adjustments to net cost of services.
- Estimation uncertainty note regarding property valuations and NDR appeals provision was not disclosed.
- Critical judgements applied in accounting for joint waste services and the JPUT was not disclosed.
- We identified a number of internal inconsistencies in the financial instruments note
- Non disclosure of the basis for estimating the scheme's assets and liabilities.
- The composition of the scheme's assets was not disclosed in the accounts.
- Sensitivity of financial assets and liabilities to interest rate changes note was disclosed incorrectly.
- Financial liabilities in the financial instrument notes included pension liability.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Unadjusted audit differences: summary
Unadjusted audit differences: detail
Unadjusted audit differences: detail
Unadjusted disclosure omissions and improvements
Adjusted audit differences: summary
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted audit differences: detail
Adjusted disclosure omissions and improvements
Other reporting matters
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

# REPORTING ON OTHER INFORMATION

- Contents
- Introduction
- Executive summary
- Financial statements
- Significant risks
- Other risks
- Audit differences
- Other reporting matters**
- Reporting on other information
- Whole of Government Accounts
- Use of resources
- Control environment
- Audit report
- Independence and fees
- Appendices contents

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

Matter	Comment
<p>We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.</p>	<p>We are satisfied that the other information in the Narrative Report consistent with the financial statements and our knowledge.</p>
<p>We are required to report by exception if the Annual Governance Statement is inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Council’s review of effectiveness and our knowledge of the Council.</p>	<p>We have no matters to report in relation to the consistency of the Annual Governance Statement with the financial statements and our knowledge.</p>



---

# WHOLE OF GOVERNMENT ACCOUNTS

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Reporting on other information
Whole of Government Accounts
Use of resources
Control environment
Audit report
Independence and fees
Appendices contents

---

Matter	Comment
<p>For Whole of Government Accounts (WGA) component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure we are required to perform tests with regard to the Data Collection Tool (DCT) return prepared by the Council for use by the Ministry for Housing, Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.</p> <p>This work requires checking the consistency of the DCT return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.</p>	<p>Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 28 June 2019. The Council met this deadline.</p> <p>We have completed our review of the WGA Data Collection Tool (DCT) with no issues to report.</p>

---

# AUDIT RISKS OVERVIEW

- Contents
- Introduction
- Executive summary
- Financial statements
- Significant risks
- Other risks
- Audit differences
- Other reporting matters
- Use of resources**
- Audit risks overview
- Sustainable finances
- Control environment
- Audit report
- Independence and fees
- Appendices contents

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting 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.*

As identified in our Audit Plan we assessed the following matters as being the most significant risks regarding use of resources.

There are three sub criteria that we consider as part of our overall risk assessment:

- Sustainable resource deployment
- Informed decision making
- Working with partners and other third parties.

Audit Risk	Criterion	Risk Rating	Issues identified that impact on conclusion
Sustainable finances	Sustainable resource deployment	Significant	None

# SUSTAINABLE FINANCES

**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.**

Significant risk	
Normal risk	
Sustainable resource deployment	
Informed decision making	
Working with partners and other third parties	
Significant control findings	

## Risk description

The Council's Medium Term Financial Strategy (MTFS) covering the period 2020 to 2023 that identified a budget gap of £1.5 million. The Council has identified savings and the delivery of additional income through investments as means to address the budget gap. The achievement of these efficiency and savings targets are inherently challenging.

## Work performed

We carried out the following planned audit procedures:

- Reviewed 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;
- Monitored 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.

## Results

The Council's refreshed MTFS indicates a funding gap of £2 million by 2023-24. The Council intends to fund this gap through additional income generated from its investments in properties. The Council delivered savings of £3.5 million in 2018/19 compared to overspend of £2.5 million in 2017/18. At 31 March 2019 the Council's General Fund reserve increased from £29 million to £33.3 million.

The Council has strategically invested in investment properties to deliver additional income to support its key objectives. These are funded through borrowing and management anticipates adequate returns from these investments to service the cost of funding over the term of these loan facilities.

We are satisfied that the Council has a good understanding of the budget requirement in the coming years, has arrangements in place to identify and manage the delivery of required savings.

## Conclusion

The Council has adequate arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities.

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
Audit risks overview
Sustainable finances
Control environment
Audit report
Independence and fees
Appendices contents

# SIGNIFICANT DEFICIENCIES

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
<b>Control environment</b>
Significant deficiencies
Other deficiencies
Audit report
Independence and fees
Appendices contents

Area	Observation & implication	Recommendation	Management response
Accounts preparation and review process	<p>We identified a significant number of material and other errors in the draft financial statements presented for audit. Some of these errors, and subsequent discussions with the Finance team, suggests an incomplete understanding of the some of the more technical aspects of the accounting standards.</p> <p>We also noted a significant number of presentational and consistency errors in the draft financial statements that demonstrates an incomplete understanding of the required presentation of the Statement of Accounts per the Code.</p> <p>It also suggests that the review and quality assurance processes at the Council should be improved before issuing the draft financial statements for initial publication in May following the year end.</p> <p>It is important that the close down process is robust and adequate time taken to review the accounts to ensure presentational and consistency errors are identified and corrected prior to the audit.</p>	<p>Management should ensure that there is robust close down process in place which includes review and scrutiny of the accounts before accounts are presented for audit.</p>	<p>Given this was our first year with BDO they took a different position on the accounting treatment of a number of areas when compared to our previous auditors KPMG and this has resulted in a large number of adjustments and changes.</p> <p>We will seek to work closely with BDO during the preparation of the accounts to ensure that both parties agree on the accounting treatment of any complex areas.</p> <p>We have employed an additional accountant to assist with the preparation of the accounts but as we are a small team our technical skills can be limited in some areas and so we will look to BDO for advice as appropriate.</p> <p>We will also ensure that a accounts disclosure checklist is completed to highlight any omissions.</p>

# OTHER DEFICIENCIES

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Significant deficiencies
Other deficiencies
Audit report
Independence and fees
Appendices contents

Area	Observation & implication	Recommendation	Management response
Debtors analysis	<p>The analysis produced to support the debtors balance at year end did not agree to debtors balance by £250,000. This was due to finance staff producing the report two weeks after year end and it could not reproduced the report at the balance sheet date. The difference is due to cash receipts for the two weeks post year end.</p> <p>It is important that working papers with supporting evidence are maintained to ensure accuracy and completeness of debtors balance in the accounts.</p>	<p>Management should ensure that adequate evidence supporting debtors balance at year end is maintained at all times and made readily available for audit.</p>	<p>We will ensure that reports are run as close to the year end as possible.</p>
Cash flow statement and cash flow working papers	<p>Our audit identified weaknesses in the arrangements for preparing cash flow working papers, and a significant number of misstatements were identified including:</p> <ul style="list-style-type: none"> <li>• Cash flow from investing activities note not agreeing to the cash flow statement.</li> <li>• Proceeds from sale of property not agreed to supporting sales evidence</li> <li>• Provisions adjustment included in cash flow from financing activities instead of non cash movement notes</li> <li>• Collection fund debtors and creditors not excluded from the cash from operating activities.</li> </ul>	<p>Whilst these have now been corrected, management should ensure that there is properly prepared cash flow working papers supporting the cash flow statement.</p>	<p>We will ensure that working papers are provided for the cash flow statement in future.</p>

# OVERVIEW

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
<b>Audit report</b>
Overview
Independence and fees
Appendices contents

### Opinion on financial statements

Following corrections for the material misstatements identified through the audit, we anticipate issuing an unmodified opinion on the financial statements.

There are no matters that we wish to draw attention to by way of ‘emphasis of matter’.

### Conclusion on use of resources

We are proposing to issue an unqualified use of resources conclusion.

### Conclusion relating to going concern

We have nothing to report in respect of the applicability of the going concern basis of accounting or the Council’s ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

### Other information

We have not identified any material misstatements that would need to be referred to in our report.

### Annual Governance Statement

We have no matters to report in relation to the Annual Governance Statement as it is not inconsistent or misleading with other information we are aware of.

# INDEPENDENCE

Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
<b>Independence and fees</b>
Independence
Fees
Appendices contents

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

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 ended 31 March 2019.

Details of services, other than audit, provided by us to the Group during the period and up to the date of this report are set out in the appendices and were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Standards Committee in advance in accordance with the Group’s policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

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 or the IESBA Code of Ethics as appropriate and are independent of the Council and the Group.

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

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

# FEES

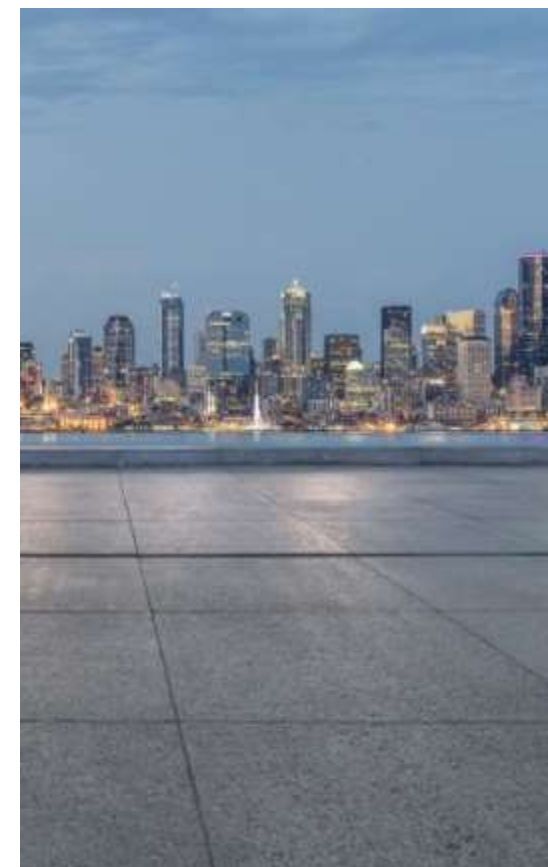
Fee Summary	2018/19	2018/19	2017/18
	Actual	Planned	Actual
	£	£	£
<b>Audit fee</b>			
• Code audit fee	<sup>(3)</sup> 83,575	<sup>(1)</sup> 35,347	<sup>(2)</sup> 45,905
<b>Non-audit assurance services</b>			
Fees for reporting on government grants:			
Housing benefits subsidy claim	<sup>(4)</sup> 11,500	10,000	<sup>(2)</sup> 11,141
<b>Total fees</b>	<b>95,075</b>	<b>45,347</b>	<b>57,046</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Additional costs of £48,228 incurred during the audit as a result of the material errors in the prior year and current year financial statements.

<sup>(4)</sup> Additional fees for the errors in housing benefits paid requiring additional testing.



Contents
Introduction
Executive summary
Financial statements
Significant risks
Other risks
Audit differences
Other reporting matters
Use of resources
Control environment
Audit report
<b>Independence and fees</b>
Independence
Fees
Appendices contents





## APPENDICES CONTENTS

# RESPONSIBILITIES AND REPORTING

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Audit report
Audit report 2
Audit report 3
Audit report 4
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 2

### Our responsibilities and reporting

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 Statement of Accounts such as the Narrative Report. 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.

We report where we consider that the Council has not put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We review the Whole of Government Accounts Data Collection Tool provided to HM Treasury and express an opinion on whether it is consistent with the audited financial statements.

### What we don’t report

Our audit is not designed to identify all matters that may be relevant to the 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.



# ADDITIONAL MATTERS WE ARE REQUIRED TO REPORT

	Issue	Comments
1	Significant difficulties encountered during the audit.	Significantly difficulties were noted in respect of agreeing the appropriate accounting treatment for the financial instruments derivative and the proper basis for accounting for the JPUT that resulted in restatement of the prior year financial statements.
2	Written representations which we seek.	We enclose a copy of our draft representation letter.  We draw your attention to specific representations sought regarding the valuation of the Main Square Shopping Centre and the yields used by the valuer in determining an appropriate market value for the shopping centre.
3	Any fraud or suspected fraud issues.	No exceptions to note.
4	Any suspected non-compliance with laws or regulations.	No exceptions to note.
5	Significant matters in connection with related parties.	No exceptions to note.

## Contents

### Appendices contents

Our responsibilities

### Additional matters we are required to report

Communication and reports issued

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit quality

Letter of representation

Letter of representation 2

Letter of representation 2

# COMMUNICATION AND REPORTS ISSUED

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Audit report
Audit report 2
Audit report 3
Audit report 4
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 2

## Those Charged with Governance (TCWG)

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 have met with management throughout the audit process. We have issued regular updates driving the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Communication	Date (to be) communicated	To whom
Audit Plan	4 March 2019	Audit and Standards Committee
Initial Audit Completion Report	17 July 2019	Audit and Standards Committee
Final Audit Completion Report	25 February 2020	Audit and Standards Committee
Annual Audit Letter	12 March 2020	Audit and Standards Committee

# AUDIT REPORT

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Audit report
Audit report 2
Audit report 3
Audit report 4
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 2

## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SURREY HEATH BOROUGH COUNCIL

### Opinion on the financial statements

We have audited the financial statements of Surrey Heath Borough Council (“the Council”) for the year ended 31 March 2019 which comprise the Movement in Reserves Statements, the Comprehensive Income and Expenditure Statement, the Council Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 (“Code of Audit Practice”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Council and in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# AUDIT REPORT 2

## Contents

### Appendices contents

Our responsibilities

Additional matters we are required to report

Communication and reports issued

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit quality

Letter of representation

Letter of representation 2

Letter of representation 2

## Other information

The Director of Finance is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts is consistent with the financial statements.

## Conclusion on use of resources

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;

# AUDIT REPORT 3

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Audit report
Audit report 2
Audit report 3
Audit report 4
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 2

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

## Responsibilities of the Director of Finance and the Council

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Director of Finance is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to cease operations of the Council or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

## Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the financial statements our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Auditor's responsibilities in respect of the Council's use of resources

We are required under Section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criterion specified by the National Audit Office.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

---

# AUDIT REPORT 4

## Contents

### Appendices contents

Our responsibilities

Additional matters we are required to report

Communication and reports issued

Audit report

Audit report 2

Audit report 3

Audit report 4

Audit quality

Letter of representation

Letter of representation 2

Letter of representation 2

## Certificate of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation. We are satisfied that this work does not have a material effect on the Council and group financial statements or on our use of resources conclusion.

## Use of our report

This report is made solely to the members of Surrey Heath Borough Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Responsibilities of the Audited Body and Responsibility of the Auditor within Chapter 2 of the Code of Audit Practice published by the National Audit Office.

Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Leigh Lloyd Thomas

For and on behalf of BDO LLP, Appointed Auditor

London, UK

DATE



# AUDIT QUALITY

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Audit report
Audit report 2
Audit report 3
Audit report 4
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 2



### **BDO is totally committed to audit quality**

It is a standing item on the agenda of BDO’s Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream’s objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing a 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 reviewers, the AQR (the Financial Reporting Council’s Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the 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 audits.

More details can be found in our Transparency Report at [www.bdo.co.uk](http://www.bdo.co.uk)

BDO LLP  
55 Baker Street  
London  
W1U 7EU

Dear Sirs

**Financial statements of Surrey Heath Borough Council for the year ended 31 March 2019**

We confirm that the following representations given to you in connection with your audit of the Council’s financial statements for the year ended 31 March 2019 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Director of Finance has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2019 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council’s financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records of the Council have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of management and other meetings have been made available to you.

**Going concern**

We have made an assessment of the Council’s ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements were approved for release. As a result of our assessment we consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the disclosures included in note 4.1 to the financial statements are sufficient.

In making our assessment we did not consider there to be any material uncertainty relating to events or conditions that individually or collectively may cast significant doubt on the Council’s ability to continue as a going concern.

**Laws and regulations**

In relation to those laws and regulations which provide the legal framework within which the Council’s business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

**Post balance sheet events**

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

**Fraud and error**

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Audit report
Audit report 2
Audit report 3
Audit report 4
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 2

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Audit report
Audit report 2
Audit report 3
Audit report 4
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 2

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

We have disclosed to you all allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

**Misstatements**

We attach a schedule showing uncorrected misstatements that you have identified, which we acknowledge that you request we correct. Where appropriate we have explained our reasons for not correcting such misstatements below.

In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements as a whole.

**Related party transactions**

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

There were no loans, transactions or arrangements between any members or their connected persons at any time in the year which were required to be disclosed.

**Carrying value and classification of assets and liabilities**

We have no plans or intentions that may materially affect the carrying value or classification of assets or liabilities reflected in the financial statements.

**Accounting estimates**

a) Pension fund assumptions

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

Rate of inflation (CPI): 2.5%

Rate of increase in salaries: 2.8%

Rate of increase in pensions: 2.5%

Rate of discounting scheme liabilities: 2.4%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities

b) Valuation of land, buildings and investment properties

We confirm that the valuations applied to land, buildings and investment properties revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business. These include current market prices in existing use for operational properties, relevant rebuild cost indices for assets value at depreciation replacement cost, and fair values investment properties and surplus assets.

Contents
Appendices contents
Our responsibilities
Additional matters we are required to report
Communication and reports issued
Audit report
Audit report 2
Audit report 3
Audit report 4
Audit quality
Letter of representation
Letter of representation 2
Letter of representation 2

**c) Valuation of Main Square Shopping Centre**

We have considered the yields used in the valuation of The main square Camberley shopping centre (blended overall yield 6.32%) at 31 March 2019 and other assumptions used by the valuer are reasonable. We acknowledge that benchmark market data published by other valuers at 31 March 2019 for yields used by willing buyers for town centre dominant shopping centres were higher than this overall blended yield.

**Classification of the main square Camberley shopping centre as property plant and equipment**

We have classified the main square shopping centre as property plant and equipment rather than investment property in the balance sheet as the Council considers the property as supporting its long term regeneration plans

**Litigation and claims**

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the requirements of accounting standards.

**NHS business rate appeals provision**

We have considered the purpose of the NHS business rates provision included in our financial statements in the prior year. We confirm that as at 31 March 2018 with the available information we were content to recognise a provision against overpayment of business rates. We confirm that this provision is no longer required based on our future expectations and has been released for the year to 31 March 2019.

**Confirmation**

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each member has taken all the steps that they ought to have taken as a member of the Council in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Kelvin Menon  
Director of Finance

Cllr Alan McClafferty  
Chair of the Audit and Standards Committee

[date]

[date]



FOR MORE INFORMATION:

**Leigh Lloyd-Thomas**

**t: 020 7983 2616**

**e: [leigh.lloyd-thomas@bdo.co.uk](mailto: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.

© 2020 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

