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Report to those charged with governance (ISA 260) 2013/14

Surrey Heath Borough Council

DRAFT: 3 September 2014

Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Fleur Nieboer, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

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Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Surrey Heath Borough Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to the Authority in April 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2014 (interim audit) and July and August 2014 (year end audit).

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

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1 and follow-up of prior year recommendations is included in Appendix 2.

Acknowledgements

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

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Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding, subject to one suggestion we have made for additional information to be added, which the Authority has agreed to amend. This is to include a statement of the effectiveness of the governance framework and that arrangements continue to be fit for purpose.
Audit adjustments	We are pleased to report that our audit of your financial statements did not identify any material adjustments. The Authority made a small number of non-material adjustments, most of which were of a presentational nature. There was no impact on the General Fund. We have raised a low priority recommendation, included in Appendix 1.
Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified no significant risks specific to the Authority during 2013/14 with respect to the financial statements except for risk relating to the triennial valuation of the pension fund liability. We also highlighted other changes in the CIPFA Code of Practice on Local Authority Accounting which were reviewed in the course of the audit. Our audit methodology incorporates the risk of management override of controls as a default significant risk at all our clients. The audit work and procedures we have performed in relation to these are detailed on page 6. We did not identify any issues as a result of our work.
Accounts production and audit process	The Authority has good processes in place for the production of the accounts and good quality supporting working papers for most sections of the accounts. However, improvements were required to the working papers for reconciling the general ledger to the financial statements. Officers dealt efficiently with audit queries, however there were challenges in getting effective responses on areas such as cashbook reports and postings to ledger for our work on cut off of income and expenditure. This had an impact on ensuring the audit process was completed within the planned timescales. We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.
Control environment	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.

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Headlines

Completion	Subject to a final review of the revised financial statements and a final Director review, our audit of the financial statements is substantially complete. We will also need to complete procedures on Whole of Government Accounts (WGA) in advance of the 3rd October deadline. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

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Proposed opinion and audit differences

We have identified no issues in the course of the audit of the audit that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

The wording of your Annual Governance Statement accords with our understanding, subject to the amendments that we have discussed with you

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Performance and Audit Scrutiny Committee on 24 September 2014.

Audit differences

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

The final materiality level for this year's audit of the Authority's financial statements was set at £675k. Audit differences below £45k are not considered significant.

We did not identify any material misstatements. We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

We have made one comment in respect of its content which the Authority has agreed to amend. This relates to additional detail required on the results of the review of effectiveness of those charged with governance and that arrangements remain fit for purpose.

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Section three

Key financial statements audit risks

We have worked with officers throughout the year to discuss specific risk areas.

In our External Audit Plan 2013/14, presented to you in April 2014 we identified the key risks affecting the Authority's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

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

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our 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, did not identify any issues.

Key audit risk	Issue	Findings
LGPS triennial valuation	During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The IAS 19 numbers included in the financial statements for 2013/14 are based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.	We have been provided with assurance from the auditors of the Pension Fund that the data provided to the actuary agrees back to source systems, and that the assumptions upon which the valuation is based are reasonable. We have also undertaken a sample test of the source employee data that was provided to the Pension Fund administering authority to ensure accuracy to the payroll system. We have not identified any issues during the course of our work in this area.

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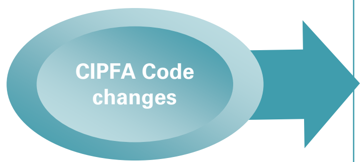
Key financial statements audit risks

Key audit risk	Issue	Findings
	Although there have been no significant changes to the CIPFA Code of Practice on Local Authority Accounting , the following changes have been reviewed as part of our audit work: ▪ The Code clarifies the requirements for the revaluation of non current assets under IAS16, that valuations should be carried out with sufficient regularity to ensure the carrying amount does not differ materially from the fair value. Items within a class of property, plant and equipment should be revalued simultaneously. ▪ The Code includes revisions as a result of the June 2011 Amendments to IAS19 Employee Benefits. The adoption of the 2011 Amendments may require the restatement of prior year figures in relation to post employment benefits. ▪ The Business Rates Retentions scheme came into force on 1 April 2013. However, successful rating appeals prior to 1 April 2013 will have to be met out of Authority funds The Valuations Office should notify the Authority of appeals in progress, and sufficient provision will be required in respect of these.	PPE We have reviewed the Authority's approach to revaluation of each class of asset and are satisfied that it is reasonable. We have tested a sample of properties that have been revalued back to schedules received from the valuer and are satisfied that revaluations have been appropriately reflected in the financial statements that there has been a process for challenging the valuations received. IAS19 We have reviewed the accounting treatment that the Authority has applied in respect of employee benefits and are satisfied that this is in line with the Code. NDR We have undertaken a detailed review of the accounting treatment that the Authority has applied to its NDR transactions and are satisfied that it is in line with the Code, subject to some minor amendments that the Authority has agreed to action. We have also reviewed the approach to calculating the provision in relation to appeals. We consider this to be reasonable and in line with other similar authorities.

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Key financial statements audit risks

Key audit risk	Issue	Findings
Management override of controls	Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Professional standards require us to communicate the fraud risk from management override of controls as significant.	Our Audit Plan, shared with the Performance and Audit Scrutiny Committee in 18 June 2014, confirmed that we had not identified any specific additional risks of management override of controls at the Authority. Our audit methodology incorporates the risk of management override of controls as a default significant risk. We have undertaken our procedures over accruals, income, expenditure, journals, debtors and creditors and have not identified any circumstances which lead us to believe that there has been any management override of controls and thus an increased risk of fraud.
Fraud	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. However, for Local Authorities, we do not consider this to be a significant risk as there is unlikely to be an incentive to fraudulently recognise revenue.	We were able to rebut this presumed risk through our work on income and expenditure. This work did not highlight any issues relating to the fraud risk from revenue recognition.

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Accounts production and audit process

The Authority maintained the quality of the accounts and the supporting working papers.

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

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2014. However, the Whole of Government Accounts (WGA) return was not received until 16 July 2014, which was after the national deadline of 15 July 2014.
Quality of supporting working papers	The quality of working papers provided met the standards required.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time. In some cases, however, we experienced delays, specifically in relation to the general ledger reports and cashbook summaries.

Prior year recommendations

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

We raised one high priority recommendation that the Authority should ensure that positive responses are obtained in respect of annual declarations of related party interests. This has been partially implemented , as the returns have been amended to require confirmation regardless of response. However, ten returns had not been received by the time of the audit. We raised four medium priority recommendations, of which two have been implemented and two are superseded. We also raised one low priority recommendation which remains outstanding. See Appendix 2 for more details.

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Control environment

The Authority's organisation control environment is effective, and controls over the key financial systems are sound.

During March 2014 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

We found that your organisational control environment is effective overall.

Review of Internal Audit

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We reviewed internal audit's work on the key financial systems. We did not identify any significant issues from internal audit's work.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on our own work on controls over the year end process, the controls over the financial systems are sound.

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Surrey Heath Borough Council for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Surrey Heath Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 2 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Executive Head of Finance for presentation to the Performance and Audit Scrutiny Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

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VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

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Appendix 1: Key issues and recommendations

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

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

We will formally follow up these recommendations next year at our interim audit.

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

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❸	**Cut off testing** For four items in our cut-off testing sample, all relating to car parking income, we identified that cash had been collected on the last day of the financial year, but had not been banked and posted to the ledger until the first day of the new financial year. The total value was slightly above the threshold of £5k that the Authority considers for making accruals at the year end. Our analysis does not indicate that this could lead to a material misstatement, however, we recommend that the process for accruing for income and expenditure that is greater than the threshold value that the Authority has set is re-enforced and applied for future accounting periods.	

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Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA* 260 Report 2012/13.

We re-iterate the importance of the outstanding recommendation which has been re-raised and recommend that this is implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	6
Implemented in year or superseded	2
Partially implemented/Outstanding	4

No.	Risk	Issue and recommendation	Status as at August 2014
1	❶	**Senior officers' related party interests** The last reminder for declarations of related party interests from senior officers was sent out in 2011/12. The template declaration does not require officers to make a return, stating no response will be interpreted as there being no related party declaration. It is a vital part of the Authority's governance arrangements to require positive confirmation via returns each year from all senior officers. Without this there is a risk that the Authority will not identify all senior officer related party interests. The Authority should mandate annual senior officer declarations, and remove the instructions that officers do not have to respond to ensure all forms are returned.	**Partially Implemented** We reviewed the returns from members and senior officers for the 2013/14 year, confirming that returns include positive confirmation of nil or other declarations. We noted that ten members' returns were still outstanding at the time of the audit and reliance was placed on the register of members' interests in preparing the related party disclosures. Two of the ten outstanding returns were subsequently submitted to the Authority's officers during completion of the audit.

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Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Status as at August 2014
2	2	**Agreement of the financial statements to the ledger** The Authority did not prepare an adequate working paper to map the Balance Sheet and Comprehensive Income and Expenditure Statement to the ledger. As a result additional work was required during the audit by both the Council and the audit team to agree the financial statements to the ledger. The Authority should prepare and retain working papers that show how the financial statements have been derived from the ledger, providing an audit trail tracking the ledger balances, manual adjustments, and financial statements entries. This should be prepared as part of the closedown process prior to the audit commencing and should be subject to quality review.	**Outstanding** For 2013/14, there was significant delay to obtaining a working paper that adequately mapped the Balance Sheet and Comprehensive Income and Expenditure Statement to the ledger. This resulted in additional work during the audit by both the Council and the audit team to agree the financial statements to the ledger.
3	2	**Journal authorisation** Our audit work had identified that not all journals are authorised in line with the Authority's authorisation procedures, and there was a lack of documentation retained to support and explain the rationale for some journals. Without strong disciplines concerning the raising and authorisation of journals, there is an increased risk of errors in the financial statements. The journal process should be strengthened by: • reviewing a journal listing report of all high value journals to ensure they have been appropriately authorised; and • retaining documentation for all journals to explain the purpose of the journal.	**Implemented** We undertook journals testing during our interim and year end audits and confirmed that there were no errors identified, with journals being authorised in line with financial limits.

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Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Status as at August 2014
4	2	**Budgetary control** Our review of budgetary control noted that: • finance reports to the Executive compare the forecast year end position against the budget. There is no detail of actual spend to date which would allow better to challenge the forecast; and • Budget variance explanations from service heads are not always received in a timely manner, meaning explanations are sometimes rolled forward from the prior month without update. Without strong financial management disciplines there is an increased risk of unforeseen overspends, particularly as funding cuts take effect. We recommend that finance reports to the Executive should detail actual spend to date as well as the forecast outturn. The Authority should also require all service heads to provide updated budget variance commentary on a monthly basis.	**Superseded** The finance reports from the Council's financial systems in 2013/14 are similar to previous years as based on the same systems and do not provide sufficient detail. The Council has implemented a new financial system in 2014/15 which is expected to improve the reporting.
5	3	**Property, plant and equipment** From our review of the Property Plant and Equipment disclosures and working papers we identified that vehicles are depreciated on a 20% reducing balance method, but there is no justification of this method which appears unusual for the type of asset. The Authority should also review whether the reducing balance method is an appropriate depreciation method for vehicles.	**Outstanding** From our review of depreciation on vehicles we confirmed that the Council continues to depreciate on a 20% reducing balance method.

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Appendix 2: Follow up of prior year recommendations (continued)

No.	Risk	Issue and recommendation	Status as at August 2014
6	2	**Authorisation of exit packages** In 2011/122011/12 we recommended that compromise agreements should be authorised by the chief executive which the Authority agreed to implement. In 2012/13 we tested five exit packages, of which two were 'managed exits' which involved compromise agreements. One had been authorised by the Chief Executive, but the second had been authorised by the Head of Human Resources (value of £9,390). Two further packages in our sample were voluntary redundancies, and for one of these the Authority was unable to demonstrate how the amount was calculated, though we do acknowledge it was less than statutory entitlement (value of £25,500). If exit package payments are not subject to a robust scrutiny and approval process, there is an increased risk that payments are made that do not demonstrate value for money. The Authority should clarify arrangements for scrutiny and approval of exit packages. It would be good practice to ensure payments that are not contractual are signed off by more than one officer. Arrangements are currently detailed in the Employment Stability Policy which was last reviewed in March 2010. Arrangements could involve different levels of approval dependent on the type and amount of the exit package.	**Implemented** We have confirmed that exit packages have been subject to more robust scrutiny and authorisation.

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Appendix 3: Audit differences

This appendix sets out the significant audit differences identified as part of our audit.

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

Unadjusted audit differences

We are pleased to report that there were no unadjusted audit differences.

Adjusted audit differences

We are pleased to report that there were no material adjusted audit differences.

Presentational Issues

We identified a number of presentational issues during our audit and these have all been amended by the Authority.

Other Matters

There are no other matters to be brought to the Authority's attention.

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Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

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 Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that 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 *Standing Guidance for Local Government Auditors* ('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:

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

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

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

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.

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Appendix 4: Declaration of independence and objectivity (continued)

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Surrey Heath Borough Council for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and Surrey Heath Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

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