

CORPORATE MANAGEMENT COMMITTEE

4 SEPTEMBER 2008

APPENDIX 'B'

ISA 260 REPORT OF EXTERNAL AUDITOR



APPENDIX 'B'

INFRASTRUCTURE, GOVERNMENT AND
HEALTHCARE

External Audit: Audit
Memorandum – Report
to those charged with
governance

Runnymede Borough
Council

14 August 2008

AUDIT

Content

The contacts at KPMG in connection with this report are:

Neil Thomas

Director
KPMG LLP (UK)
Tel: 0207 311 1379
Fax: 0207 311 4121

Katy Ball

Audit Manager
KPMG LLP (UK)
Tel: 0207 311 1543
Fax: 0207 311 4121

Rowena Mistry

Assistant Manager
KPMG LLP (UK)
Tel: 0207 311 6496
Fax: 0207 311 6535

Executive summary

Use of Resources

Accounts and Annual Statement of Governance

Appendices

1. Proposed audit opinion
2. Proposed value for money conclusion
3. Audit differences
4. 2007-08 accounts performance improvement observations
5. Audit reports produced in 2007-08
6. ISA 260 Declaration of independence and objectivity
7. Audit fee
8. Management representations letter

Page

2

4

5

10



Section one

Executive summary

Purpose of this document

The Audit Commission's Code of Audit Practice (the Code) requires us to provide a summary of the work we have carried out to discharge our statutory audit responsibilities together with any governance issues we have identified. We report to those charged with governance (in this case the Corporate Management Committee). We are also required to comply with an International Standard on Auditing which sets out our responsibilities for communicating with those charged with governance (ISA260).

This report meets the requirements of the Code and the ISA260. It summarises, for the benefit of the Corporate Management Committee of Runnymede Borough Council (the Council), the key issues identified during the course of our audit of the financial statements for the year ended 31 March 2008. It has been prepared for presentation to the Corporate Management Committee on 4 September 2008.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit and Inspection Letter (jointly with your Audit Commission Relationship Manager) to close our audit work for the 2007-08 year.

Respective responsibilities of the appointed auditor and the audited body

Use of Resources

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

Our responsibility is to satisfy ourselves that the Council has put in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to its corporate performance management, and also its financial management arrangements and reporting on these arrangements.

We are required to be satisfied that you have put proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. Our findings are set out in more detail in section two of this report and our proposed conclusion is set out in Appendix 2.

Accounts and Annual Statement of Governance

The Council is responsible for putting into place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income for the relevant financial year. The Council is also responsible for preparing and publishing with its financial statements an Annual Statement of Governance.

We have now completed the audit in line with the deadline. We have not identified any issues in the course of the audit that are considered to be material. On receiving your management representations letter we therefore propose to issue an unqualified audit opinion on 4 September 2008. Our findings are set out in more detail in section three of this report and our proposed opinion on the Council's 2007-08 accounts is presented in Appendix 1.

Reports

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to their attention in the course of the audit in order for it to be considered by the body concerned or brought to the attention of the public.

We did not issue a report in the public interest during the 2007-08 period.

Certificate

We are required to certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to those charged with governance and to issue a draft opinion on the financial statements.

There are no issues that have come to our attention during the course of the audit that would cause us to delay the issue of our certificate of completion of the audit.

Section two

Executive summary

Audit status

At the date of issue of this memorandum our detailed audit work is substantially complete subject to completion of audit work on the independent confirmation of bank and investment balances not yet received. Should any further matters arise in concluding our work, we will raise them with the Director of Finance and Chairman of the Corporate Management Committee.

We now require from you a signed management representation letter, as set out in Appendix 8.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Runnymede Borough Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have set out a more detailed declaration of our independence and objectivity in Appendix 6 in accordance with ISA 260.

Fees

Your audit charge for the 2007-08 period was £83,683 (excluding VAT). This includes a fee of £15,883 paid to the Audit Commission for work performed in respect of your 2008 Use of Resources and Data Quality Assessments. In addition to this, you also paid fees totalling £38,250 charged, by KPMG LLP and the Audit Commission, within the 2007-08 period relating to the certification of 2006-07 grant claims. This fee was contained within the totals agreed with you in our agreed 2007-08 audit plan.

KPMG LLP has also provided VAT advisory services to the Council during the 2007-08 period. This work does not form part of the statutory audit service and resulted from a separate tender exercise. Fees associated with this work were £4,600 (excluding VAT).

Use of resources

We are required to be satisfied that you have put proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources. We reach this conclusion by considering your self assessment on Use of Resources (UoR) in addition to the review of other information relating to the Council's performance.

Based upon the work undertaken to date, we anticipate concluding that you have continued to make proper arrangements during 2007-08 to secure economy, efficiency and effectiveness in the use of your resources.

Introduction

Within our audit plan we outlined the various work streams we use to assess whether you have appropriate arrangements in place to ensure that your resources are deployed effectively. Our conclusion is based on these work streams, including your use of resources (UoR) self assessment and our cumulative audit knowledge.

UoR assessments

This assessment analyses your performance against the five themes published by the Audit Commission. The scoring of the themes ranges from one (inadequate) to four (performing strongly). A score above level two is sufficient to support an unqualified value for money conclusion. Your results for last year (work performed by the Audit Commission) are summarised below:

Financial Reporting	4	This work was undertaken in summer / autumn 2007 by the Audit Commission (the Council's previous external auditors) and the report was finalised in December 2007.
Financial Management	4	
Financial Standing	4	
Internal Control	3	
Value for Money	3	

As is reflected above, in 2007, the Audit Commission assessed your overall performance as level four, performing strongly. We note that you were one of only thirteen district councils to achieve this rating. Our 2008 assessment (which considers the 2007-08 financial year) is being undertaken in August and September. We anticipate that the findings of this work will support an unqualified value for money conclusion.

Other work

If we are asked to do so, or if we identify a need for it, as auditors we are expected to perform other work as necessary to meet our responsibilities under the Audit Code of Practice. During the 2007-08 period, we have not identified any additional work to be performed to support our 2007-08 Use of Resources conclusion.

During the 2007-08 period we have worked with Internal Audit to place reliance on their work as far as possible. Throughout the year we reviewed Internal Audit reports produced in accordance with the Internal Audit Plan. The findings from these reviews have assisted us in forming our VfM conclusion which is issued with our opinion on the 2007-08 accounts.

Section Three

Accounts and Annual Statement of Governance

We have now completed the audit in line with the deadline. We have not identified any issues in the course of the audit that are considered to be material. On receiving your management representations letter we therefore propose to issue an unqualified audit opinion on 4 September 2008. We have also provided you with a summary of the accounts production process and how this can be improved in the future.

Introduction

The tasks we perform in our review of your financial statements are split between those which are undertaken before, during and after the accounts production. We have summarised them below:

Work Performed	Accounts production stage		
	Before	During	After
1. Business Understanding: review your operations.	✓	✓	-
2. Controls: assess the control framework.	✓	-	-
3. Prepared by client list: 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 & opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

We reported on the work we performed relating to the pre-accounts production stage as part of our Interim Audit. Below we focus on stages five and six which we perform post-accounts production:

Accounts Production

Your accounts production process is assessed as part of our UoR assessment. As part of the initial feedback on this process we have considered the production process against three criteria:

Element	Commentary
Completeness of draft accounts	We received a set of complete draft accounts prior to the commencement of the audit in accordance with our agreed timetable. Accounts were sent to us on 12 June 2008, and our onsite work commenced on 23 June 2008. During the course of our audit Management has made a number of minor disclosure and presentational changes to the draft accounts. These are summarised within Appendix 3.
Quality of supporting working papers	The quality of supporting working papers provided to us was excellent. On the first day of our onsite audit we were provided with a set of supporting documents which were clearly referenced to the financial statements.
Response to audit queries	Runnymede finance staff were available for questions and queries throughout the course of our audit. Key officers ensured we were aware of booked annual leave in order we could plan our work effectively. We thank the finance team for their co-operation throughout the visit which enabled the audit to progress smoothly.

Accounts and Annual Statement of Governance (continued)

Testing

During the course of our audit we have performed testing to provide ourselves with assurance over the balances disclosed within the financial statements. The level of testing undertaken is determined on the basis of:

- a. the reliance we place on the financial controls and systems in place (this was considered at the time of our interim audit visit);
- b. the value (materiality) of the balance being considered; and
- c. the level of inherent, fraud and control risk attached to the balance being considered.

We have detailed below the key judgemental areas that underpin the financial statements and which have been subject to audit. Alongside the description of these areas we have provided you with our commentary on the status of each issue and its resolution.

Area	Description	Status/ Resolution
Fixed Asset: Asset Disposal	<p>During the 2007-08 period, management identified £1,182K of infrastructure assets held within the Fixed Asset Register which are now the responsibility of Surrey County Council. These are as follows:</p> <ul style="list-style-type: none"> • Highway works associated with the Chertsey Town Centre Development Area: Significant infrastructure improvements were needed at the start of this scheme in early 1990's, particularly a bridge over the railway. Government grant and developer contributions paid for most of the highway work, with Runnymede paying £645,307 towards highway improvements. • A pedestrian scheme established during the 1990's within Egham Town Centre. This cost the Council £327,966. • An improvement scheme to the main shopping street (Guildford Street) was constructed and paid for by Runnymede during the early 2000's costing a further £136,753; and • A road - Gogmore Lane - for access to properties to the rear of Guildford Street built in the 1970s at a cost of £74,000. <p>As the cost of repairs and maintenance on these assets is the responsibility of Surrey County Council it is considered inappropriate for the Council to reflect them in its financial statements.</p>	<p>Given these assets are no longer the responsibility of the Council, we discussed with management the available accounting treatments to remove these assets from the Council's balance sheet. We agreed to reflect the removal of the assets as a disposal.</p> <p>The 'disposal' creates a loss on sale which is evident within the Income and Expenditure Account.</p> <p>We have determined this to be an appropriate treatment and have reviewed supporting documentation to confirm these assets have been correctly removed from the Fixed Assets Register.</p>
Accounting for capital	<p>The 2007 Statement of Recommended Practice (SORP) has imposed significant changes in the accounting treatment for capital items. The main changes are as follows:</p> <ul style="list-style-type: none"> • The introduction of a revaluation reserve to store gains on revaluation of fixed assets not yet realised through sales. This reserve was established on 31 March 2007 with a nil balance and does not therefore reflect gains prior to this date; and • The creation of a capital adjustment account which recognises the difference between the cost of assets and the capital financing set aside to fund them. • Prior to 2007-08 all impairments arising through a general fall in prices were taken to the Fixed asset restatement account. These losses are now treated as a revaluation. Where such a revaluation can be covered by any previous revaluation gains it is taken to the Statement of Recognised gains and losses. Where previous revaluation gains are not available, or are insufficient, the revaluation cost is taken to the relevant service cost within the Income and Expenditure account. 	<p>We confirmed balance sheet figures as at 31 March 2007 had been correctly adjusted within the current statement of accounts to accommodate the introduction of the revaluation reserve. This revaluation reserve was found to reflect gains relating to the 2007-08 period.</p> <p>The Council's balance within the Fixed asset restatement account of £285,250 as at 31 March 2007 was correctly written off to the capital financing account.</p> <p>We reviewed the basis for all impairments in the 2007-08 accounts (£1,111,315, 2006-07: nil). The most significant balances related to capital repairs and improvement works to housing. All items were found to have been appropriately treated in accordance with the SORP.</p>

Section Three

Accounts and Statement on Internal Control (cont'd)

Area	Description	Status/ Resolution
<p>New Civic Centre</p>	<p>The new Civic Centre represents the largest capital project undertaken by the Council. Total budgeted costs to complete this project were £16.576m, of which £15.519m were incurred in advance of 31 March 2008. The move into the new building occurred in May 2008.</p> <p>We note that the Council has imposed liquidated and ascertained damages upon the construction partner Willmott Dixon Construction Ltd of £153k as a result of the delay in completion of the new building, and that Willmott Dixon has responded with a counter claim. Following adjudication, the view of the retained design team and officers is that, matters have substantially been found in the Council's favour. As a consequence, it is not anticipated that the contractual commitments will require any change to the budget provision and that no provision or contingent liability should be reflected in the 2007-08 financial statements.</p> <p>Total expenditure on all capital schemes was £15.216m in 2007-08 of which £9.517m related to the new Civic Centre. The Council is yet to confirm the sale of the old Civic Centre, which is expected to take place in the 2008-09 financial year.</p>	<p>We have reviewed capital additions for the 2007-08 period and confirmed a sample of transactions to supporting records to confirm the treatment of capitalised expenditure in accordance with FRS 15.</p> <p>We note that the sale of the original Civic Centre has been subject to delay, and is yet to take place. This will be reflected in future financial statements. We will review the terms of any agreement for the sale of the old Civic Centre in order to ensure that this is accurately reflected within future financial statements.</p> <p>As at 31 March 2008, the Council has usable capital receipts of £7.957m which can be used to fund future capital projects.</p>
<p>Provisions / Provision for bad debt</p>	<p>In accordance with FRS 12, a provision is a liability that is of uncertain timing or amount, to be settled by the transfer of economic benefits. There are no provisions included within the 2007-08 financial statements.</p> <p>The Council has a provision for bad debt of £1,143,515 within the accounts (2006-07: £1,173,216). We note that of this amount £536,900 relates to a provision for council tax arrears and £606,615 to a provision for council tenant arrears and 'other debtors'.</p>	<p>We have discussed and confirmed with management that there are no specific provisions required within the 2007-08 financial statements.</p> <p>Our audit work has involved review of the assumptions for the Council's calculation of bad and doubtful debt and testing to confirm the validity of this balance.</p> <p>We are satisfied that the Council has consistently applied an appropriate methodology when calculating the provisions disclosed within note 39 to the financial statements. This was found to be consistent with previous periods.</p>
<p>Financial Instruments</p>	<p>The 2007 Statement of Recommended Practice (SORP) has also imposed significant changes in the accounting treatment financial instruments with the introduction of FRS 25, FRS 26 and FRS 29.</p> <p>As a result of the application of these standards, Interest accrued on investments is now required to be reflected as an increase in the value of the investment, rather than as a debtor in the balance sheet.</p> <p>In addition, interest payable and interest receivable are accounted for on the basis of the effective interest rate for each financial instrument and are no longer based on the cash flows fixed or determined by the contract in place.</p> <p>All investment balances within the accounts are now required to be disclosed at their 'fair value'. This ensures the value of such assets reflects a better estimate of their future worth as opposed to their cost of acquisition.</p>	<p>We confirmed that no material changes arose as a result of adopting these new accounting standards which would require the need to restate the balance sheet as at 31 March 2007. Minor adjustments have been absorbed within the 2007-08 Income and Expenditure account.</p> <p>We have reviewed the investment valuation schedule and recomputed the effective interest rates for each investment, ensuring that the Council has computed the effective interest rate as per SORP guidance.</p> <p>Within the draft accounts the Council made a fair value calculation of its investments greater than one year by rounding the maturity date to the nearest year rather than applying the actual date of maturity. During the course of our audit we requested the Council adjusted these calculations to reflect the actual date of maturity. This adjustment is detailed within Appendix three.</p>

Section Three

Accounts and Statement on Internal Control (cont'd)

Area	Description	Status/ Resolution
Pension fund	<p>Runnymede Borough Council is a contributor to the statutory pension fund administered by Surrey Council. The value of the fund is calculated by the fund actuary (Hymans Robinson) for Runnymede Borough Council and formally reviewed every three years.</p> <p>As at 31 March 2007, the pension fund was valued at a deficit of £12.360m. During the current year the actuarial assumptions used to calculate the value of this deficit have been reviewed. The revised valuation of the fund as at 31 March 2008 has revised the Council's pension deficit to £7.033m.</p>	<p>We have reviewed the assumptions applied by the fund actuary in the current period and have found these to be appropriate.</p> <p>All pension disclosures within the 2007-08 financial statements have been agreed to the report of the fund actuary.</p> <p>We have also sought a letter of assurance from the Audit Commission as administering authority auditor for the Surrey County Council Pension Fund. This letter provides confirmation that there were no significant issues or concerns that have come to light during the course of their audit.</p> <p>We note that the Council's share of the scheme's total assets has decreased from 3.04% to 3.03%. When applied to the total scheme value of £1,724m in 2007-08 the percentage change in the allocation of assets has a potential impact of £0.256m.</p>

In accordance with ISA 260 we are required to communicate all corrected and uncorrected audit differences to those charged with Governance. We are also required to report any material misstatements which have been corrected by management and which we believe should be communicated to the Corporate Management Committee to help you meet your governance responsibilities.

During the audit testing process we have not identified any significant issues that have not been adjusted by management. None of the adjustments made since the preparation of the draft accounts are considered to have a material effect on the financial statements.

During the course of our audit testing we identified six performance improvement observations which are included within Appendix 4 to this report. None of these observations are considered to be priority one, that is presenting an issue fundamental and material to your system of internal control.

Accounts and Statement on Internal Control (cont'd)

Opinions and Representations

As part of the financial statements finalisation process, we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided this at Appendix 7.

Those charged with governance are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a draft of this representation letter to Stuart Cawthorne (Director of Finance). We have also included a copy of this within Appendix 8. Once we have received your representations as outlined above we will proceed to issuing our audit opinion.

Except for our commentary above, we do not have any other matters that we wish to draw to your attention before we issue our opinions.

Compliance with ISA260 Reporting Requirements

ISA260 requires us to communicate to those charged with governance "audit matters of governance interest that arise from the audit of the financial statements".

We have included within this Audit Memorandum:

- our views about the qualitative aspects of your accounting practices and financial reporting (Section Three);
- details of our proposed audit report (Appendix 1);
- details of any uncorrected misstatements within the financial statements (Appendix 3); and
- the final draft of the management representations letter (Appendix 8).

We are also required to report:

- any material weaknesses in internal control identified during the audit;
- any matters specifically required by other ISAs (UK and Ireland) to be communicated to those charged with governance; and
- any other audit matters of governance interest.

Appendix 1: Proposed audit report

Independent auditor's report to the Members of Runnymede Borough Council

Opinion on the statement of accounts

We have audited the Authority Statement of Accounts and related notes of Runnymede Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority statement of accounts comprises the Explanatory Foreword, the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. The Authority 2007-08 Statement of Accounts has been prepared under the accounting policies set out in the Statement of Principle Accounting Policies.

This report is made solely to Runnymede Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Runnymede Borough Council, as a body, 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 Runnymede Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance's responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the Authority statement of accounts, and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority statement of accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the statement of accounts. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority statement of accounts, and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority statement of accounts, and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Authority Statement of Accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority Statement of Accounts and related notes.

Opinion

In our opinion:

The Authority Statement of Accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

KPMG LLP
Chartered Accountants
London

4 September 2008

Appendix 2: Proposed use of resources conclusion

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The Authority 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent me from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, We are satisfied that, in all significant respects, Runnymede Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

KPMG LLP
Chartered Accountants
London
4 September 2008

Appendix 3: Audit differences

We are required by ISA (UK and Ireland) 260 *Communication of Audit Matters to Those Charged with Governance* to communicate all uncorrected misstatements, other than those that we believe are clearly trivial. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Corporate Management Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of Runnymede Borough Council for the year ended 31 March 2008.

Corrected audit differences

Detailed below are the audit differences identified by our audit of the financial statements that have been corrected by Runnymede Borough Council.

Note number	Balance narrative	Current balance (£000's)	Correct balance (£000's)	Variance (£000's)
CAPITAL EXPENDITURE ON HRA PROPERTY: Adjustment to correct the use of capital receipt for financing capital expenditure on HRA property which was overstated in the notes to the Housing Revenue Account				
75 – Capital Expenditure on HRA Property	Capital receipts – Site redevelopment schemes	1,267	833	(434)
75 – Capital Expenditure on HRA Property	Capital receipts – Tenants cash incentives / Home buy	301	0	(301)
FINANCIAL INSTRUMENTS: Recalculation of the fair values for investments outstanding at 31 March 2008 that had more than one year to maturity. The calculation is based on the number of days to maturity rather than the rounded number of years.				
Note 43 – Fair value of Financial Instruments	Financial assets – loans and receivables – Long term investments	7,466	7,525	59

Uncorrected audit differences

There were no uncorrected audit differences.

Presentational issues

During the course of our audit we identified a number of very minor presentational issues. These have all been amended by the Council and were not considered to be significant to warrant reporting on an individual basis.

Appendix 4: Accounts performance improvement observations

This appendix summarises the performance improvements that we have identified relating to the accounts production process while preparing this report. We have given each of our observations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for performance improvement observations raised

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.



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.



Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.



No.	Risk	Issue and recommendation	Management response / Officer and due date
Compliance with the Council's investment policy			
1	C (two)	<p>The Council's Investment Policy states 'for short term investments, banks must hold a minimum short term credit rating of F1 and a combined individual and legal rating of no less than B/C 4 at the time the investment is arranged'. During our review of investments held at the balance sheet date we noted that an investment of £1m was made with a counterparty with an individual credit rating of C. This represents non-compliance with investment strategy, and a risk of the Council entering investments into portfolio with a weak credit rating.</p> <p>Officers should ensure all officers are aware of the requirements outlined in the Investment policy and should ensure these are complied with.</p>	<p>Accepted. Our list of approved counterparties has been amended to remove institutions with a legal rating of C.</p> <p>Associate Director of Finance</p> <p>Implemented with immediate effect.</p>
Demonstrating timely completion and review of Payroll Reconciliations			
2	C (two)	<p>Payroll reconciliations between the Task (Ledger) and Moorepay (payroll provider) statement are undertaken on a monthly basis. However, our audit found this reconciliation is not signed by the preparer and there is no evidence of it having being reviewed. We also identified instances where reconciling items did not appear to have been identified in a timely manner.</p> <p>We recommended that officers should ensure this reconciliation is performed on a timely basis each month, and that it is signed and dated by preparer and reviewer.</p>	<p>Accepted.</p> <p>Associate Director of Finance</p> <p>Implemented with immediate effect.</p>
Review of declaration forms			
3	C (three)	<p>We have noted that the declaration forms are completed by members and officers and reviewed by the Principal Accountant. However, there is no evidence to demonstrate this review.</p> <p>We recommend that all declaration forms display evidence of having been subject to review.</p>	<p>Accepted.</p> <p>For our next exercise (for the 2008/09 accounts), the declaration form will include evidence of review in the form of a signature and date by the Principal Accountant or Assistant Director of Finance, and the Director of Finance or Monitoring Officer.</p>

Appendix 5: Audit reports produced

This report does not duplicate significant matters previously communicated to those charged with governance. A summary of the reports issued in the year to date is set out below.

Report	Date issued
2007-08 Audit Plan	May 2007
Audit Commission: Use of Resources - confirmation of 2007 scores	March 2008
2007-08 Interim report	April 2008
2008-09 Audit Plan	May 2008
2007-08 Accounts: ISA 260 Report	August 2008

Appendix 6: ISA 260 Declaration of independence and objectivity

Declaration of Independence and Objectivity 2007-08

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired"

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

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

- o Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence;
- o The related safeguards that are in place; and
- o The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

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

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

General procedures to safeguard independence and objectivity

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

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

Appendix 6: ISA 260 Declaration of independence and objectivity (continued)

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

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

Auditor Declaration

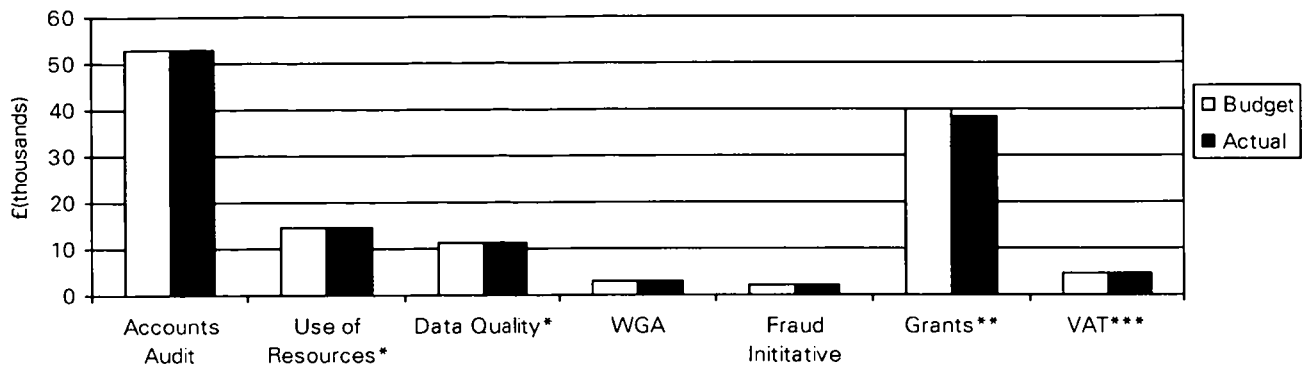
In relation to the audit of the financial statements of Runnymede Borough Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement partner and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Details of our fees for the financial year are given in Appendix 7.

Appendix 7 – audit fee

This section summarises our overall arrangements for delivering your external audit in 2007-08. To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2007-08 agreed external audit fee:

External audit fee for 2007/08 (excluding VAT)



- * Fees relating to the 2007 Use of Resources and Data Quality assessments were invoiced to you separately by the Audit Commission who carried out this work.
- ** Of the £38,250 fee charged in respect of grant claims during the 2007-08 period, £6,217 was invoiced by the Audit Commission for the completion of grant claim audits with a deadline prior to 1 October 2007. All remaining claims during the period were audited and invoiced by KPMG LLP.
- *** This work does not form part of the statutory audit service and resulted from a separate tender exercise. Fees associated with this work were £4,600 (excluding VAT).

Appendix 8: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of Directors, Officers and Members of the Council, the following representations given to you in connection with your audit of the financial statements for Runnymede Borough Council for the year ended 31 March 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Runnymede Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Council to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2008.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Council involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others;
- have disclosed to you our assessment as to whether the financial statements could be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Appendix 8: Draft management representation letter (continued)

With reference to the specific issues on which you have requested assurances, we confirm that we are not aware of:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Corporate Management Committee on 4 September 2008 .

Yours faithfully,

Stuart Cawthorne

Director of Finance

Signed on behalf of Runnymede Borough Council