External Audit Report 2016/17

Woking Borough Council

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September 2017

Content

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This report is addressed to Woking Borough Council (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Hewitson, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Woking Borough Council (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Standards and Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

- Final review of annual report;
- Whole of Government Accounts submission;
- Final review of audit files.

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 30 September 2017, following the Council approving the financial statements on 28 September 2017 and receipt of the management representations letter.

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

- There are no unadjusted audit differences, and one adjusted audit difference explained in section 2 and appendix 3.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
- We report here that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our completion certificate for 30 September 2017.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 30 September 2017.

Summary

Other matters

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

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

There are no matters which we wish to draw to your attention other than those highlighted in this report relating to the audit of the Authority's 2016/17 financial statements.

We did not raise any recommendations in our 2015/16 ISA 260 report. We have made four new recommendations as a result of our 2016/17 work. The recommendations relate to journals, the timeliness of processing transactions into the Financial Information System and the closedown process. All recommendations are shown in appendix 1.

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is summarised below:

- We will complete the certification of Pooling of Housing Capital Receipts in September 2017; and
- We will complete the certification of the Housing Benefits claim in September 2017.

The fees for this work are explained in section two.

Financial statements audit

We audit your financial statements by undertaking the following:

	Accounts production stage		
Work Performed	**Before**	**During**	**After**
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by client request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made four recommendations which relate to journals, the timeliness of clearing reconciling items on the bank reconciliation and the closedown process. We believe that these recommendations (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Financial Services Manager and this was issued as a final document to the finance team. We are pleased to report that this has resulted in good-quality working papers with clear audit trails, although we note the provision of source documents in an editable format, such as the trial balance provided in excel, as well as a .pdf document would assist with the efficiency of the audit.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis: this resulted in material changes year on year to the presentation of the financial statements. We have audited the presentation and content of the current and prior year restated disclosures, and are satisfied they are materially accurate; and • Amended guidance on the Annual Governance Statement. We reviewed the Annual Governance Statement against the updated requirements in the CIPFA code and are satisfied the content is compliant.
5. Accounts Production	We received complete draft accounts by 30 June 2017 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. Although the accounts deadline has remained the same as in prior year, the finance team have moved many of their internal deadlines forward in order to prepare for the early close required for 2017/18. The Finance Team acknowledges that there is lots to be done to prepare for the earlier deadline next year, including bringing preparatory work forward, taking a different approach to non-material accounting issues, and considering the production of a period 9 hard close account. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We identified presentational changes to the accounts along with an audit adjustment to the Capital Grants Receipts in Advance balance in the Group Accounts (balance in 2016/17 £7,408k; adjustment required £-1,544k) which we have presented in appendix 2.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Finance Director on 22 August 2017. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.

Financial statements audit

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

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention other than those highlighted in this report relating to the audit of the Authority’s 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over: the Pension Liability; Restatement of the Comprehensive Income and Expenditure statement, Expenditure and Funding Analysis, and Movement in Reserves statement; Valuation of Land and Buildings; Valuation and Consolidation of Subsidiaries. These were identified as significant risks within our audit plan;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition (which we have rebutted as part of our audit planning) and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation and consolidation of subsidiary investments	Shareholdings in companies: £30,733k (PY £22,726k)	Approach: ▪ We liaised with the subsidiary auditor and confirmed their professional qualifications, experience and independence; ▪ We reviewed the Authority's impairment review; ▪ We compared the accounting between the subsidiary and the Authority accounts; and ▪ We tested the classification and accuracy of the investments in the Authority's accounts, and reviewed the presentation of the consolidated Group accounts. In performing this testing we found that the Authority appoints an auditor of the Thameswey group with suitable qualifications, experience and independence. The Authority carries out a regular review of Thameswey investments for any impairment indicators. We tested the adjustments posted as part of the consolidation process to align the accounting treatment of the Thameswey group and Authority accounts. This found one error in the consolidation of Capital Grants Received in Advance – we have outlined this audit adjustment in Appendix 3. We confirm here that management have corrected this error. We found that the classification and accuracy of investments recognised in the Authority accounts (2016/17 £30,733k) was materially correct and appropriately presented in the Group accounts.
Restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and Movement in Reserves Statement	Disclosure	Approach: ▪ We assessed how the Authority actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and ▪ We checked the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance. We performed audit testing on the restated figures. This involved ensuring that the presentation of the notes was in line with the Authority's internal reporting and monitoring structure. We agreed prior year figures back to the audited 2015/16 accounts and gained an understanding of the adjustments that were posted in order to restate the prior year figures. We ensured that the presentation of the new format notes was in line with the presentational requirements outlined in the CIPFA 2016/17 Code of Practice. We did not identify any issues with the restatement.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Significant changes in the pension liability due to LGPS triennial valuation	Pension Liability: £62,021 (PY £50,725)	Approach: We have undertaken work on a test basis to agree the data provided to the actuary back to the systems and reports from which it was derived and to understand the controls in place to ensure the accuracy of this data. This included checking data provided to the actuary back to underlying payslips. We performed an evaluation of the actuary's expertise using our own KPMG specialists. We performed benchmarking of the assumptions used in the valuation against KPMG benchmarks and against those used by other Surrey District Councils. Finally we ensured that numbers included in the actuary's report had been correctly reflected in the Authority's financial statements. No issues were identified as part of the testing of the pension scheme balances.
Valuation of land and buildings	Property, Plant and Equipment: £469,984k (PY £432,739k)	Approach : We have undertaken an assessment of the expertise of the Authority's valuers, Wilks Head and Eve (WHE) and Frazers. This involved confirmation of their professional experience, qualifications and independence. For this we used our own KPMG specialist to evaluate the work of WHE and Frazers. We reviewed the instructions provided by the Authority to WHE and Frazers to confirm they are complete and accurate, i.e. that they include the Authority's full estate and are appropriate for the purposes of the valuation. We checked that the instructions are in line with the Code. We reviewed the valuation provided by the valuers and assessed whether it has been reflected accurately in the Fixed Assets Register and in the financial statements, and considered the accuracy of information provided by the Authority to the valuers. We reviewed the revaluation basis and were satisfied the approach was appropriate. In doing so we have drawn on national benchmarks outlined in the Gerald Eve report, which provides an overview of national property market performance. We engaged our property team experts to undertake an assessment of the revaluation. We tested the floor space inputs into the valuations (combination of Gross Internal Area, Net Internal Area and Site Area depending on the operational use of the asset). This included ensuring that information supplied by the Authority to WHE had been used correctly in the valuations. We tested the accuracy of information by re-performing a sample of area calculations. We found no issues with the completeness and accuracy of the internal area data supplied to the valuer. We have undertaken appropriate work to understand the basis upon which any impairments to land and buildings have been calculated, and have tested associated assumptions. Impairments in 2016/17 were £11,182k for Other Land and Buildings and £12,751k for Investment Property. The approach was considered to be reasonable by our valuation specialist.

Financial statements audit

Other areas of audit focus

We identified 6 other areas of audit focus. These are not considered to be significant risks as they are less likely to give rise to a material error. Nonetheless these are areas of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas	Account balances effected	Summary of findings
Cash	Cash: £10,100k (PY £10,000k)	We reviewed bank confirmations and reconciliations to ensure that internal controls are operating effectively and that the year end cash balance is accurate. We have raised a low priority recommendation in relation to timely clearance of items from the bank reconciliation.
Payroll	Payroll: £10,600k (PY £10,300k)	We reviewed the approach and tested the systems and specific transactions to ensure completeness, existence and accuracy of the payroll balance. We formed our own expectation of payroll costs for the year, disaggregated across different grades of employees. We did not identify any issues with the payroll balance.
Business rates and council tax	Business rates and council tax: £117,000k (PY £109,000k)	We tested the completeness, accuracy and existence of these revenue sources through testing the calculations, agreeing a sample to supporting evidence and to the prior year and comparable benchmarks. No issues found with the recognition and recording of business rates and council tax.
HRA rental income	HRA gross rental income: £18,971k (PY £19,022k)	We tested the accuracy of income and expenditure through testing a sample to supporting evidence. We gained assurance of the completeness of income and expenditure through cut off testing procedures. No issues identified.
Housing benefits	Housing benefits: £29,335k (PY £29,387k)	We reviewed the processes to ensure that appropriate controls are in place. We selected a sample of housing benefit claims and payments and agreed these to supporting documentation. No issues identified.
Grant income	Capital grants received: £16,350 (PY £3,400k)	We reviewed the processes over the different grants to ensure that they are accurately recorded. We selected a sample and tested back to underlying evidence to ensure that grants have been recognised correctly and that the Authority has the right to receive the grant. No issues identified.

Financial statements audit

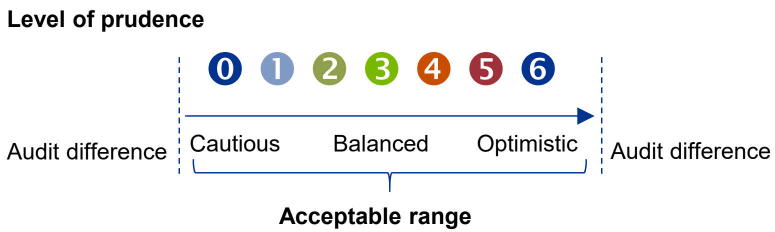
Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2016/17 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.	We have not conducted any specific procedures in relation to the risk of fraud in recognition, as we have rebutted this risk as part of our audit plan.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	There are no matters arising from this work that we need to bring to your attention.

Section Two

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions, including NDR provision	3	3	£1.4m (PY:£2.5m)	In 2013/14, changes to the local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. We have tested this and found that the Authority have made appropriate judgements in deriving and assessing the appeals percentage. We conclude this is a balanced judgement
Accruals de minimis level	3	3	£1,000* (PY: £500)	The Authority has increased its de minimis accruals level in response to the shorter closedown period. We have been actively engaging with Management to understand the impact of this. Whilst not a material change, in light of it, the Authority should consider its financial reporting process throughout the year. The £1,000 limit is sensible for an organisation the size of Woking, and in line with what we see at other councils. We therefore conclude this is a balanced judgement ** note these values are whole pounds, not millions.*
Accruals and sundry creditors	3	3	£12.7m (PY £10.1m)	We performed substantive testing over a sample of accruals. For each accrual we found that there was sufficient appropriate evidence to justify the accrued amount. Where possible we matched the accrual to the actual amount paid and found it to have been estimated reliably. The movement in accruals is mainly attributable to a reduction in income received in advance and sundry deposits.

Financial statements audit

Assessment of subjective areas

Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
PPE: HRA assets	❸	❸	£294m PY:£277m	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. Beacon properties have been valued by Frazers chartered surveyors. The resulting increase of 6% is in line with regional indices provided by Gerald Eve, the valuation firm engaged by the NAO to provide supporting valuation information. Based on our assessment of these assumptions, we have concluded this is a balanced judgement.
PPE: Impairments	❸	❸	£23.9m PY: £12.8m	There was an increase in the value of impairments recognised in 2016/17. The main contributors to the impairment were falls in value of the Hoe Valley Community Buildings and Wolsey Place Shopping Centre. The impairment to the Hoe Valley Community Buildings resulted from a change in the way they are valued – whilst under construction they were valued at the cost to construct the assets (£8.7m). However, following construction, they are valued based on the rental value of the leases. As this is a community asset, these rental yields are low, resulting in revised valuation of £87,500. The second contributor to the impairment was a fall in value of the Wolsey Place Shopping Centre. This is due to some parts of the building being closed and tenants being relocated as a result of the Victora Square redevelopment. This led to an impairment of £12.3m. We have assessed the valuations prepared by Wilks Head and Eve using our own valuation specialist. Our assessment is that WHE have used prudent assumptions about property prices and rental yields, which are tailored appropriately for the Surrey area. We therefore conclude that this is a balanced estimate.
Bad debt provision	❸	❸	£2.9m PY: £3.7m	The provision for bad debts fell by £0.8m in 2016/17. This was due to a higher number of sundry creditors being collected prior to year end. In addition there was a significant debt write off in year, which has resulted in a lower provision being required. The Authority has analysed the aging of its debtors, and compared it to historic debt collection rates. The provision is a reasonable reflection of these historic rates, so we have concluded it is a balanced estimate.
Pension liability	❸	❸	£62m PY:£50m	The year on year increase is due to the triennial valuation of the scheme. We performed detailed audit procedures over the pension liability. This included agreeing the amounts disclosed back to the actuary's report, substantively testing the information provided to the actuary, and performing a review of the key assumptions that affect the balance. In addition, we reviewed the PWC report of the Local Government Pension Scheme, and communicated with Grant Thornton, the auditors responsible for the Surrey Pension Scheme. We found that the assumptions were reasonable and the underlying data was accurate. We found that the assumptions applied by the Authority were in line with other Surrey Authorities, and with our own internal benchmarks. We have therefore concluded this is a balanced assumption.

Financial statements audit

Group audit

We liaised with the subsidiary auditor, Hamlyns, and confirmed their professional qualifications, experience and independence. No issues were identified from this work. We reviewed the Authority's impairment review, which did not identify any issues. We compared the accounting between the subsidiary and the Authority accounts, which did not identify any issues. We liaised with Hamlyns to confirm whether the accounts of the Thameswey Ltd were materially accurate, Hamlyns confirmed their accuracy.

One corrected adjustment relating to Capital Grants Receipts in Advance, adjustment required £1,544k (see appendix 3) resulted from our audit of the Group. No other issues were noted.

Narrative report of the Authority

We reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

We did not receive any questions or objections from members of the public this year.

Audit certificate

We have completed all our responsibilities in relation to the audit of the accounts for the year end 31 March 2017 and anticipate issuing our audit certificate with our audit opinion.

Financial statements audit

Whole of Government Accounts (WGA)

We are in the process of reviewing your WGA consolidation pack.

Other grants and claims work

We undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements. The status of our grants and claim work is presented below:

- We will complete the certification of Pooling of Housing Capital Receipts in September 2017; and
- We will complete the certification of the Housing Benefits claim in September 2017.

Audit fees

Our fee for the audit was £54,702 excluding VAT (£54,702 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Standards and Audit Committee on 9 March 2017.

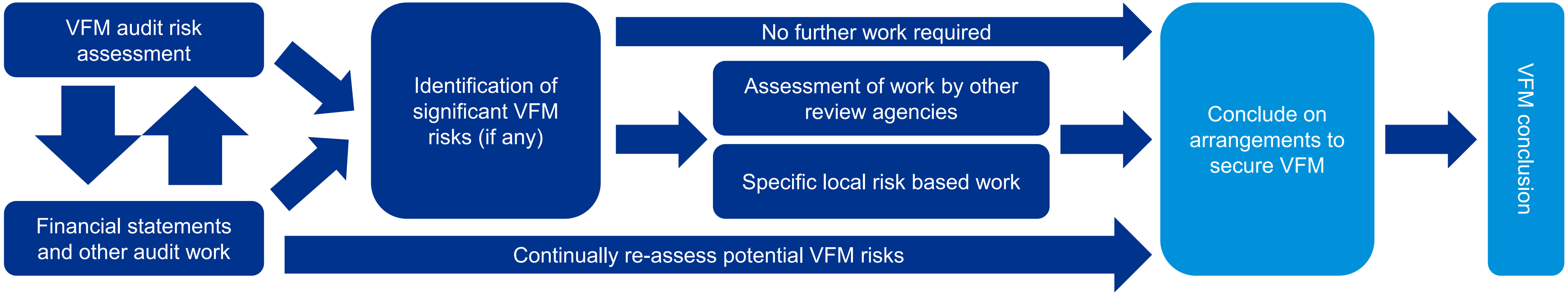
Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £7,208 excluding VAT (£7,208 excluding VAT in 2015/16). The planned fee for Capital Pooling which does not fall under the PSAA arrangements is £3,000 excluding VAT (£3,000 excluding VAT in 2015/16).

We have completed non-audit work at the Authority in 2016/17 delivering a high level tax awareness session to Mole Valley District Council, with Woking Borough Council in attendance, and have included in appendix 4 confirmation of the safeguards that have been put in place to preserve our independence.

Section Three

Value for money

Our VFM work follows NAO guidance. It is risk based and our approach is summarised below. We identified one significant VFM risk which is reported below. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



Significant risk based VFM audit work

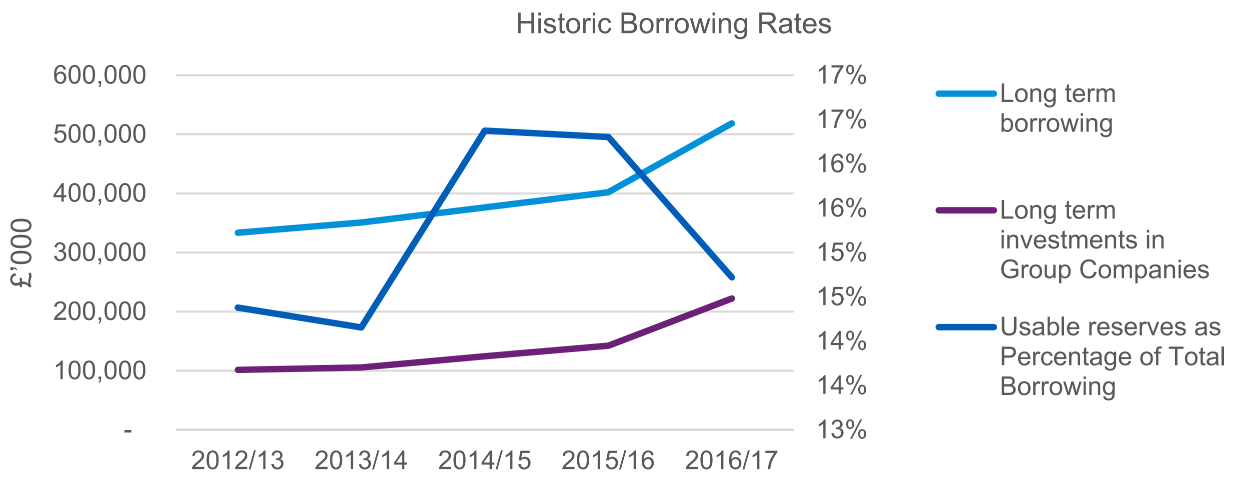
Below we set out the detailed findings of our significant risk based VFM work. This work was completed to address the residual risks remaining after our assessment of the higher level controls in place to address the VFM risks identified in our planning and financial statements audit work.

Significant VFM risk	Why this is significant	Our audit response and findings
Financial resilience	These is increased pressure on authorities to deliver services with reduced budgets. In 2016/17, Woking Borough Council has undertaken significant infrastructure projects and increased borrowing.	We assessed whether the Authority has robust systems and processes to effectively manage financial risks and opportunities and to secure a stable financial position that enables it to operate for the foreseeable future. We did this by reviewing the Medium Term Financial Strategy (MTFS) for 2016/17 to 2021/22 and by reviewing relevant minutes from Council meetings to support our understanding of processes followed in setting the MTFS. We reviewed the budget process and assumptions included such as savings estimates. We also reviewed related support and evidence of challenge. In particular, the MTFS states that the Authority must find £7.5m of savings over the 5 years to 2022. We enquired with the managers of each of the main departments about the assumptions underpinning the MTFS, and they felt the assumptions were reasonable based on past performance. In 2016/17 there was an underspend of £981k, with a forecast underspend in 2017/18 of £296k.

Value for money

Our audit response and findings (continued…)

We performed an analysis of historic borrowing rates, and comparison with reserves. This included an analysis of where the majority of savings have come from and met with key managers to discuss the assumptions underpinning the Medium Term Financial Strategy.



Long term borrowings have been increasing significantly: up from £333m in 12/13 to £518m in 16/17, an increase of 55%. The Council borrows in order to fund purchases of property, build and do major works to community facilities, or to acquire strategic assets to help with the aim of regeneration. With current property rises outpacing the interest rates on the PWLB loans, this is a sensible investment strategy. In addition, over this period the Council has grown its usable reserves from £53m in 13/14 to £84m in 16/17. Usable reserves as a percentage of borrowing has remained fairly static at between 14%-16% across the period. This suggests the Council is actively managing its reserves to ensure that they are kept at an appropriate level relative to borrowing commitments.

Overall we have not identified any significant concerns with the financial resilience of the Authority that would impact on our value for money conclusion.

Appendix 1

Recommendations raised

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

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

#	Risk	Recommendation	Management Response / Officer / Due Date
1	❷	**Journal controls** The Authority does not have a number of the controls we expect to see embedded into the journals process. We have provided management with a 'best practice' summary of the typical journal controls used by other organisations. Whilst we are satisfied that there are mitigating controls in place that could detect a material misstatement in the financial statements, in light of the faster close timetable next year and current good practice, the Authority should consider how it could improve the efficiency and effectiveness of its journals control environment (our best practice list of controls has been shared with management).	Agreed Access to journals is restricted to members of the Finance Team which minimises the risk of inappropriate journal entry. Mitigating controls are in place to identify errors. A management control report will be generated to identify back-posted journals. Financial Services Manager December 2017
2	❸	**Journals authorisation** One member of staff remained on the journals authorisation list when they should have been removed. This was due to the member of staff being temporarily seconded to the finance team to assist with a busy period. They were correctly given journals privileges, but these were not removed when that person left the team. We reviewed the journals list and found that no journals had been posted by that person in 2016/17, and they have now been removed from the approved list. We recommend that management frequently review the access rights for posting journals.	Agreed A management report of staff with access to journals will be reviewed quarterly. Financial Services Manager, December 2017

Recommendations raised

#	Risk	Recommendation	Management Response / Officer / Due Date
3	❸	**Faster close preparations** In preparation for the mandatory faster close timetable for 2017/18 onwards, Finance could benefit from ensuring that the accounts timetable has sufficient time set aside for preparing and quality assuring its draft accounts and supporting working papers. This should help to ensure that the tighter deadlines are met next year. A detailed 2016/17 debrief should take place internally to identify lessons leant and potential efficiencies for next year's process, which we would be happy to take part in.	Agreed The Finance Team will work with KPMG to prepare for next year's process.
4	❸	**Timeliness of processing transactions into the Financial Information System** A CHAPS payment was not input into Integra pending a decision on its accounting treatment. This was picked up and reported in the bank reconciliation process in a timely manner and highlighted as unreconciled item. Reconciling items could be removed more quickly from the bank reconciliation if discussions about accounting treatment of unusual transactions could take place within a 30 day period. This will may also facilitate early closedown.	Agreed. A 30 day period will be adopted as a target for processing transactions onto the financial information system.

Appendix 2

Materiality and reporting of audit differences

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

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

We used the same planning materiality reported in our External Audit Plan 2016/17, presented on 9 March 2017

Materiality for the Authority's accounts was set at £1.8 million for the Group accounts and £1.7 million for the Authority accounts. This equates to around 1.9% of gross expenditure.

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

Reporting to Standards and Audit Committee

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £85,000 for the Authority

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

Appendix 3

Audit differences

Unadjusted audit differences

There are no unadjusted audit differences.

Adjusted audit differences

To assist the Standards and Audit Committee in fulfilling its governance responsibilities we present in the table below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	-	-	-	Dr Capital Grants Received in Advance £1,544k	Cr Profit and loss reserve £1,544k	We identified a misstatement in a consolidation adjustment posted by the Authority. The adjustment is to align the recognition of grants made to Thamesway Ltd with International Financial Reporting Standards requirements. The value of grants made to Thameswey was incorrectly taken from the draft Thameswey accounts. A value of £5,177,340 was used in the adjustment calculation. The actual value of the grant from Thameswey audited accounts was £6,721,062, resulting in a difference of £1,543,722.
				Dr £1,544k	**Cr £1,544k**	**Total impact of corrected audit differences**

Presentational audit differences

In addition to the adjusted audit difference noted above, our work identified presentational differences that the Authority has agreed to change.

Appendix 4

Audit independence

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

Integrity, objectivity and independence

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

General procedures to safeguard independence and objectivity

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

Audit matters

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

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

Appendix 4

Audit independence

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

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

Auditor declaration

In relation to the audit of the financial statements of Woking Borough Council for the financial year ending 31 March 2017 we confirm that there were no relationships between KPMG LLP and Woking Borough Council, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity. We summarise below the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Description of non audit services	2016-17 fees	Potential threat to auditor independence	Associated safeguards in place
High level tax awareness session delivered to Mole Valley District Council, with Woking Borough Council in attendance.	£200 recharge to Woking of a £3,000 fee for the course.	Self-Interest	The tax awareness session was undertaken by a separate team from the audit team. There was no communication between teams. The fee for the session (of which only £200 was recharge to Woking) is a trifling percentage of our audit fee, so the self-interest threat is acceptably insignificant.
Total fees	£200		
Total fees as a % of the external audit fees	<1%		

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

Appendix 5

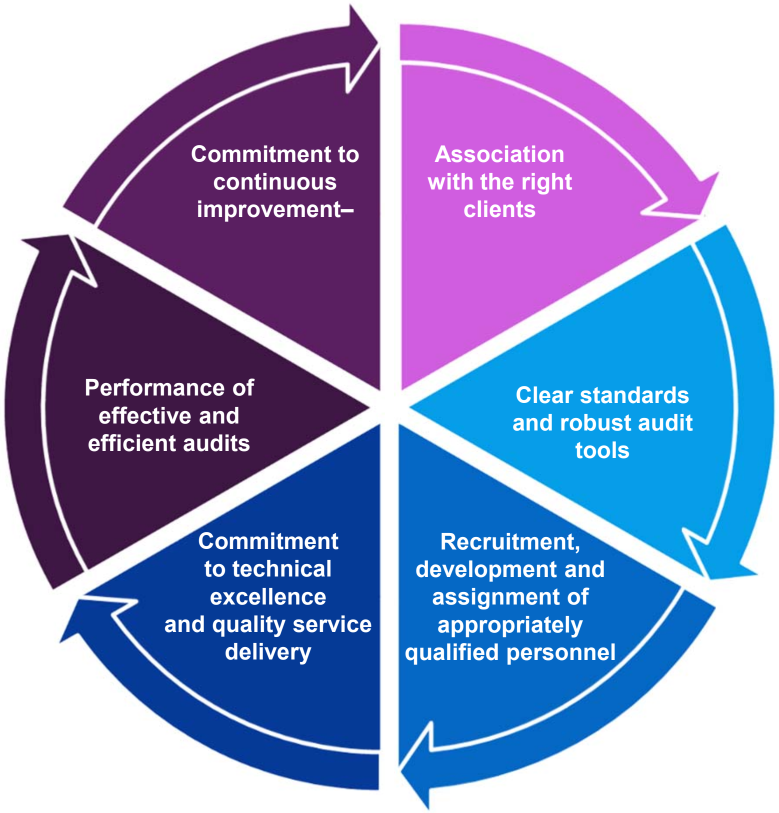
Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

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

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

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



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

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

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

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