

**PLEASE NOTE THE EARLIER  
START TIME FOR THIS  
MEETING**

*Please reply to:*

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Our ref: GH/AUD  
Date: 8 September 2010

**NOTICE OF MEETING**

**AUDIT COMMITTEE**

**DATE: THURSDAY 16 SEPTEMBER, 2010**

**TIME: 7.00 PM**

**PLACE: COUNCIL CHAMBER, COUNCIL OFFICES, KNOWLE GREEN, STAINES**

**TO: ALL MEMBERS OF THE AUDIT COMMITTEE**

M.T. Royer (Chairman)  
M.L. Bouquet

H.R. Jaffer  
L.E. Nichols  
S.J. Rough

Mrs C. Spencer  
H.A. Thomson

**EMERGENCY PROCEDURE**

In the event of an emergency the building must be evacuated. All councillors and staff should assemble on the Green adjacent to Broome Lodge. Members of the Public present should accompany the staff to this point and remain there until the senior member of staff present has accounted for all persons known to be on the premises.

**THE LIFT MUST NOT BE USED**

This Agenda and any Reports are available in Large Print on request. Contact: Gill Hobbs (01784) 444243

## RESPONSIBILITIES OF THE AUDIT COMMITTEE

### **Purpose**

To provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process

### **Core Functions**

- (a) To approve (but not direct) the internal audit's strategy, plan and performance.
- (b) To review summary internal audit reports and the main issues arising, and to seek assurance that action has been taken where necessary.
- (c) To consider the reports of external audit and inspection agencies.
- (d) To consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
- (e) To be satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and to take actions required to improve it.
- (f) To ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- (g) To review the financial statements, external auditors opinion and reports to members, and monitor management action in response to the issues raised by external audit.
- (h) To approve the annual Statement of Accounts.

### **MOBILE TECHNOLOGY – ACCEPTABLE USE**

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- Interfere with the PA and Induction Loop systems
- Distract other people
- Interrupt presentations and debates
- Mean that you miss a key part of the decision

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*Thank you for your co-operation.*

## **A G E N D A**

**1. APOLOGIES**

To receive any apologies for non-attendance.

**2. DISCLOSURES OF INTEREST**

To receive any disclosures of interest from Members in accordance with the Members' Code of Conduct.

**3. MINUTES**

To consider the Minutes of the meeting held on 24 June 2010 (copy attached).

**4. EXTERNAL AUDIT REPORT ON 2009/10 AUDIT AND STATEMENT OF ACCOUNTS**

To receive a report from KPMG, the Council's External Auditors. (copy attached with a covering report from the Chief Finance Officer).

**5. CORPORATE RISK MANAGEMENT**

To receive a report from the Chief Finance Officer (copy attached).

**6. ANNUAL REVIEW OF THE SYSTEM OF INTERNAL AUDIT**

To receive a report from the Assistant Chief Executive (copy attached).

**7. COMMITTEE WORK PROGRAMME 2010/11**

The Committee is requested to consider and approve its work programme for 2010/11 (copy attached).

## **MINUTES OF THE AUDIT COMMITTEE**

**24 JUNE 2010**

### **Present:**

Councillors:

M.L. Bouquet	L.E. Nichols	Mrs C. Spencer
H.R. Jaffer	S.J. Rough	H.A. Thomson
	M.T. Royer	

In attendance: Councillors Mrs V. J. Leighton, Cabinet Member for Finance and Resources and Mrs M.W. Rough.

### **195/10 ELECTION OF CHAIRMAN**

**RESOLVED** that Councillor M.T. Royer be elected Chairman of the Audit Committee for the Municipal Year 2010-2011.

### **196/10 ELECTION OF VICE-CHAIRMAN**

**RESOLVED** that Councillor M.L. Bouquet be elected Vice-Chairman of the Audit Committee for the Municipal Year 2010-2011

### **197/10 MINUTES**

The minutes of the meeting held on 25 March 2010 were approved as a correct record.

The Chairman advised the Committee that the Head of Asset Management would not be attending the meeting as resolved at Minute 97/10, as there were no outstanding matters to be reported in relation to health and safety in leased properties.

### **198/10 CORPORATE RISK MANAGEMENT**

The Senior Auditor reported that the Corporate Risk Register had undergone its regular quarterly review and update by the Corporate Risk Management Group to ensure that actions were being taken to deal with the identified risks. Progress on actions proposed at the last review had been documented on the Register and some new actions added. The revised Register was considered to be an accurate reflection of the high level risks affecting the Authority.

In relation to Minute 97/10 (a) regarding health and safety in leased properties, the Senior Auditor confirmed that all the affected properties had now been reviewed and that a procedure document to clarify the health and safety responsibilities at each property would be drawn up shortly.

In response to questions from members on additional security measures to meet the requirements of the Government Code of Connection, the Senior

Auditor agreed to circulate a briefing note to the Committee summarising the measures needed and how this would affect councillors' IT equipment.

The Senior Auditor agreed to seek clarification from the Head of Environmental Health and Building Control regarding the review of the risk assessment on contaminated land and include this information in the register. Members also requested the inclusion in the next Risk Register of risks specifically in relation to grants and funding, in view of the change in national government and the current economic situation.

**RESOLVED** that the contents of the updated Corporate Risk Register be noted and accepted.

**199/10            AUDIT SERVICES ANNUAL REPORT 2009/2010**

The Senior Auditor presented the report of the Head of Audit Services which summarised the work undertaken by Audit Services during the period April 2009 to March 2010 and provided an assurance opinion that the Council's internal control environment was adequate and effective. A list of outstanding audit recommendations had been circulated to members of the committee, separately.

She gave an update on the two issues which had been outstanding as at 31 March 2010 in relation to service plans and health and safety in leased properties, for which progress was noted.

The Committee expressed concern regarding the length of time that an action relating to Car Park machines had remained outstanding and sought assurance from the relevant Head of Service that the action would be completed by September 2010.

**RESOLVED** that the Audit Services Annual Report for the period April 2009 to March 2010, and the overall opinion on the Council's systems of internal control, be noted and approved.

**200/10            ANNUAL GOVERNANCE STATEMENT**

The Chief Finance Officer presented his report and outlined the content of the Annual Governance Statement (AGS) 2009-10. The Statement reviewed arrangements for corporate governance and internal control as required by the Accounts and Audit Regulations 2006.

The AGS identified actions to remedy any significant weakness in internal control.

A member expressed concern that the review of governance arrangements had not been scrutinised since the Code of Corporate Governance Task Group completed its work in 2007-08.

As scrutiny was not a function of the Audit Committee, members agreed to place the Annual Governance Statement in the work programme for further discussion.

Councillor L.E. Nichols requested, under Standing Order 21.4, that the voting on the recommendation be recorded.

The voting was as follows:

FOR (6)	Councillors M.L. Bouquet, H.R. Jaffer, S.J. Rough, M.T. Royer, Mrs C. Spencer and H.A. Thomson
AGAINST (1)	Councillor L.E. Nichols

**RESOLVED** that

1. the draft Annual Governance Statement be approved for inclusion within the Statement of Accounts for 2009/10 and
2. the improvement action identified in the Statement be endorsed.
3. the Annual Governance Statement be placed on the Committee's Work Programme for further discussion.

**201/10 OUTTURN AND STATEMENT OF ACCOUNTS**

The Chief Finance Officer presented the Statement of Accounts for 2009/2010 which was subject to review by the Council's External Auditors, and responded to questions from Members.

The Accounts and Audit Regulations required that the accounts for 2009/2010 be completed and approved by the Audit Committee by 30 June 2010, and be signed by the Leader of the Council and the Council's Chief Finance Officer.

The Chief Finance Officer advised members that a training session would be provided for the Committee ahead of next year's Statement of Accounts, to explain the impact of the requirements of the new International Financial Reporting Standards.

During consideration of the report, the Chief Finance Officer agreed to work with the Cabinet member for Finance and Resources, Councillor Mrs Leighton, to clarify the language and issues raised in the report to make it clearer for members to understand and re-circulate it to the Committee.

**RESOLVED** that

1. the draft Statement of Accounts for 2009/2010 be approved subject to the Chief Finance Officer including the amendments suggested at this meeting and
2. the Leader of the Council and the Council's Chief Finance Officer be authorised to sign the Statement of Accounts.

**202/10 COMMITTEE WORK PROGRAMME FOR 2010/2011**

The Committee considered its Work Programme for the 2010/2011 Municipal year. Members noted that any further issues raised at this meeting would be added to this Work Programme. An addition to the Programme would be to discuss the Annual Governance Statement.

**RESOLVED** that the Committee Work Programme for the 2010/2011 Municipal year, as amended above, be approved and adopted.



## **External Audit Report on 2009/10 Audit and Statement of Accounts**

**Audit Committee: 16 September**

**Resolution Required**

**Report of the Chief Finance Officer**

**REPORT SUMMARY**

### **How does the content of this report improve the quality of life of Borough Residents**

The process of reviewing of the Statement of Accounts and the Council's arrangements for use of resources provides reassurance to residents that the Council is properly reporting on how it is using resources on their behalf and that it is using those resources appropriately.

### **Purpose of Report**

To inform Members of the outcome of the External Auditor's 2009/10 audit.

### **Key Issues**

- No material differences were identified in the financial statements and KPMG anticipate issuing unqualified audit opinion on Statement of Accounts by 30<sup>th</sup> September 2010.
- The Auditors conclude that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- The use of resources assessment ceased in May 2010 so no scores will be issued in respect of the 2010 assessment.
- Key financial systems are generally sound.
- Four low level priority recommendations to strengthen internal control.
- One medium priority recommendation from 2008/09 has not been implemented but a mitigating control has been put in place in relation to this risk.
- KPMG will provide a verbal update at the meeting on their conclusions.

### **Financial Implications**

There are none

### **Corporate Priority**

All 12 Priorities

### **Officer Recommendations**

**The Audit Committee is asked to note the External Auditor's 2009/10 audit report ([Appendix A](#)).**

**That the Chief Finance Officer sign the letter of representation (as attached to Appendix F of the Auditors' report).**

**That the Audit Committee note the draft officer responses to the recommendations made in Appendix C of the Auditors report.**

**Please ensure that all recommendations detailed in the main report are shown here.**

**Report Author: Terry Collier, Chief Finance Office 01784 446296**

**Cabinet member: Councillor Vivienne Leighton**



## MAIN REPORT

### 1. BACKGROUND

- 1.1 External auditors appointed by the Audit Commission, KPMG, are required, in accordance with international auditing standards, to annually report to the Council on:
- Their opinion on the Statement of Accounts
  - Any uncorrected items in the Statement of Accounts
  - Qualitative aspects of the Council's accounting practices and financial reporting
  - The Annual Governance Statement
  - Their annual Value for Money conclusion
- 1.2 They also report annually on their audit of the Council's accounting and internal control systems.
- 1.3 The KPMG report on the 2009/10 audit is attached as **Appendix A**.

### 2. KEY ISSUES

#### **Financial Statements (Section Two, page 4)**

- 2.1 The final version of the Statement of Accounts, reflecting the minor amendments required, is attached as **Appendix B**. No material differences were identified by the auditors. KPMG acknowledge that the quality of the accounts and working papers was good and that officers dealt efficiently with audit queries within the agreed timescale.
- 2.2 One audit adjustment was implemented and the effect of this was to increase the balance on the General Fund by £54k. There were also a number of non-significant presentational adjustments which have also been processed
- 2.3 KPMG anticipate issuing an unqualified audit opinion by 30 September 2010. In addition they will report that the Annual Governance Statement is satisfactory and not misleading or inconsistent with other information gathered from the audit.
- 2.4 The auditor's were satisfied with the valuation of fixed assets and found the Council's capitalisation policy in line with the SORP. Fixed asset additions had been correctly capitalised in line with the Council's policy.
- 2.5 No errors were identified in the implementation of the change in accounting policy for Council Tax and NNDR and the subsequent adjustments made to restate the prior year comparatives.

#### **Use of resources (Section Three, page 15)**

- 2.6 KPMG concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.
- 2.7 Following the change in government, the use of resources assessment for local authorities ceased with immediate effect in May 2010. Therefore, the Council will not receive scores in respect of the 2010 assessment. KPMG have however provided some feedback on their use of resources work.

- 2.8 KPMG confirmed that their work prior to the cessation of the assessment indicated that overall the Council had maintained the level of performance seen in the prior year when it was judged to be performing adequately.

### **Other Matters**

- 2.9 The report confirmed that the overall control environment was effective. Key financial systems are generally sound and the auditor's made four recommendations to strengthen internal controls. These recommendations were in respect of system user access rights, suspense accounts and related party transactions. They were all categorised as Priority 3 which is low risk and will be implemented.
- 2.10 One medium priority recommendation from the previous year 2008/09 has not been implemented. A mitigating control has been put in place in relation to this risk and this was satisfactory.
- 2.11 The Council will need to prepare its 2010/11 accounts under International Financial Reporting Standards (IFRS). KPMG have reviewed progress against the implementation plan and held discussions with officers on key areas.

### **3. OPTIONS ANALYSIS**

- 3.1 Not applicable

### **4. PROPOSALS**

- 4.1 That the Assistant Chief Executive in his role as the statutory Chief Financial Officer, and the Chairman of the Audit Committee sign the draft letter of representation as appended to the auditor's report (Appendix F, page 28).
- 4.2 That the Committee note the recommendations made in Appendix C, page 22 of the auditor's report and draft responses made by Officers. Progress on implementation will be reported back to the next meeting of the Committee.

### **5. BENEFITS AND SUSTAINABILITY**

- 5.1 Not applicable

### **6. FINANCIAL IMPLICATIONS**

- 6.1 There are none.

### **7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

- 7.1 There are none

### **8. RISKS AND HOW THEY WILL BE MITIGATED**

- 8.1 There are none

### **9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 Not applicable

**Report Author: Terry Collier, Chief Finance Officer 01784 446296**

**Background Papers: There are none**





# **Spelthorne Borough Council**

## **Annual Report & Statement of Accounts 2009-2010**



**INVESTOR IN PEOPLE**

T Collier  
Chief Finance Officer

# Financial Statements and Annual Report

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## **Financial Review By the Chief Finance Officer**

During 2009-10 the Council had to continue to cope with the impacts of the economic recession. This reduced relative to budget some of our income streams, in particular planning development income. The combination of lower interest rates and delays in the timing of a couple of the Council's capital receipts push down below budget its underlying investment income by £160,000.

However, on the plus side the Council during 2009-10 was successful in reclaiming from HM Customs and Revenues £540,098 backdated VAT refund and interest relating to leisure income. This has been shown as an exceptional item in the Income and Expenditure account on page 17. This income has helped limit the use of reserves in 2009-10 helping to strengthen the Council's balance sheet.

The reductions in property and equity values has impacted on the pension FRS17 values through reducing the value of the Pension fund assets and thereby increasing the pension deficit by £16m and this is the major factor in reducing the Council net value on its Balance sheet and increasing the accounting deficit on the income and expenditure statement (before the effects are reversed out in the Statement on the Movement of the General Fund).

The Statement of Accounts is presented in accordance with the Code of Accounting Practice as required by the Accounts and Audit Regulations 2006.

Its purpose is to give electors, other local taxpayers, members, employees and other interested parties, clear information about the Authority's finances – what local services have cost, how the Council pays for them and what the assets and liabilities are at the year end.

The following paragraphs provide a brief explanation of the statements which make up the Statements of Accounts.

The core financial statements comprising: Income and Expenditure Account; Statement on Movement of General Fund Balance; Statement on Realised Gains and Losses; the Balance Sheet and Cash Flow Statement have been grouped together and the notes relating to those statement are likewise grouped together. The Council does not have any material financial interests in other accounting entities and therefore does not produce Group Accounts.

The accounts identify two categories of expenditure. Revenue is the day to day cost of providing services, which is met by Council Tax, charges for services and government grants. The other category is Capital Expenditure, which is where the Council purchases a fixed asset (which provides benefits to the Council for more than one year) or spends money on an existing asset to improve its value and to increase its life.

**The Income and Expenditure Account (page 17)** is the Council's main revenue account, covering income and expenditure on all services. The Income and Expenditure Account brings together all of the functions of the authority and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such it is intended to show the true financial position of the Council according to generally accepted accounting practice, before allowing for certain accounting treatments required by statute in the process of calculating council tax and for the ability to divert particular expenditure to be met from capital resources.

The outturn on the Income and Expenditure Account will be different to the movement on the General Fund balance for the year, because of the impact of statutory adjustments relating to capital accounting entries, charges for financing capital expenditure and employer's contributions to pension fund.

Any substantial deficit on the account (2009-10 deficit of £3.554 million) does not necessarily mean that immediate action is needed to cut expenditure or raise council tax. The large

movement in the deficit relative to 2008-09 reflects the impact of accounting entries relating to the asset impairments being lower in 2009-10 than in 2008-09. The Income and Expenditure Statement needs to be read in conjunction with the Statement of Movement on General Fund Balance, which explains what the underlying cash impact on the Council's reserves is.

The Council's Revenue expenditure is financed from Central Government grants and local taxpayers (through the Council Tax). The budget requirement for services before investment income and use of reserves for 2009-10 was £14,253,300. The net expenditure approved for services totalled £12,349,747, of which £1,049,000 was to be financed from reserves, thereby reducing the budget requirement and ultimately the call on Council Taxpayers.

An analysis of the Council's total gross revenue income and expenditure is shown on **page 6**.

Financial Reporting Standard (FRS) 17 requires authorities to provide clear information on the impact of the authority's obligation to fund the retirement benefits of its staff. Information has been received from the Actuary on the latest position as at March 2009, showing a deficit of £38.5 million for this Authority, which represents a £16 million increase relative to 2008-09. This largely reflects the impact of the economic recession and falling asset values reducing the fair value of the Council's share of assets in the Surrey Pension Fund. It must be emphasised that this calculation has been made for the specific requirements of FRS 17 and should not be used for any other purpose. There will be a separate Triennial Revaluation based on the Pension as at 31 March 2010, which is likely to feed through into increased employer pension contributions from 2011-12.

#### **Statement of Movement on General Fund Balance (page 18)**

The income and expenditure statement is based on generally accepted accounting principles and does not reflect statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes. In order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account needs to be reconciled to the balance established by the relevant statutory provisions. The Statement of Movement on the General Fund and Reconciliation Statement, shown on **pages 18-19**, provides the necessary reconciliation and summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance to show the underlying movement on the Council's General Fund Reserve (general contingency reserve).

The impact of the VAT refund resulted in the Council using a lower level of reserves than originally budgeted. Total transfer from reserves to support revenue expenditure was £0.937 million (see detailed breakdown on page 25) of which £302,000 was from the Business Improvement Reserve to support restructuring changes which will deliver ongoing revenue savings and £149,800 from the carry forward reserve to support budget items carried forward from 2008-09.

The outturn on the General Fund has resulted in a £62k net increase in the balance carried forward of the General Fund Reserve.

**The Statement of Recognised Gains and Losses (page 20)** brings together all the recognised gains and losses of the Council during the financial year, identifies those which have and have not been recognised in the Income and Expenditure Account and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefit

**The Balance Sheet** summarises the assets and liabilities of all the Council's activities. It shows the balances and reserves at the Council's disposal and the fixed and net current assets employed in its operations. The Council does not have any long term debt. The Balance Sheet is summarised on **page 21**.

**The Cash Flow Statement** gives the cash position of the Council for the year and shows that there was a net cash inflow during the year of £477k (net cash inflow £219k in 2008-09). The Cash Flow Statement is on **page 22**.

**The Collection Fund:** The Local Government Finance Act 1988 requires each charging Authority to operate a Collection Fund to account for the Council Tax and Business Rate Income and its distribution to Precepting Authorities (Surrey County Council and Surrey Police Authority) and Central Government. The Collection Fund is summarised on **page 48**.

This Authority's levy on the Collection Fund was set at £167.30 per Band D property (an increase of 4.7 %) after taking account of a transfer of £1.049m from reserves and a transfer of £141,750 into the Collection Fund following lower than expected collection rates for Council Tax during the previous year.

All the financial statements include comparable figures for the previous financial year.

## **Capital Expenditure**

Details of the Council's capital spending and the resources used to finance this are shown on **page 44**. The cost of using capital assets is reflected in the revenue accounts by way of depreciation charged to services.

The Local Government Act 2003 introduced a new system of capital finance from 1 April 2004. Under the new system, individual authorities are responsible for deciding their level of affordable borrowing, having regard to the *CIPFA Prudential Code for Capital Finance in Local Authorities*, which has been given legislative backing. The system is designed to encourage authorities that need, and can afford, to borrow for capital investment purposes to do so.

The introduction of the new arrangements allowed for the dismantling of the complex regulations that previously governed local authority capital finance. In contrast, the prudential system is based on principles rather than prescription and the Council is required to annually calculate a series of prudential indicators to ensure that its capital investment plans are prudent and affordable in the longer term.

The Council has taken the view that it will use capital receipts to fund its capital programme, but may in the future consider prudential borrowing for specific capital projects.

The Council prepares a 4 year capital programme on a rolling basis, which is then reviewed each year.

The capital programme is split into two categories, the Housing Investment Programme (HIP) and the other services programme. The HIP consists of renovation and renewal grants made to individuals and tenants of housing associations. This capital expenditure is directed at achieving the Council's housing objectives. The other services capital programme relates to non-housing activities of the Council including information technology, vehicle replacement and repairs/improvements of major assets.

Total capital expenditure in 2009-10 was £1.9 million which was considerably less than the previous year as there were no large individual capital schemes. A breakdown of the schemes making up this spend can be found in note 36 (page 44).



The following statement shows the total gross capital expenditure for the year and how it has been financed.

	<b>£'000</b>
Total Capital Expenditure	<b>1,904</b>
Financed by:	
Capital Grant	348
Capital Receipts	1,308
Contributions from external organisations	188
Revenue Resources & Reserves	60
<b>Total</b>	<b>1,904</b>

## **Revenue Expenditure**

An analysis of the Council's total gross revenue income and expenditure identifying major variances from the original budget is shown below.

The Council has always adopted the accounting practices recommended by the Chartered Institute of Public Finance and Accountancy. These accounts comply fully with their current requirements.

The change in the level of gross expenditure and income, identified below, is largely due to an increase, of approximately £6 million in the level of payments made in respect of housing and council tax benefits paid to claimants which is recovered by an increase in the level of housing benefit subsidy received from the Department of Work and Pensions (DWP).

During the year in order to make ongoing revenue savings to assist in improving the Council's financial position, the Council restructured its Streetscene department and reduced the size of its corporate Management Team. The cost of implementing this was £302,000 which has been funded from the Business Improvement Reserve. The ongoing savings equate to approximately £200,000 which represents a payback within two years.

Interest receipts from investments was £161,000 less than we had anticipated in the original budget, largely due to the later realisation of capital receipts and low short term interest rates. In particular, the receipt from the sale of the Stanwell day centre site (which the Council is making available for a new community health facility) was not received until March 2010, and bank rate remained at 0.5% for the whole of 2009/10. After taking account of the interest on the VAT refund total interest received was £1.12m.

<b>Comparison of Actual Expenditure 2009/10 to Budget</b>			
	<b>Revised Budget 2009/10</b>	<b>Actual Expenditure 2009/10</b>	<b>Variance Actual to Original Budget</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Gross Expenditure	47,810	54,367	(6,557)
Income - Government Grants	(26,738)	(32,987)	6,249
Income - Other	(6,504)	(6,931)	427
<b>NET SERVICE EXPENDITURE</b>	<b>14,568</b>	<b>14,449</b>	<b>119</b>
Interest on Balances	(1,020)	(1,120)	100
Business Improvement Reserve	0	(302)	302
Transfer from Earmarked Reserves	(874)	(440)	(434)
Contribution from General Reserves	(175)	(150)	(25)
<b>BUDGET REQUIREMENT</b>	<b>12,499</b>	<b>12,437</b>	<b>62</b>
<b>Financed by:</b>			
Revenue Support Grant and Non Domestic Rates	(4,591)	(4,591)	0
Precept on Collection Fund	(1,059)	(1,059)	0
<b>NET BUDGET REQUIREMENT</b>	<b>6,849</b>	<b>6,787</b>	<b>62</b>
Collection Fund Deficit	20	20	0

### **Financial Strategy Review**

The Council reviewed and updated its financial strategy during autumn 2008

The main issues identified in the review and the outline budget process were the following:

- A continuing need to reduce dependence on reserves – with 2009-10 confirmed as the last year in which the Council would use general reserves to support the overall revenue budget
- The importance of maximising investment income whilst balancing risk
- The increasing deficits identified over the Outline Budget period

The Council reaffirmed its commitment to reduce dependence on reserves, but recognised that the impact of the global economic downturn on the Council meant that this would take longer to achieve than originally planned. The following areas particularly were identified:

- That charging policies be reviewed for all service areas, to ensure that those who can pay the full cost of a service do so

In the light of these issues the Council agreed the following:

- To agree a maximum level of expenditure for 2009-10 of £14.4m
- To make a contribution from reserves of an amount not exceeding £1,049,000
- That Management Team working with the Executive review future years' deficits and consider the way forward

- That the council tax be increased by 4.7% for 2009-10

Both actual net expenditure and the use of reserves were higher than the targets set out above as a result of the economic downturn reducing both fees and charges and investment income

In 2006-07 the Council commenced a programme of Business Improvement reviews which will review all services over a 3 year period with a view to identifying how they can be delivered more efficiently by redesigning processes and looking at structures in order to deliver cashable savings. The original Business Improvement Programme came to an end in 2009-10 ,by which time it had identified on-going annual revenue savings of £1.1 million. In 2010-11 the Council is moving on to a new Business Transformation programme looking at cross cutting opportunities through more efficient use of IT, human resources and assets to achieve savings.

Towards the end of 2008-09 the Council successfully recovered £540,098 in VAT income and statutory interest from HM Revenues and Customs arising from an opportunity given by Customs for local authorities to reclaim VAT paid in previous years which as result of a change in VAT interpretation as to the VAT status of leisure centre income was entitled to be recovered. The Council has submitted similar claims relating to trade/bulky waste for periods going back to the 1970s. These claims total approximately £750,000 and with statutory interest could be worth approaching £1.5 million. These later claims have not been included in the figures in the accounts, as there is uncertainty as to the extent to which Customs will agree the value of the claims submitted.

## **Summary**

The future financial period is extremely challenging. The Council has been impacted by the severity of the global economic downturn, one consequence of which is that its capital resources are not as buoyant as previous projected. This means the Council will be more constrained in future years in its capital programme and that it may need to consider business cases where appropriate for prudential borrowing. As far as the revenue budget is concerned, significant budget deficits are projected over the outline budget period. The Council has reserves but these have been used to support the budget over a number of years and this approach is not sustainable in the medium term, hence the decision to reduce over time the dependence on this source of funding.

We know that in 2011-12 the public sector will be facing severe funding pressures which the Council is planning for.

Spelthorne has a history of prudence in the way we manage the finances, and we will continue to review all our services to ensure that they are needed and are delivered economically, efficiently and effectively.

The accounts were authorised for issue by Mr T Collier, Chief Finance Officer on xx September 2010 and post balance sheet events have been considered up to this date.

## **Further Information**

If you require any further information, please contact Terry Collier, Chief Finance Officer on Tel: 01784 446296 at the Council Offices, Knowle Green, Staines, Middlesex, TW18 1XB.

# Statement of Accounting Policies

## 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2009/10 financial year and its position at the year-end of 31 March 2010. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the SORP). The accounting convention adopted is historical cost, modified by revaluation of certain categories of tangible fixed assets.

## 2. Changes in Accounting Policies

The significant changes in accounting policies introduced by the 2009 SORP are set out below. The comparative figures used in this publication for 2008/09 have been changed from those reported in the Statement of Accounts for 2008/09 in accordance with these policies.

### Accounting for Council Tax

The 2009 SORP requires us to treat our activities in collecting council tax as acting as an agent for our major preceptors, Surrey County Council and Surrey Police Authority. Consequently, the balances in respect of council tax arrears and credits and provision for uncollectable debt are now shared between Spelthorne Borough Council as billing authority, and these major preceptors. The Balance Sheet now recognises a creditor or debtor balance for the net amount of cash owing to or from each preceptor. Therefore, the balance remaining in respect of council tax arrears in the Balance Sheet is the share of council tax arrears and credits attributable to Spelthorne Borough Council only.

### Council Tax Income

Previously the amount of council tax income was fully recognised in the Collection Fund, but the amount recognised in the Income and Expenditure Account (this Council's demand on the Collection Fund) was the amount determined by statute. The difference between the income included in the Income and Expenditure Account and the amount required under regulation to be credited to the General Fund is now taken to the new Collection Fund Adjustment Account, and included as a reconciling item in the Statement of Movement on the General Fund Balance. The 'Revenue activities' line in our Cash Flow Statement has been adjusted to show only the share of council tax net cash collected attributable to Spelthorne Borough Council. The amounts paid to preceptors are also excluded from the Cash Flow Statement. The difference between the major preceptors' share of the net cash collected from council taxpayers and the net cash paid to major preceptors as precepts (and any settlement of the previous year's surplus or deficit on the Collection Fund) is included in the liquid resources section of the Cash Flow Statement accordingly.

### Business Rates

The 2009 Code also requires us to treat our activities in collecting business rates as acting as an agent of the government. Consequently, arrears and credits of business rates are not recognised in the Balance Sheet and a creditor or debtor is recognised for cash collected from business ratepayers as agent of the government, net of sums already paid to the government on account. The Cash Flow Statement no longer includes cash collected from business ratepayers as this cash is collected for the government and is not a revenue activity of the Council. Similarly, the payment of business rates to the government pool is not a revenue activity. The difference between the cash collected from business ratepayers and the amount paid into the national pool is included in the liquid resources section of the Cash Flow Statement.

## 3. Accounting Convention

The accounting convention adopted in these financial statements is historical cost modified by the revaluation of land, buildings, plant and vehicles.

## 4. Accounting Concepts

In preparing the Statement of Accounts the Council has particular regard to the accounting concepts within the SORP. The precise existence and value of assets, liabilities, income and expenditure may be uncertain and where this is the case, professional judgement is used to estimate. In doing so the Council adheres to the accounting concepts set out below to ensure that the accounts present fairly its financial position and performance.

- **Relevance:** the information in the accounts is useful in assessing the Council's stewardship of public funds and for making economic decisions.
- **Reliability:** the information in the accounts is complete, prudently prepared, reflects the substance of transactions and is free of deliberate or systematic bias or material errors.
- **Comparability:** a consistent approach to accounting policies is used in preparing the accounts to ensure that it may be compared to previous years. Where there is a change in accounting policy that has a material effect of the information, this has been disclosed.
- **Understandability:** the information in the statement is capable of being understood by users having a reasonable knowledge of business and economic activities and accounting and a willingness to study with reasonable diligence the information provided.
- **Materiality:** in using its professional judgement the Council has considered the size and nature of any transaction, or set of transactions. An item is considered to be material where its omission or misstatement would reasonably change the substance of the information presented in the accounts.
- **Accruals:** the non-cash effects of transactions have been reflected in the statements for the financial year in which they occur, not when any cash is received or paid.
- **Going Concern:** the accounts have been prepared on the assumption that the Council will continue to provide operational services for the foreseeable future.
- **Primacy of Legislative Requirements:** the Council operates through the power of statute. Where legislation prescribes the express treatment of transactions then the accounting concepts outlined above may be over-ruled.

### **5. Accrual of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from the customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as stocks on the balance sheet.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.
- Interest payable and receivable on borrowings and investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant revenue account, unless they properly represent capital receipts or capital expenditure.

### **6. Provisions**

Provisions are made where an event has taken place that creates an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate revenue account when the Council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payments required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

## **7. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed asset and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

## **8. Government Grants and Contributions (Revenue)**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the Income and Expenditure Account after Net Operating Expenditure.

## **9. Retirement Benefits**

Employees of the Council are members of the Local Government Pensions Scheme, administered by Surrey County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Scheme is accounted for as a defined benefit scheme.

- The liabilities of the Surrey Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond (as measured by the yield on the iboxx Sterling Corporates Index, AA over 15 years).
- The assets of the Surrey Pension Fund attributable to the Council are included in the Balance Sheet at their fair value as follows:
  - Quoted securities - current bid price
  - Unquoted securities - professional estimate
  - Unitised securities - current bid price
  - Property - market value
- The change in the net pensions liability is analysed into seven components:
  - Current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Income and Expenditure Account to the revenue account of services for which employees worked.
  - Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in previous years - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
  - Interest Cost - the expected increase in the present value of liabilities during the year as they move a year closer to being paid - debited to Net Operating Expenditure in the Income and Expenditure Account.
  - Expected return on assets - the annual investment return on the fund assets attributable to the Council based on an average of the expected long-term return - credited to Net Operating Expenditure in the Income and Expenditure Account.

- Gains/losses on settlements and curtailments - the results of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Total Recognised Gains and Losses
- Contributions paid to the Surrey Pension Fund - cash paid as employer's contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits and credits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision of the award.

The Balance Sheet discloses the net liability in relation to retirement benefits. The assessment process used to compile the figures takes account of the most recent actuarial valuation updated to reflect current conditions. Therefore the figures presented are based on the actuary's latest calculations. The assumptions used by the actuary are in accordance with the Code and are mutually compatible.

The notes to the core financial statements provide further information about the pension scheme, estimates of the amounts necessary to meet future pension liabilities, and in particular the shortfall in the Pension Fund.

### **10 Value Added tax (VAT)**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

### **11. Overheads and Support Services**

The cost of overheads and support services are charged to services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008 (BVACOP).

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council's status as a multi-functional democratic organisation.
- Non-distributed costs – the cost of discretionary pension benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

### **12. Intangible Fixed Assets**

Expenditure on assets that do not have physical substance but are identifiable and controllable by the Council is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of the consumption of benefits. No material intangible fixed assets have been identified.

### 13. Tangible Fixed Assets

Tangible Fixed Assets are assets that have physical substance and are held for use in the provision of services or for administration purposes on a recurring basis.

**Recognition:** expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services it provides are for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

**Measurement:** - assets are initially measured at cost, comprising all the expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Investment properties and assets that are surplus to requirements are included in the balance sheet at the lower of net current replacement cost or net realisable value. In the case of investment properties, this is normally open market value.
- Dwellings, other land and buildings and vehicles, plant and equipment are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use.
- Infrastructure assets and community assets are measured at depreciated historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value
- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value

Assets included in the Balance Sheet at current value are revaluated where there have been material changes in value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

**Impairment:** the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- where attributable to a clear consumption of economic benefits - the loss is recognised in the relevant service revenue account.
- otherwise - written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

**Disposals:** when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on the disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on the disposal (i.e. netted off the carrying value of the assets at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts and are required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment.



The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

**Depreciation:** depreciation is provided for on all fixed assets with a determinable finite useful life (except for investment properties), by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

Land and Buildings - Operational properties are depreciated over their remaining useful economic life, as determined by a qualified external valuer, using the straight-line method. Non-operational investment properties and freehold land are not depreciated.

Vehicles, Plant and Equipment - Vehicles and plant are depreciated at 20% per annum using the reducing balance method. IT and other equipment is depreciated over 5 years using the straight-line method.

Where an asset has major components with different estimated useful lives, these are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

**Grants and Contributions:** where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to balance depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

#### **14. Charges to Revenue for Fixed Assets**

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- Amortisation of intangible fixed assets attributable to the service.

The Council required to ensure that depreciation, impairment losses or amortisations does not impact on the amount of council tax required to be raised. Therefore, these transactions are reversed in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account.

#### **15. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of tangible assets (e.g. grants to third parties) has been charged to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so that there is no impact on the level of council tax.

#### **16. Leases**

Finance Leases – Leases are accounted for as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Rentals payable are apportioned

between a charge for the acquisition of the interest in the asset (recognised as a liability on the balance sheet) and a finance charge (debited to operating expenditure in the Income and Expenditure Account as the rent becomes payable). The Council does not currently hold any finance leases.

Operating Leases - Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease.

### **17. Financial Liabilities**

Finance liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For all borrowings, this means that the amount presented in the balance sheet is the outstanding principal repayable and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

### **18. Financial Assets**

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

#### **Loans and receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means the amount presented in the balance sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account. Any gains and loss that arise on de-recognition of the asset are credited/debited to the Income and Expenditure Account.

#### **Available for Sale Assets**

Available for sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. These are maintained in the balance Sheet at fair value which is the quoted market price.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Statement of Recognise gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on de-recognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost, less any impairment losses.

**19. Stocks and Work in Progress**

Stocks are included in the Balance Sheet at the lower of cost or net realisable value. Work in progress on works rechargeable to outside bodies or persons are stated at cost price.

**20. Provisions for bad and doubtful debts**

The carrying amount of debtors is adjusted for doubtful debts. Known uncollectible debts are written off.

**21. Contingent Assets and Liabilities**

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence of one or more future events not wholly in the Councils control. Contingent assets are not recognised in the revenue accounts or the Balance Sheet, but are disclosed in the notes to the Consolidated Balance Sheet.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more future events not wholly in the Councils control. Contingent liabilities are not recognised in the accounts as items of expenditure, but are disclosed in the notes to the Consolidated Balance Sheet.

**22. Exceptional Items**

Any exceptional items have been charged to the relevant services and, where significant, explained within the notes to the accounts. Any prior year adjustments are identified in the notes to the accounts.

**23. Post Balance Sheet events**

The accounts include the impact of any material post balance sheet events that reflect conditions existing at the balance sheet date. Any material post balance sheet events that reflect conditions after the balance sheet date are disclosed as a note to the accounts (none existing at either 31 March 2010 or 31 March 2009).

**24. Group Accounts**

The Authority's transactions with other entities have been reviewed and it has been decided that it does not have any material form of interest in other entities (including companies, statutory bodies and other arrangements). Therefore group accounts have not been prepared.

# Statement of Responsibilities for the Statement of Accounts

## The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Financial Officer
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts

## The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2010.

In preparing this statement of accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice.

The Chief Financial Officer has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

**Mr Terry Collier, CPFA, CA**  
**Chief Finance Officer**

**Councillor J Packman**  
**Leader of the Council**

**Date: 30 September 2010**

**Date: 30 September 2010**

## Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the notional value of retirement benefits earned by employees in the year.

2008/09 Net Expenditure £'000		2009/10		
		Gross Expenditure £'000	Income £'000	Net Expenditure £'000
4,400	Central Services to the public	9,474	6,656	2,818
18,269	Cultural, Environmental Regulatory and Planning Services	12,380	3,631	8,749
1,131	Highways and Transport Services	2,473	2,024	449
1,268	Housing services	27,366	26,387	979
1,057	Adult Social Care	1,621	664	957
1,466	Corporate and democratic core	2,000	67	1,933
31	Non Distributed Costs	14	0	14
0	Exceptional Item (see Note 12)	0	540	(540)
<b>27,622</b>	<b>NET COST OF SERVICES</b>	<b>55,328</b>	<b>39,969</b>	<b>15,359</b>
1	Loss on disposal of fixed assets			
(82)	Other income			
40	Interest payable and similar charges			1
1	Contribution of housing capital receipts to Government Pool			3
(1,506)	Interest and investment income			(864)
639	Pension interest costs and expected return on pensions assets			1652
<b>26,715</b>	<b>NET OPERATING EXPENDITURE</b>			<b>16,151</b>
(6,260)	Demand on the Collection Fund			(6,675)
(687)	General government grants			(1,331)
(4,936)	Non-domestic rates distribution			(4,591)
<b>14,832</b>	<b>(SURPLUS) / DEFICIT FOR THE YEAR</b>			<b>3,554</b>

.....  
**T Collier CPFA, CA**  
**Chief Finance Officer**

The Council is always likely to report a deficit on the Income and Expenditure Account because the council tax is set only to cover net costs excluding capital and notional pension costs.

The surplus or deficit on this account is similar to the profit or loss including depreciation in company accounts, however there are a number of transactions relating to capital items (including depreciation) and pensions that are not to be included by statute when looking at the amount needed from council tax. The next statement called the "Statement of Movement on the General Fund Balance" shows the amount to be charged to the General Fund (the account used to calculate the Council Tax Requirement).

## Statement of Movement on the General Fund Balance

In order to give a full presentation of the financial performance of the Council during the year it is necessary to adjust the surplus or deficit on the Income and Expenditure Account to obtain the movement on the General Fund. This is because the General Fund is the statutory account that is used when setting the Council Tax and the movement on this fund is the difference between the spending of the Council and the Council Tax raised for the year.

2008/09 £'000		2009/10 £'000
14,832	(Surplus)/Deficit for the year on the Income and Expenditure Account	3,554
(14,617)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(3,616)
215	(Increase) / decrease in General Fund Balance for the Year	(62)
(1,571)	General Fund Balance brought forward	(1,356)
(1,356)	General Fund Balance carried forward	(1,418)

## Reconciliation Statement

This reconciliation statement summarises the difference between the surplus or deficit on the Income and Expenditure Account and the General Fund Balance.

2008/09 £'000		2009/10 £'000
(12,793)	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	<b>(2,722)</b>
(12,290)	Depreciation and impairment of fixed assets	(1,870)
255	Government Grants Deferred amortisation	348
(671)	Revenue Expenditure Funded from Capital under statute	(752)
(174)	Net charges made for retirement benefits in accordance with FRS17	(680)
5	Amount by which the Council Tax included in the I&E differs from the amount taken to the General Fund	(24)
82	Other Income	256
65	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund balance for the year</b>	<b>42</b>
66	Capital expenditure charged in-year to the General Fund Balance	45
(1)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(3)
(1,889)	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	<b>(936)</b>
(1,889)	Net transfer to or from ear marked reserves	(936)
(14,617)	<b>Net additional amount required to be credited to the General Fund Balance for the year</b>	<b>(3,616)</b>

## Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase/(decrease) in the Council's net worth. In addition to the surplus or deficit generated on the Income and Expenditure Account, it includes unrealised gains and losses relating to the revaluation of fixed assets and investments, the re-measurement of the net liability to cover the cost of retirement benefits, and the share of surplus or deficit generated on the Collection Fund relating to the Council.

<b>2008/09</b> <b>£'000</b>		<b>2009/10</b> <b>£'000</b>
(14,832)	Deficit for the year on the Income and Expenditure Account	(3,554)
7,586	Surplus arising on revaluation of fixed assets	0
136	Surplus/(deficit) on revaluation of available for sale financial assets	56
(11,002)	Actuarial gains/(losses) on pension fund assets and liabilities	(15,686)
<b>(18,112)</b>	<b>Total recognised gains / (losses) for the year</b>	<b>(19,184)</b>



## Balance Sheet as at 31 March 2010

2008/09 £'000		2009/10	
		£'000	£'000
	<b>FIXED ASSETS (Note 16)</b>		
	<b>Operational Assets</b>		
38,200	Other Land and Buildings	37,005	
2,175	Vehicles, Plant and Equipment	2,653	39,658
	<b>Non-Operational Assets</b>		
9,749	Investment Properties	9,749	
1,459	Surplus Assets held for disposal	784	10,533
<b>51,583</b>	<b>TOTAL FIXED ASSETS</b>		<b>50,191</b>
8,471	Long Term Investments (Note 24)		6,385
199	Long Term Debtors		131
<b>60,253</b>	<b>TOTAL LONG TERM ASSETS</b>		<b>56,707</b>
	<b>CURRENT ASSETS</b>		
38	Stocks and Work in Progress	47	
13,615	Short Term Investments (Note 24)	5,114	
3,087	Debtors (Note 25)	7,296	
193	Payments in Advance	148	
256	Cash in Hand	733	13,338
<b>77,442</b>	<b>TOTAL ASSETS</b>		<b>70,045</b>
	<b>CURRENT LIABILITIES</b>		
(4,554)	Temporary loans	(1,534)	
(669)	Receipts in Advance	(649)	
(4,047)	Creditors (Note 26)	(2,607)	(4,790)
<b>68,172</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>65,255</b>
	<b>LONG TERM LIABILITIES</b>		
(22,170)	Defined Benefit Pension Scheme Liability (Note 6)	(38,536)	
(96)	Provisions (Note 27)		
(709)	Deferred Credits	(706)	(39,242)
<b>45,197</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>26,013</b>
	<b>FINANCED BY:</b>		
7,795	Revaluation Reserve (Note 38)		7,186
145	Available-for-sale Financial Instruments Reserve		202
43,647	Capital Adjustment Account (Note 38)		42,733
(48)	Collection Fund Adjustment Account		(72)
12	Deferred Capital Receipts		9
2,367	Usable Capital Receipts (Note 38)		1,932
(22,170)	Pensions Reserve (Note 38)		(38,536)
12,093	Earmarked Reserves (Note 37)		11,141
1,356	General Fund Balance		1,418
<b>45,197</b>	<b>TOTAL NET WORTH (Note 19)</b>		<b>26,013</b>

## Cashflow Statement

The cash flow statement is designed to provide a greater understanding of the activities of the Council than can be obtained from a review of the revenue account and balance sheet. The statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2008/09 £'000	Revenue Activities	2009/10	
		£'000	£'000
	Expenditure		
12,137	Employment Costs	12,479	
10,817	Other Operating Costs	11,871	
21,670	Housing Benefits	31,658	
1	Payments to Capital Receipts Pool	<u>3</u>	
44,625			56,011
	Income		
(624)	Rents (net of Rebates)	(552)	
(5,833)	Council Tax Income	(6,713)	
(4,936)	National non-domestic rate receipts from National Pool	(4,591)	
(687)	Revenue Support Grant	(1,060)	
(23,602)	DWP Rebate Subsidy	(32,178)	
(1,067)	Other Government Grants	(769)	
(5,635)	Cash received for Goods and Services	<u>(7,038)</u>	
(42,384)			<b>(52,901)</b>
<b>2,241</b>	<b>Surplus from Revenue activities (see Note 35)</b>		<b>3,110</b>
	<b>Servicing of Finance</b>		
42	Interest Paid	1	
(1,482)	Interest Received	<u>(1,562)</u>	
(1,440)	<b>Total Servicing of Finance</b>		<b>(1,561)</b>
<b>801</b>			<b>1,549</b>
	<b>Capital Activities</b>		
	Expenditure		
1,658	Purchase of fixed assets	1,142	
8,134	Purchase of long term investments	0	
1,369	Other	<u>735</u>	
11,161			1,877
	Income		
(284)	Sale of fixed assets	(871)	
(82)	Capital Grants Received	(429)	
(528)	Other Capital Cash Income	<u>(68)</u>	
(894)			<b>(1,368)</b>
<b>11,068</b>	<b>Net Cash Outflow before Financing</b>		<b>2,058</b>
	<b>Management of Liquid Resources</b>		
(6,810)	Net decrease in short term deposits	(10,200)	
(1,377)	Business Rates due to/from the Government	4,768	
(1,097)	Council Tax receipts under/overpaid to major preceptors	<u>(123)</u>	
(9,284)			(5,555)
	<b>Financing</b>		
24,840	Cash Outflows - Repayment of amounts borrowed	22,921	
(26,843)	Cash Inflows - New short term loans raised	<u>(19,901)</u>	
(2,003)			3,020
<b>(219)</b>	<b>Net (Increase)/Decrease in Cash (see Note 35)</b>		<b>(477)</b>

## Notes to the Core Financial Statements

### 1. Analysis of major Service Areas Expenditure

The analysis gives a breakdown of significant expenditure and income areas within the Authority with comparative figures for 2008/09.

2008/09 Net £'000	Service Area	2009/10 Expenditure £'000	2009/10 Income £'000	2009/10 Net £'000
<b>CENTRAL SERVICES TO THE PUBLIC</b>				
270	Elections and the Electoral registration	252	3	249
560	General grants	515		515
49	Local Land Charges	141	157	(16)
60	Council Tax Benefits	5,559	5,627	(68)
571	Local Tax collection	946	411	535
916	Communications	283	0	283
783	MAT	105		105
39	DS Management Team	131	0	131
842	Environment	792	34	758
125	Community Safety			0
185	Other	750	424	326
<u>4,400</u>		<u>9,474</u>	<u>6,656</u>	<u>2,818</u>
<b>CULTURAL ENVIROMENTAL AND PLANNING SERVICES</b>				
1,880	Open Spaces	2,185	243	1,942
552	Leisure and Culture	684	127	557
1,147	Planning and Building Control	2,039	754	1,285
3,373	Refuse and Recycling	3,795	736	3,059
6,948	Recreation and Sport	922	142	780
53	Day Centres	35	17	18
(11)	Environmental Initiatives	40		40
1,181	Environmental and Public Health	1,269	198	1,071
251	Cemeteries	154	183	(29)
301	Community Safety	447	167	280
2,536	Property Expenses	527	39	488
58	Other	283	1,025	(742)
<u>18,269</u>		<u>12,380</u>	<u>3,631</u>	<u>8,749</u>
<b>HIGHWAYS ROADS AND TRANSPORT SERVICES</b>				
668	Parking Services	1,838	1,774	64
311	Concessionary Fares	599	250	349
152	Other	36		36
<u>1,131</u>		<u>2,473</u>	<u>2,024</u>	<u>449</u>
<b>HOUSING SERVICES</b>				
(68)	Housing Benefits	25,618	25,890	(272)
712	Housing	1,312	9	1,303
222	Homelessness	371	148	223
310	Private Sector Housing	63	13	50
92	Housing Management	2	327	(325)
<u>1,268</u>		<u>27,366</u>	<u>26,387</u>	<u>979</u>

2008/09 Net £'000	Service Area	2009/10 Expenditure £'000	2009/10 Income £'000	2009/10 Net £'000
	<b>ADULT SOCIAL CARE SERVICES</b>			
257	Community Care Administration	251	4	247
606	Day Centres	749	219	530
64	Meals on wheels	249	180	69
122	Spelthorne Accessible Transport	216	71	145
8	Spelthorne Personal Alarm Network	156	190	(34)
<u>1,057</u>		<u>1,621</u>	<u>664</u>	<u>957</u>
	<b>CORPORATE AND DEMOCRATIC CORE</b>			
590	Corporate Management	1,122	49	1,073
254	Committee Services	244	9	235
111	Corporate Governance	136		136
511	Democratic Representation and Management	498	9	489
<u>1,466</u>		<u>2,000</u>	<u>67</u>	<u>1,933</u>
31	Non Distributed Costs	14	0	14
0	Exceptional Item - VAT Refund	0	540	(540)
<u>31</u>		<u>14</u>	<u>540</u>	<u>(526)</u>
<b>27,622</b>	<b>REVENUE NET COST OF SERVICES</b>	<b>55,328</b>	<b>39,969</b>	<b>15,359</b>

General Government Grants of £1,331k are included in the Income and Expenditure Account. This figure includes Revenue Support Grant (RSG) of £1,060k and Planning Delivery Grant of £271k.

## 2. Agency Services

Spelthorne Borough Council is now treated as acting as an agent for the government when collecting business rates and for Surrey County Council and Surrey Police Authority when collecting their shares of council tax. The comparative figures for 2008/09 have been restated to recognise this.

## 3. Minimum Revenue Provision

The provisions of the Prudential Code of Capital Finance in Local Authorities require the Council to set aside a minimum revenue provision for the redemption of external debt. The Council has no long term borrowings and therefore, no sums need to be set aside

## 4. Leases

The Authority holds various assets under Operating Leases, which include operational vehicles, leased cars, automatic public conveniences, and other operational equipment.

The authority was committed at 31st March 2010 to making payments of £434,323 under operating leases in 2010/11, comprising the following elements:

	Other Land and Buildings (2009/10) £'000	Vehicles, plant and Equipment (2009/10) £'000
Leases Expiring in 2010/11	-	323
Leases Expiring between 2011/12 and 2016/17	-	73
Leases Expiring after 2016/17	-	38
	-	<b>434</b>

Expenditure on operating leases in 2009/10 was £813,887 (2008/09 £976,981). There was no finance lease expenditure in 2009/10.

With regard to the authority's activity as a lessor, the rentals receivable in the year 2009/10 amounted to £821,628 (2008/09 £339,001). The value of assets held for use in operating leases amounted to £20,369,712 valued at 31.3.09 and subject to £375,280 depreciation to 31.3.10.

## 5. Contribution to (from) Reserves

The following contributions to (from) revenue reserves were made during the year: -

Contribution to (from) Reserves	£'000
<b>Contributions from Earmarked Reserves</b>	
Capital Fund	150
Business Improvement	302
Carry Forward	150
New Schemes Fund	315
Insurance Fund	15
Lottery and Good Causes Funds	5
<b>TOTAL</b>	<b>937</b>

## 6. Pension Costs

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in The Local Government Pension Scheme (LGPS), administered locally by Surrey County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the fund's liabilities with investment assets.

We recognise the cost of retirement benefits in the Net Cost of Services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Income and Expenditure Account (I and E) after Net Operating Expenditure.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2011 is £1.68m.

The following transactions have been made in the Income and Expenditure Account during the year:

<b>Movements in net pension assets / liabilities</b>	<b>Year to 31 March 2009 £'000</b>	<b>Year to 31 March 2010 £'000</b>
<b>Net Cost of Services</b>		
Current Service Cost	(903)	(901)
Curtailments & Settlements	(98)	(76)
Past service costs	(425)	
<b>Net Operating Expenditure</b>		
Interest Cost	(4,321)	(4,170)
Expected Return on Assets in the Scheme	3,682	2,518
<b>Amounts to be met from Government Grants and Local Taxation</b>		
Movement on Pensions Reserve	(174)	(680)
<b>Actual amount charged against council tax for pensions in the year</b>		
Employers contributions payable to the scheme	(1,891)	(1,949)

	<b>31 March 2009 £'000</b>	<b>31 March 2010 £'000</b>
<b>Statement of Movement on the General Fund Balance</b>		
Reversal of charges made for Retirement Benefits in accordance with FRS17	(2,065)	(2,629)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>		
Employers contributions payable to the scheme	1,891	1,949

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March are as follows:

<b>Net Pension Assets at</b>	<b>31 March 2009 £'000</b>	<b>31 March 2010 £'000</b>
Estimated Liabilities in the scheme	(61,359)	(93,230)
Estimated Assets in the scheme	39,189	54,694
<b>Net Asset / (Liability)</b>	<b>(22,170)</b>	<b>(38,536)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £38.536m has a significant impact on the net worth of the Authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit whereby it will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, mean that the financial position of the Authority remains healthy. The Pension fund liability in the year has increased by £16.366m.

The cumulative actuarial gains and losses since 2004/05 are shown below.

In addition to the Recognised Gains and Losses included in the Income and Expenditure Account, Actuarial Losses of £15,686 m (£11,022m in 2008/09) were included in the Statement of Recognised Gains and Losses.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations have been:

<b>Actuarial assumptions as at</b>	<b>31 March 2009 %</b>	<b>31 March 2010 %</b>
Rate of inflation	3.10	3.80
Rate of increase in salaries	4.60	5.30
Rate of increase in pensions	3.10	3.80
Rate for discounting scheme liabilities (NB based on 3.5% real)	6.90	5.50

The actuary has assumed that 25% of members of the scheme will opt to exchange part of their pension for additional tax-free cash at retirement.

Assets in the Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund.

<b>Assets (Employer)</b>	<b>Long Term Return at 31 March 2009 % p.a.</b>	<b>Assets at 31 March 2009 £'000</b>	<b>Long Term Return at 31 March 2010 % p.a.</b>	<b>Assets at 31 March 2010 £'000</b>
Equities	7.00	28,608	7.80	41,020
Bonds	5.40	7,054	5.00	9,298
Property	4.90	2,351	5.80	3,282
Cash	4.00	1,176	4.80	1,094
<b>Total</b>		<b>39,189</b>		<b>54,694</b>

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2007 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficient reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently the valuation of the Spelthorne Borough Council's retirement benefit liabilities as at 31 March 2010 does not include any allowance for this change to the pension scheme.

For the purposes of FRS17 the actuary based its valuation of year end pension scheme assets on rolling forward asset valuations taken at 31 December 2008.

### Assets and Liabilities in relation to Retirement Benefits

<b>Funded liabilities: £000s</b>	<b>2008/09</b>	<b>2009/10</b>
01 April	63,186	61,359
Current Service Cost	903	901
Interest Cost	4,321	4,170
Contributions by Scheme Participants	464	510
Actuarial Gains and Losses	(5,018)	29,583
Benefits Paid	(3,020)	(3,369)
Past Service Costs	425	-
Losses / Gains on curtailments	98	76
31 March		
	<b>61,359</b>	<b>93,230</b>

### Reconciliation of fair value of the Scheme Assets

<b>£000s</b>	<b>2008/09</b>	<b>2009/10</b>
01 April	52,192	39,189
Expected Rate of Return	3,682	2,518
Actuarial gains and losses	(16,020)	13,897
Employer contributions	1,891	1,949
Contributions by scheme participants	464	510
Benefits paid	(3,020)	(3,369)
31 March		
	<b>39,189</b>	<b>54,694</b>

The expected Return on Scheme Assets is determined by considering the expected returns available on the Assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

The scheme history details the value of funded and unfunded liabilities from 2004/05 to 2009/10 and shows the annual change.



<b>Scheme History</b>	<b>2004/2005</b>	<b>2005/2006</b>	<b>2006/2007 As Restated</b>
Present Value of Liabilities	(62,970)	(73,150)	(72,218)
Experience gains/(losses)	(682)	7,130	373
Fair Value of assets in the Local Government Pension Scheme	43,500	52,970	55,813
Actuarial gains/(losses) recognised in the STRGL	(9,362)	(130)	4,095
<b>Cumulative actuarial gains/(losses)</b>	<b>(9,362)</b>	<b>(9,492)</b>	<b>(5,397)</b>

<b>Scheme History</b>	<b>2007/2008 As Restated</b>	<b>2008/2009</b>	<b>2009/2010</b>
Present Value of Liabilities	(63,186)	(61,359)	(93,230)
Experience gains/(losses)	(3,869)	(15,998)	13,725
Fair Value of assets in the Local Government Pension Scheme	52,192	39,189	54,694
Actuarial gains/(losses) recognised in the STRGL	5,022	(11,002)	(15,686)
<b>Cumulative actuarial gains/(losses)</b>	<b>(375)</b>	<b>(11,377)</b>	<b>(27,063)</b>

The £38.6 million net liability represents the difference between the value of the Authority's Pension Fund Assets at 31 March 2010 and the estimated Present Value of future pension fund payments to which it was committed at that date (£22,170m 2008/09).

The principal assumptions used by the Actuary have been:

	2008/09	2009/10
Equity investments	7.00	7.80
Bonds	5.40	5.00
Property	4.90	5.80
Cash	4.00	4.80
Mortality assumptions: Longevity at 65 for current pensioners (years):		
Men	21.50	22.70
Women	24.40	26.10
Mortality assumptions: Longevity at 65 for future pensioners (years):		
Men	22.60	24.80
Women	25.50	28.30
Rate of inflation	3.10	3.80
Rate of increase in salaries	4.60	5.30
Rate of increase in pensions	3.10	3.80
Rate for discounting scheme liabilities	6.90	5.50
Take up option to convert annual pension into retirement lump sum	25.00%	25.00%

Further information can be found in Surrey County Council's Superannuation Fund Annual Report which is available from County Hall, Penrhyn Road, Kingston upon Thames.

## 7. Employee Remuneration

The number of employees whose remuneration (including salary, leased car and other employee benefits but excluding pension contributions) was greater than £50,000, in bands of £5,000, is shown in the table below.

Remuneration Band (inc Salary and Benefits)	Number	
	2008/09 Restated	2009/10
150,000 - 154,999		1
145,000 - 149,999		
140,000 - 144,999		
135,000 - 139,999		
130,000 - 134,999		
125,000 - 129,999		
120,000 - 124,999		
115,000 - 119,999		
110,000 - 114,999		1
105,000 - 109,999	1	
100,000 - 104,999	1	
95,000 - 99,999		
90,000 - 94,999		
85,000 - 89,999		1
80,000 - 84,999	1	1
75,000 - 79,999		1
70,000 - 74,999		1
65,000 - 69,999	3	5
60,000 - 64,999	4	
55,000 - 59,999	1	4
50,000 - 54,999	5	5
	16	20

## 8. Senior Officer Remuneration

Title	Salary (Taxable)	Compensation (Redundancy)	Benefits In Kind	Total (excl Employer's Pension Contributions)	Employer's Pension Contributions	Total (incl Employer's Pension Contributions)
	£	£	£	£	£	£
Assistant Chief Executive B. Coe	71,950	78,287		150,237	5,067	155,304
Chief Executive	112,693			112,693	8,584	121,277
Deputy Chief Executive	84,687		3,056	87,743	6,842	94,585
Assistant Chief Executive	66,564		3,078	69,642	5,067	74,710
Assistant Chief Executive	69,660			69,660	4,995	74,655
Assistant Chief Executive	61,242		6,001	67,243	4,722	71,965
Head of Corporate Governance	65,890			65,890	4,627	70,517

## 9. Members' allowances

Members' allowances of £208,175 (£203,387 in 2008/09) were paid in the year to 31st March 2010.

## 10. Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute arises out of capital expenditure which does not create a fixed asset (previously known as deferred charges). The revenue expenditure funded from capital under statute is written out in the year of expenditure as a charge to revenue services. This is then financed from the Capital Adjustment Account so that there is no impact on the Council Tax.

Analysis of expenditure is as follows: -

	£'000
Central Services	55
Cultural, Environmental Regulatory and Planning	103
Highways Roads & Transportation	7
General Fund Housing Services	587
<b>TOTAL</b>	<b>752</b>

## 11. Related Party Transactions

The Council is required to disclose material transactions with related parties. Related parties are bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates; providing a significant amount of its funding in the form of grants; and it prescribes the terms of many of the transactions the Council has with other parties (e.g. housing benefits).

Details of transactions with government departments are set out in notes 24 and 25 on page 35. Details of cash received from government grants are set out in note 35 on page 40.

Members of the Council have direct control over the Council's financial and operating policies. During 2009/10 there were no material related party transactions between the Council and Council Members. Any declarations of interest are properly recorded in the Register of Members' Interests, which is open to public inspection.

Senior Officers have the ability to influence the Council. During 2009/10 there were no related party transactions between the Council and Senior Officers.

## 12. Exceptional Item

The Council received a refund from HMRC in the sum of £540k which was the result of a successful claim submitted in respect of the High Court judgement in the Fleming case. The refund was in respect of charges levied for specified leisure activities during the years 1990 to 1994, plus interest. Further claims have been submitted but the outcome of these is uncertain.

## 13. Disclosure of Audit Costs

In 2009/10, the Authority incurred the following fees relating to external audit and inspection:

	2008/09 £'000	2009/10 £'000
Fees payable for external audit services	88	74
Fees payable for statutory inspections	7	9
Certification of grant claims and returns	23	21
<b>TOTAL</b>	<b>118</b>	<b>104</b>

## Notes to the Statement of Movement of General Fund Balance

14. The Income and Expenditure Account is based on generally accepted accounting principles and does not reflect statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes. In order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future year, the outturn on the Income and Expenditure needs to be reconciled to the balance established by the relevant statutory provisions.

The Statement of Movement on the General Fund provides the necessary reconciliation.

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Council is required to raise council tax on a different accounting basis, to reflect statutory provisions that authorities need to take into account when setting local taxes, the main differences being:

- Capital investment is accounted for as it is financed rather than when fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government scores as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

## Notes on the Statement of Total Recognised Gains and Losses

15. This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefit.

## Notes to the Balance Sheet

### 16. Fixed Assets

Under Financial Reporting Standard 15 "Tangible Fixed Assets", depreciation must be provided for on all operational buildings including council dwellings. Assets have been depreciated over their useful economic life using the straight line method except for vehicles and plant which is depreciated using the reducing balance method. All land and property assets were valued as at 1<sup>st</sup> April 2005. Some of the Council's major assets were re-valued during 2008/09 due to the changing economic climate and a complete re-valuation of all land and buildings will be carried out during 2010.

All fixed assets are included in the Balance Sheet at net realisable value; the carrying value is not materially different to the current value of fixed assets.

Movements during the year were as follows:

<b>Movement in Fixed Assets</b>	<b>Land and Buildings £000's</b>	<b>Vehicles, Plant &amp; Equipment £000's</b>	<b>Total Operational Assets £000's</b>	<b>Non Operational Assets £000's</b>	<b>Total Fixed Assets £000's</b>
<b>Cost or Valuation</b>					
At 1 April 2009	42,342	3,159	45,501	11,208	56,709
Additions	133	1,019	1,152	-	1,152
Disposals	-	-	-	(675)	(675)
Reclassifications	-	-	-	-	-
Revaluations	-	-	-	-	-
Impairments	-	-	-	-	-
Reclassifications	-	-	-	-	-
<b>At 31 March 2010</b>	<b>42,475</b>	<b>4,178</b>	<b>46,653</b>	<b>10,533</b>	<b>57,186</b>
<b>Depreciation and Impairments</b>					
At 1 April 2009	4,142	984	5,126	-	5,126
Charge for 2009/10	1,328	541	1,869	-	1,869
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
Revaluations	-	-	-	-	-
<b>At 31 March 2010</b>	<b>5,470</b>	<b>1,525</b>	<b>6,995</b>	<b>-</b>	<b>6,995</b>
<b>Balance Sheet at 31 March 2010</b>	<b>37,005</b>	<b>2,653</b>	<b>39,658</b>	<b>10,533</b>	<b>50,191</b>
<b>Balance Sheet at 1 April 2009</b>	<b>38,200</b>	<b>2,175</b>	<b>40,375</b>	<b>11,208</b>	<b>51,583</b>
<b>Nature of Asset Holdings</b>					
Owned	37,005	2,653	39,658	10,533	50,191

The main items of capital expenditure and financing are shown on page 42. As at 31 March 2010 we had no contractual major capital commitments.

#### Reconciliation of additions fixed assets to total capital expenditure

	<b>£'000</b>
Total Capital Expenditure 2009/10	1,904
Less: expenditure incurred where no asset is owned by the Council or created	(752)
Additions to fixed assets	<b>1,152</b>

The Council owned the following assets at 31st March 2010:

Buildings	Land
1 Civic Centre 1 Depot 2 Leisure Centres with Pool 5 Public Halls 4 Day / Community Centres 1 Plant Nursery 1 Museum 1 Resource Centre	985 Allotment Plots 8 Cemeteries and Burial Grounds 31 Children's Play areas 16 Car Parks (3,600 spaces) 86 Recreation Grounds and Open Spaces (251 Hectares in all)
Housing	Vehicles and Equipment
The Council does not hold any housing stock, since it was all transferred to Spelthorne Housing Association in 1996.	3 Lorries 5 Vans 10 Other Vehicles 323 Personal Computers 79 Printers and Scanners 48 Servers

The Council also owns assets classified as community assets. These include land in cemeteries and parks which is held for community use in perpetuity, has no determinable useful life and may have restrictions on disposal. These assets are generally valued at historic cost and are not shown in the balance sheet as the historic cost is de-minimus.

## 17. Leases

There are no assets funded by means of finance leases.

## 18. Valuation Disclosure

The freehold and leasehold properties which comprise the Authority's property portfolio were valued as at 1st April 2005 by a chartered surveyor, from the Valuation Office Agency, who conforms to the requirements of the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards (5<sup>th</sup> Edition).

A general review of major asset classes was carried out during the year to reflect the effect the current economic climate has had on property values. The following asset classes were revalued as at 1<sup>st</sup> April 2008 by Campsies Estate Valuation Services:

Leisure Centres  
 Car Parks  
 Council Offices and Depot  
 Staines Town Centre Development

Plant and machinery is included in the valuation of the buildings. Properties regarded by the Authority as non-operational were valued on the basis of market value.

The Council is required to re-value its property assets at least once every five years and a complete re-valuation of all the Council's land and buildings will be carried out during 2010. In the meantime, the Council is not aware of any material changes in value so the valuations were not updated during 2009/10.

## 19. Analysis of Net Assets Employed

	31 March 2009 £'000	31 March 2010 £'000
General Fund	45,245	26,085
Collection Fund	(48)	(72)
<b>TOTAL</b>	<b>45,197</b>	<b>26,013</b>

This represents the aggregate of reserves attributable to the Authority and equals the sum of the local taxpayers' equity. The change in the General Fund between years is mainly due to the increase in the liabilities due in respect of the defined benefit pension scheme.

## 20. Deferred Capital Receipts

Deferred capital receipts are amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise from mortgages on sales of council houses, which form the main part of mortgages under long term debtors.

## 21. Long Term Borrowing

The Council has no long term debt.

## 22. Contingent Liabilities

No specific provision has been included in these accounts for the following:

Mortgage Guarantees on shared ownership properties. These will only occur if the mortgagees default on payment and any charge to the Council will be accounted for at that time.

Up until 1992 the Council's insurance was placed with MMI which went into administration. Currently MMI are in legal action with other parties over liability for asbestos claims. If the legal result were to be adverse for MMI there is a possibility that this would trigger a call down on local authorities which would expose the Council to outstanding claims of £596,000. However, MMI are currently saying that even with an adverse outcome the balance sheet is sufficiently robust for them to anticipate a solvent run down.

## 23. Contingent Assets

Under the Fleming case legislation the Authority is currently awaiting confirmation from HM Revenue and Customs in respect of two claims submitted for refunds of VAT relating to leisure courses and bulky waste collection. The claims are for up to £100k but with statutory interest could be worth approaching £200k. In addition a claim has been submitted in respect of trade refuse collection but there is a significantly lower probability of this being paid.



## 24. Investments

	31st March 2009 £'000	31st March 2010 £'000
Long term:		
Revenue Funds	8,471	6,385
Short term:		
Temporary Investments	13,615	5,114
<b>TOTAL</b>	<b>22,086</b>	<b>11,499</b>

## 25. Analysis of Debtors

	31 March 2009 £'000	31 March 2010 £'000
Central Government	692	470
Revenues & Customs	196	178
Council Taxpayers	158	151
General	2,296	6,661
Less Provisions for Bad Debts	(255)	(164)
<b>Total Debtors</b>	<b>3,087</b>	<b>7,296</b>
Payments in Advance	193	149
	<b>3,280</b>	<b>7,445</b>

The collection of council tax and business rates is now treated as an agency agreement and the figures for 2008/09 have been restated accordingly. The balance sheet now only includes the Spelthorne share of total council taxpayer arrears and credits. More information about this change is included in the Accounting Policies section of these Statements on page 8.

## 26. Analysis of Creditors

	31 March 2009 £'000	31 March 2010 £'000
Central Government	577	240
Inland Revenue	1	1
General	3,469	2,366
<b>Total Creditors</b>	<b>4,047</b>	<b>2,607</b>
Receipts in Advance	669	(649)
	<b>5,438</b>	<b>1,958</b>

## 27. Provisions

A claim against the Council was made in respect of Orchard Meadow, Sunbury and a provision of £96,000 was made in 2008/09. This claim has now been settled following the outcome of the Lands Tribunal deliberations.

## 28. Financial Instruments

### Nature and Extent of Risk arising from financial instruments

The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services and sets treasury limits and prudential indicators to assist in the management of risk. The Council's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk – the possibility that the Council may have insufficient funds available to meet its financial commitments.
- Market risk – the possibility that financial loss may arise for the Council as a result of changes in interest rates etc.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Policies and procedures to minimise risk are set out in the annual Treasury Management Strategy Statement and Annual Investment Strategy and are approved by the Council. These policies cover principals for overall risk management as well as covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

### Credit Risk

Credit risk arises from deposits with banks and other financial institutions as well as credit exposures to the authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that investments and deposits are not made with institutions unless they meet identified minimum credit criteria, as laid down by Fitch Rating Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria in respect of financial assets currently held by the authority are detailed below. The following analysis summarises the Council's potential exposure to credit risk based on current market conditions:

		31 March 2010 £000's
Deposits with banks and financial institutions		
Fitch rating - AA-, F1+, B, 1	2,097	
Fitch rating - AA-, F1+, C, 1	3,017	
Fitch rating - A-, F2, B/C, 3	424	
		<b>5,538</b>
Euro-Sterling Bonds Rated AAA		<b>6,385</b>
Customers		<b>7,125</b>

No formal assessments are generally carried out in respect of individual Council customers. However, in the event of a significant commitment financial checks would be carried out to minimise the Council's exposure to default.

### Liquidity Risk

The Council's exposure to liquidity risk is not significant. Short-term investments are placed to mature when known commitments become payable. Borrowing facilities are used for day-to-day cash flow requirements and all loans are currently less than one-year duration. All trade and other payables are to be paid in less than one year.

### Market Risk

The Council is principally exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. The Council is heavily reliant on investment income to support expenditure and has several strategies for managing such risk.

A proportion of investments are held at fixed rates for longer periods to provide an element of stability of returns and reduce the impact of fluctuating interest rates. Sector Treasury Services are used as advisors to provide analysis of market movements and to assist in investment decisions based on their knowledge of current market conditions and interest rate forecasting. Investments are usually for fixed terms, locking into higher rates where possible to reduce volatility.

The Council's current investments include triple A rated euro-sterling bonds. There is an active market for such instruments and as such there is an element of price risk. These were purchased in 2008 with the intention of holding to maturity but their marketability has provided an element of liquidity within the investment portfolio.

The Council has no financial assets or liabilities that are denominated in foreign currencies and therefore has no exposure to foreign exchange risk.

### Fair Value of Financial Instruments

Financial assets and liabilities (except for Available for Sale) represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments.

No early repayment or impairment is recognised. Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to the fair value.

The fair value of trade and other receivables is taken to be the invoiced or billed amount, less provision for bad and doubtful debts.

<b>31 March 2009 Carrying Amount £000s</b>	<b>31 March 2009 Fair Value £000s</b>		<b>31 March 2010 Carrying Amount £000s</b>	<b>31 March 2010 Fair Value £000s</b>
		<b>Financial Liabilities</b>		
4,554	4,554	Short Term Borrowing	1,535	1,535
4,047	4,047	Trade and Other Creditors	2,436	2,436
		<b>Financial Assets</b>		
		<b>Loans and Receivables</b>		
2,096	2,096	Long Term Investments	-	-
13,615	13,615	Short Term Investments	5,114	5,114
256	256	Cash and Bank Balances	733	733
		<b>Available For Sale Assets</b>		
6,374	6,374	Euro-Sterling Bonds	6,385	6,385

The fair value of Euro-Sterling bonds is determined by price quotations in the active market and the fair value of both long term and short term investments is the same as the carrying amount. Although the Council's portfolio includes several fixed rate deposits where the interest rate receivable is higher than the rate available for similar deposits at the balance sheet date, these instruments cannot be traded and the terms cannot be changed. The fair value of short-term borrowing is the same as the carrying amount because of the short remaining duration on these loans.

Summary of Amounts taken to the I&E and STRGL	Financial Liabilities	Financial Assets		Total
	At Amortised Cost	Loans & Receivables	Available for Sale Assets	
Interest Payable and similar charges	1	0	0	1
Interest and Investment income		607	257	864
Surplus arising on revaluation of financial assets			57	57
Net (Gain)/Loss for the year	1	607	314	922

## 29. Prior Year Adjustments

Previously, balances relating to business ratepayers accounts were included in the Balance Sheet. Spelthorne is now treated as acting as agent for the government when collecting business rates and the comparative figures for 2008/09 have been restated accordingly. The prior period adjustment is effected by deleting all of the previous balances and replacing them with a net creditor for Central Government.

Prior Year adjustment for agency accounting for NNDR	
	2008/09
Arrears	1,011
Impairment Allowance for doubtful debts	(467)
Overpayments	(771)
Prepayments amounts due to the National Pool for instalments paid in excess of final amount payable	(70)
Net creditor for Central Government	<b>(297)</b>

## 30. Post Balance Sheet Events

"The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of an average employer's FRS17 liabilities in the Fund by around 6-8%".

## **The Cash Flow Statement – Explanatory Note**

The cash flow statement is designed to provide a greater understanding of the activities of the Council than can be obtained from a review of the revenue account and balance sheet. The statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. All internal transfers are excluded from the statement and cash movements are classified under five main headings so that the cash flow associated with the various activities of the authority can be identified:

### **31. Revenue Activities**

This section reflects all the cash transactions relating to the day to day activities of the Authority including those relating to the collection of local taxation. These include:

- Cash paid to and on behalf of employees includes all payments to the Tax authorities of employees' and employers' contributions.
- Housing benefit expenditure reflects cash payments made to private tenants.
- Rent income and Council Tax income are shown net of rebates so that the statement only reflects the cash received.
- The income from the government in relation to benefits awarded is included as government grants for housing benefits.

### **32. Returns on Investments and Servicing of Finance**

This section reflects all the cash transactions relating to the revenue element of financing transactions and includes interest paid and received.

### **33. Capital Activities**

This section reflects the cash flows relating to the purchase and sale of tangible and non-tangible fixed assets. It also includes any capital grant and contributions received.

### **34. Management of Liquid Resources**

Liquid resources are defined as cash or cash equivalents including all current asset investments that are held by the Council, that can be readily convertible into known amounts of cash at or close to, the balance sheet value.

### **35. Financing**

This section reflects the cash flows relating to the principal element of amounts borrowed from third parties only.

<b>Reconciliation of Net Revenue Deficit to Net Cash Flow</b>		
	<b>£'000</b>	<b>£'000</b>
General Fund Deficit		3,554
Non-Cash Transactions		
Depreciation and Impairments	(1,870)	
Loss on Sale of Fixed Assets	0	
Net Contributions to/from Reserves	(680)	
Net Provision Set Aside and applied	<u>187</u>	
		(2,363)
Items on an Accrual Basis		
Decrease in Creditors	1,607	
Decrease in Stock	9	
Increase in Debtors	<u>3,953</u>	
		5,569
Items in Another Classification		
Servicing of Finance	676	
Management of Liquid Resources	(4,202)	
Capital Expenditure Financed from Revenue	<u>(124)</u>	
		(3,650)
<b>Net Cash Inflow from Revenue Activities</b>		<b><u>3,110</u></b>

<b>Reconciliation of Movement in Cash to Movement in Net Debt</b>			
	<b>31.3.09 £'000</b>	<b>31.3.10 £'000</b>	<b>Movement £'000</b>
Cash at bank/(overdraft)	(79)	0	(79)
Cash in hand	335	733	(398)
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>256</b>	<b>733</b>	<b>(477)</b>
Debt due within one year (short term borrowings)	(4,554)	(1,535)	(3,019)
Debt due after one year	0	0	0
<b>Total Debt</b>	<b>(4,554)</b>	<b>(1,535)</b>	<b>(3,019)</b>
Current Asset Investments (short term deposits)	13,615	5,114	8,501
Long Term Investments (over one year)	8,471	6,385	2,086
<b>Total Investments</b>	<b>22,086</b>	<b>11,499</b>	<b>10,587</b>
<b>Net Funds/(Debt)</b>	<b>17,788</b>	<b>10,697</b>	<b>(7,091)</b>

<b>Reconciliation of Financing and Management of Liquid Resources</b>			
	<b>31.3.09 £'000</b>	<b>31.3.10 £'000</b>	<b>Movement £'000</b>
Current Asset Investments (short term deposits)	13,615	5,114	(8,501)
Debt due within one year (short term borrowings)	(4,554)	(1,535)	3,019
<b>Net Funds/(Debt)</b>	<b>9,061</b>	<b>3,579</b>	<b>(5,482)</b>

<b>Government Grants and Contributions</b>	
<b>Revenue Grants</b>	<b>£'000</b>
NNDR Redistribution Grant	4,591
Revenue Support Grant	1,060
Housing Benefits Subsidy	32,178
Business rate Collection	146
Concessionary Fares	250
Economic Development Grant	50
Planning Delivery Grant	271
Other	52
	<hr/>
	38,598
<b>Capital Grants</b>	
Specific Grant – Disabled facilities	250
DEFRA - Contaminated land	22
	<hr/>
	272
	<hr/>
<b>TOTAL GOVERNMENT GRANTS</b>	<b>38,870</b>

### 36. Capital Expenditure and Financing

	<b>Summary of Capital Expenditure</b>	<b>2008/09</b>	<b>2009/10</b>
		<b>£'000</b>	<b>£'000</b>
<b>Housing</b>	Improvement Grants	549	586
	Grants to Housing Associations	-	15
		<b>549</b>	<b>601</b>
<b>Leisure</b>	Public Halls	11	-
	Parks and Recreation Grounds	683	268
	Leisure Facilities	213	-
	Leisure Centres	51	-
	Museum	10	-
		<b>968</b>	<b>268</b>
<b>Community Care</b>	Day Centres	102	-
	Community Alarm System	44	9
		<b>146</b>	<b>9</b>
<b>Highways and Transportation</b>	Depot	42	-
	Vehicles & Plant	50	-
	Car Parks	68	22
		<b>160</b>	<b>22</b>
<b>Environmental Services</b>	Refuse Collection & Recycling	146	240
	Critical Ditches	16	-
	Environmental Initiatives	14	143
	Cemeteries	75	-
	Street Cleansing	10	-
		<b>261</b>	<b>383</b>
<b>Other</b>	Loans/Grants to Voluntary Organisations	50	5
	Computer Developments	369	505
	Knowle Green	96	-
	Feasibility Studies and Capital Salaries	193	111
		<b>708</b>	<b>621</b>
	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>2,792</b>	<b>1,904</b>

	<b>2008/09</b>	<b>2009/10</b>
<b>Summary of Capital Financing</b>	<b>£'000</b>	<b>£'000</b>
Borrowing	-	-
Capital Receipts	2,381	1,308
Specific Government Grants	252	348
Reserve and Other Funds	159	248
<b>TOTAL CAPITAL FINANCING</b>	<b>2,792</b>	<b>1,904</b>



### 37. Revenue Reserves

Fund	Bal B/fwd 1.4.09 £'000	Surplus/ Deficit £'000	Conts from/ (to) other funds	Capital Financing £'000	Bal C/fwd 31.3.10 £'000
Risk Management	10				10
Capital Fund	593		- 150		443
Housing Initiatives	7,626			- 15	7,611
Lottery Fund	18		- 5		13
New Schemes Fund Rev	2,169		- 315		1,854
Good Causes Fund	3				3
Car Parks Reserve	111				111
Interest Equalisation Reserve	593				593
Insurance Reserve	133		- 15		118
Business Improvement Reserve	537		- 302		235
PDG Reserve	150				150
Carry Forward Reserve	150		- 150		-
<b>Sub total</b>	<b>12,093</b>	<b>-</b>	<b>- 937</b>	<b>- 15</b>	<b>11,141</b>
General Fund	1,356	62			1,418
<b>Total</b>	<b>13,449</b>	<b>62</b>	<b>- 937</b>	<b>- 15</b>	<b>12,559</b>

### 38. Capital Reserves

Fund	Bal B/fwd 1.4.09 £'000	Transfer to Revenue £'000	Capital Credits £'000	Net Unrealised Gains/Losses £'000	Financing £'000	Bal C/fwd 31.3.10 £'000
Capital Adjustment Account	43,647	860			(1,774)	42,733
Revaluation Reserve	7,795			(609)		7,186
Available for Sale Reserve	145			57		202
Deferred Capital Receipts	12		(3)			9
Usable Capital Receipts	2,367		872		(1,307)	1,932
Pension Reserve	(22,170)			(16,366)		(38,536)
	<b>31,796</b>	<b>860</b>	<b>869</b>	<b>(16,918)</b>	<b>(3,081)</b>	<b>13,526</b>

## Capital and Earmarked Revenue Reserves

Set out below is a brief description of the capital and revenue reserves held by the Council and the purpose for which they are used:

### 39. Capital Reserves

Capital Adjustment Account – This account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

Revaluation Reserve - The account set up from 1<sup>st</sup> April 2007 holds all revaluation gains related to individual assets. Revaluation losses can be charged here only when they reverse previous revaluation gains and no individual asset can have a negative carrying amount on the account

Deferred Capital Receipts – amounts derived from the sale of assets which will be received in instalments over agreed periods of time.

Usable Capital Receipts Account – Represents capital receipts available and used to finance capital expenditure in current and future years.

### 40. Earmarked Revenue Reserves

Capital Fund – Used for financing capital expenditure, and to support the revenue account.

Lottery Fund - contains the net proceeds of the Spelthorne Lottery, which is registered under the Lotteries and Amusements Act 1976 and from which grant payments are made.

Insurance Risk Management Fund – To provide funding for risk management initiatives to help reduce insurance costs.

Interest Equalisation Fund – To neutralise the impact of changes in interest rates on the level of interest income across the years.

Social Housing Fund – To fund future housing capital expenditure including low cost social housing initiatives.

New Schemes Fund – To finance the revenue effects of future capital expenditure and specific revenue projects.

Good Causes Fund - To fund grants to voluntary organisations and individuals.

Insurance Fund – To provide a level of self insurance cover to offset possible impact over the life of the current insurance contract of higher deductibles.

Business Improvement Reserve – To provide set aside funds to assist in implementation of any business improvements designed to realise revenue efficiencies.

Carry forward reserve – To provide a fund to enable the completion of works started but unable to be completed in a financial year.

Car Parks Reserve – To provide a fund for additional improvement works required to the Borough's car parks.

Planning Delivery Grant – To help fund the transition period after Planning Delivery Grant ceases to be available.

#### 41. Capital Commitments

There were no major contractual commitments as at 31 March 2010.

#### 42. Trust Funds

The Council currently administers one small Trust Fund. The value is as follows:

	<b>As at 31.3.09 £</b>	<b>As at 31.3.10 £</b>
Lord Mayor's National Flood Distress Fund	5,351	5,365

These funds do not represent assets of the Council and are not included in the Balance Sheet.

## Collection Fund

2008/09 £'000		2009/10	
		£'000	£'000
	<b>Income</b>		
51,130	Income from Council Tax	52,468	
4,967	Council Tax Benefits	5,559	
56,097			58,027
40,882	Income from Business ratepayers		41,892
	Contributions		
1,230	Towards previous year's estimated deficit		179
<b>98,209</b>	<b>Total Income</b>		<b>100,098</b>
	<b>Expenditure</b>		
56,273	Precepts and demands from County and Police		58,252
	Business Rate		
40,192	- Payment to the National Pool	41,163	
148	- Costs of Collection	147	
(41)	- Discretionary Rate Relief	0	
			41,310
	Bad and Doubtful Debts		
416	- Write offs	876	
348	- Provisions	(141)	735
<b>97,336</b>	<b>Total Expenditure</b>		<b>100,297</b>
(1,299)	<b>Balance brought forward 1st April 2009</b>		(426)
873	<b>Movement in Fund</b>		(199)
<b>(426)</b>	<b>Balance carried forward 31st March 2010</b>		<b>(625)</b>

2008/09 £'000	Breakdown of Balance as at 31st March 2010	2009/10 £'000
(321)	Surrey County Council	(469)
(57)	Surrey Police	(84)
(48)	Spelthorne BC	(72)
<b>(426)</b>		<b>(625)</b>

## Notes to the Collection Fund

### 1. Council Tax

In order to calculate the total yield from Council Tax in a year it is necessary to convert the number of dwellings in each band to an equivalent number of Band D dwellings. For 2009/10 the following calculation was made:

Band	Number of Chargeable Dwellings	Ratio	Equivalent Band D Dwellings	Estimated Yield at £1,450.34 (Band D) £'000
A	294	6/9	196	284
B	1,335	7/9	1,038	1,505
C	6,969	8/9	6,195	8,985
D	12,601	1	12,601	18,276
E	8,861	11/9	10,830	15,707
F	4,105	13/9	5,930	8,601
G	1,890	15/9	3,150	4,569
H	92	18/9	184	267
<b>Total</b>	<b>36,147</b>		<b>40,124</b>	<b>58,193</b>
Allowance for Losses on Collection and Appeals			<b>40</b>	<b>59</b>
Council Tax Base and Expected Yield			<b>40,164</b>	<b>58,252</b>

The Actual Yield for the year was £58,027,109 the difference of £224,347 being attributable to the change in the numbers of properties in each Band between the initial calculation in November 2008 and the final figures in March 2010.

### 2. Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The total non-domestic rateable value at 31 March 2010 was £99,039,893 and the multiplier for the year 2009/10 was 0.485.

The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR Pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local adult population. Under these arrangements the amounts included in these accounts are as follows:

	£'000
<b>Gross amount payable for 2009/10</b>	<b>47,897</b>
Less: Adjustments for Transition	262
Less: Debit Adjustments made in year for empty properties, revaluation including prior years etc.	(4,228)
Less: Reliefs and write offs	(2,039)
<b>Net sum collectable</b>	<b>41,892</b>
Less: Allowance for collection	(147)
Less: Bad Debt Provision	(582)
<b>Payment to National Pool for 2009/10</b>	<b>41,163</b>

### 3. Precepts and Demands

<b>Precepts and Demands</b>	<b>2008/09 £'000</b>	<b>2009/10 £'000</b>
Surrey County Council	42,354	43,746
Surrey Police	7,522	7,787
Spelthorne BC	6,397	6,719
	<b>56,273</b>	<b>58,252</b>

### 4. Distribution of Surplus

<b>Distribution of Surplus/(Deficit)</b>	<b>2008/09 £'000</b>	<b>2009/10 £'000</b>
Surrey County Council	(930)	(135)
Surrey Police	(158)	(24)
Spelthorne BC	(142)	(20)
	<b>(1,230)</b>	<b>(179)</b>

## ANNUAL GOVERNANCE STATEMENT

### **Scope of responsibility**

Spelthorne Borough Council is responsible for ensuring that its 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website at [www.spelthorne.gov.uk](http://www.spelthorne.gov.uk) or can be obtained from The Council Offices, Knowle Green, Staines TW18 1XB. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

### **The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled. It also identifies activities through which the Council accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks the achievement of [the authority's] policies, aims and objectives, to evaluate the likelihood of those risks being realised, and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2010 and up to the date of approval of the statement of accounts.

### **The Governance Framework**

The key elements of the systems and processes that comprise the authority's governance arrangements are summarised below:

#### Identifying and communicating our vision and outcomes for citizens and service users

- The Council publishes on an annual basis its Corporate Plan. The Council's current Corporate Plan 2008-11 is published on the website [http://www.spelthorne.gov.uk/your\\_council-corporateplan](http://www.spelthorne.gov.uk/your_council-corporateplan) ). The Corporate Plan and priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year
- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective.

#### Reviewing our vision and its implications for our governance arrangements

- The Council regularly reviews the authority's vision and its implications for the authority's governance arrangements. The Council reviewed and agreed in February 2008 a new set of Corporate priority themes. Progress towards the achievement of the objectives will

be monitored through the performance management system and by the Performance Management and Review Committee.

- The Council engages with the public and translates the community's priorities into a Community Plan in conjunction with our partners

Established clear channels of communication with all sections of our community and other stakeholders, ensuring accountability and encouraging open consultation

- Revised Communication and Consultation strategies are in place, together with an Equality and Diversity Strategy helping to ensure that all groups in our community have a voice, can be heard and are suitably consulted.
- The Council regularly undertakes consultation exercises and uses focus groups and a wide variety of other methods to obtain feedback from the community.

Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

- Spelthorne Borough Council has an agreed Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The Council operates Executive arrangements with a Leader and Cabinet who recommend the major policies and strategies to the Council. The Cabinet is also responsible for most of the non-regulatory functions of the Council. The Executive is made up of the Leader and eight other cabinet members, who are all appointed by the Council. Major decisions which affect significant proportions of the community are published in advance in the Cabinet's Forward Plan, and will always (unless there are exceptional circumstances) be discussed in a meeting open to the public. All decisions must be in line with the Council's overall policies and budget. Any decisions the Cabinet wishes to take outside the budget or policy framework must be referred to Council as a whole to decide.
- There were two scrutiny committees Performance Management and Review Committee and Improvement and Development Committee which review decisions and actions taken by the Cabinet and other Council functions. Commencing in 2010-11 the two Committees will be combined into a single Overview and Scrutiny Committee. A "call-in" procedure allows scrutiny to review Cabinet decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The scrutiny committees also review, monitor and scrutinise the performance of the Council in relation to its policy objectives, performance targets, action plans and relationships with external partnership bodies and organisations. Within its community leadership functions, the scrutiny powers have been exercised by the Council in relation to the work of other partner organisations which affect the whole of the Spelthorne Community.
- The Council has agreed a Local Code of Corporate Governance in accordance with the revised CIPFA/SOLACE Framework for Corporate Governance and in doing so has adopted the highest possible standards for the governance of the authority.

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

The standards of conduct and personal behaviour expected of members and officers of Spelthorne Borough Council, its partners and the community are defined and communicated through codes of conduct and protocols. These include:

- Member Code of Conduct and Standards Committee
- An effective performance management system
- Regular performance appraisals for staff linked to corporate and service objectives



- A fraud and corruption policy
- Member/officer protocols

#### Whistle-blowing and receiving and investigating complaints from the public

- Confidential reporting arrangements are in place to enable internal and external whistle blowing. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous.
- The Council handles complaints effectively. Following on the work of the Code of Corporate Governance Task Group, the Council reviewed its corporate complaints process during 2008-09 to ensure that it can respond to the ever increasing expectations of the public for excellent public and customer service. Improvement recommendations are currently being considered.

#### Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

- The Council regularly reviews and updates standing orders, standing financial instructions, its scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks. In the last three years both Financial Regulations and Contract Standing Orders have been revised in light of changing circumstances. Refresher Training on application of the contract standing orders has been provided to officers.

#### Compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

- Spelthorne Council has a duty to ensure that it acts in accordance with the law and various regulations in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as is possible, all officers understand their responsibilities both to the Council and to the public. Two key documents are the Financial Procedure Rules and the Contract Standing Orders, which are available to all officers via the Council's Intranet, as well as available to the public as part of the Constitution, which is published on the Council's website.
- Other documentation includes corporate policies on a range of topics such as Equality and Diversity, Customer Care, Data Protection, and Fraud. All policies are subject to internal review to ensure these are adequately maintained. The Council keeps all staff aware of changes in policy, or new documentation following new legislation. Timely reminders are provided for staff on key policies which protect them and the public, for example the whistle-blowing policy and the Money Laundering Regulations.
- The Council has a designated Monitoring Officer who is the Head of Corporate Governance who is responsible for ensuring compliance with established policies, procedures, laws and regulations. After consulting with the Head of Paid Service and the Chief Finance Officer, the Monitoring Officer will report to the full Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered. No reports have been necessary in recent years.

#### Measuring the quality of services for users, for ensuring they are delivered in accordance with our objectives and for ensuring that they represent the best use of resources

- The Council has good performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Performance against targets is reported regularly to Performance

Management and Review Committee and performance against targets is maintained online on the Council's performance management system available for review by Councillors and officers.

- There is a programme of Business Improvement Reviews reviewing all service areas of the Council.

#### Financial Management

- The financial management of the Council is conducted in accordance with the financial rules set out in Part 4 of the Constitution, which includes the financial regulations. The Council has a designated officer who fulfils the role of the Section 151 Officer in accordance to the Local Government Act 1972. The Council has in place a medium term financial strategy.
- Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.
- Ongoing development and maintenance of the various processes may be the responsibility of other managers within the Council.

In particular, the process in 2009/10 included:

- The setting of the outline budget framework and the detailed annual budget;
- Monitoring of actual income and expenditure against the annual budget;
- Detailed scrutiny and review of all service areas' budgets by the Member Budget Task Group which reported its recommendations in February 2010
- Setting of financial and performance targets, including the prudential code and associated indicators;
- Monthly reporting of the Council's financial position to corporate Management Team and quarterly to the Cabinet and the Performance Management and Review Committee;
- Clearly defined capital expenditure guidelines;
- The monitoring of finances against a Medium Term Financial Plan;
- Managing risk in key financial service areas.

#### Effectiveness of Internal Audit

- The Council maintains a internal audit section, which operates to the standards set out in the "Code of Practice for Internal Audit in Local Government in the UK
- The Council has an objective and professional relationship with External Audit and statutory inspectors. as evidenced in the Annual Audit Letter
- A review of the effectiveness of internal audit is undertaken annually and considered by the Audit Committee.

#### A Governance (Audit) Committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

- The Council has an Audit Committee which is responsible for considering the effectiveness of the Council's system of internal control. This Committee performs the core functions as set out in CIPFA guidance. Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*

#### Performance and Risk Management

- The Council has good performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Performance against targets is reported regularly to Performance

Management and Review Committee and performance against targets is maintained online on the Council's performance management system available for review by Councillors and officers.

- The Chief Finance Officer is currently the authority's risk champion. Audit Services support the risk management process through the risk based audit approach and by assisting services in the review of annual risk assessments. Risk management is built into the Council's corporate project methodology.
- The development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
- A fully resourced training and development plan is in place for officers and members of the Council, clearly linked to the Corporate and Service Plans and statutory responsibilities.

#### Incorporating good governance arrangements in respect of partnerships and other group working

- The Council incorporates good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflects these in the authority's overall governance arrangements. The Head of Corporate Governance is currently reviewing the governance of partnerships.

#### The ethical conduct of members and officers of this Council

- The Council has under the Constitution established a Standards Committee and a Members Code of Conduct.

### **Review of effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Audit Services' annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Performance Management and Review Committee set up a Code of Corporate Governance Task Group (the Task Group) which reviewed during 2007-08 the Council's governance arrangements and assessed them against the six CIPFA/SOLACE core principles underpinning the then new Code of Corporate Governance framework issued by CIPFA/SOLACE. The six principles are:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust accountability

An officer working group consisting of Head of Audit Services, Head of Corporate Governance and Head of Finance and Resources completed during 2007-08 a detailed assessment of the

Council's position against the criteria set out in the eight objectives underpinning the Code of Governance framework. This officer group reviewed and updated the assessment during 2009-10, including reviewing the previous work of the Task Group. The eight objectives are:

- Establish principal statutory obligations and organisational objectives
- Identify principal risks to achievement of objectives
- Identify and evaluate key controls to manage principal risks
- Obtain assurances on effectiveness of key controls
- Evaluate assurances and identify gaps in control/assurances
- Action plan to address weaknesses and ensure continuous improvement of the system of Corporate Governance
- Produce the Annual Governance Statement
- Report to Audit Committee

The review included reviewing the constitution, procedures and obtaining confirmation of arrangements from key officers to ensure that there was sufficient and relevant evidence to provide assurance that there are appropriate controls in place.

The officers' review of arrangements against the six principles included considering the arrangements in place for:

- The authority
- The executive
- The audit committee and scrutiny committees
- The standards committee
- Internal audit
- Other explicit review/assurance mechanisms.

### **Significant governance issues**

The overall opinion is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit Services during 2009/10 which is summarised in the report below.

Any shortcomings identified with a significant level of risk attached have been reported to the Audit Committee and have been transferred into the Council's Corporate Risk Register for quarterly monitoring. The following issues are outstanding at 31 March 2010:

1. All service plans should be updated following a review of corporate priorities.
2. The review of health and safety procedures and responsibilities relating to leased assets should be finalised.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

The issues reported in last year's Annual Governance Statement with respect to review the Council Corporate Risk Register and partnership work have been addressed by management but will be kept under review

.....  
John Packman  
Leader of the Council

.....  
Roberto Tambini  
Chief Executive

## **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 us 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 us 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. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Spelthorne Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Senior Statutory Auditor  
for and on behalf of KPMG LLP  
Chartered Accountants  
Statutory Auditor  
1 Canada Square  
Canary Wharf  
London  
E14 5AG  
30 September 2009

## **Independent auditors' report to the Members of Spelthorne Borough Council Opinion on the accounting statements**

We have audited the accounting statements and related notes of Spelthorne Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Authority Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Spelthorne 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 Spelthorne 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 Spelthorne Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditors**

The Chief Financial Officer's responsibilities for preparing the financial statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements 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 accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

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 financial statements. 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.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises the Financial Review by the Chief Financial Officer. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

### **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 accounting statements, and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements 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 accounting statements 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 accounting statements, and related notes.

### **Opinion**

In our opinion the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

### **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.

Senior Statutory Auditor  
for and on behalf of KPMG LLP  
Chartered Accountants  
Statutory Auditor  
1 Canada Square  
Canary Wharf  
London  
E14 5AG  
30 September 2010



## **Other Information**

In addition to the manpower and comparative statistics included here, the Council regularly publishes information about the cost and standard of the services it provides. A review of its key achievements over the previous year is included in the summer edition of the Borough Bulletin, the Council's own newspaper.

The standards called Performance Indicators, which are drawn up by the Audit Commission to show how well Councils are doing their job, are published in the Borough Best Value Plan and an edition of the Borough Bulletin.

### **Suggestions and Complaints**

The Council has produced a leaflet setting out how to complain if you are dissatisfied in any way about its provision of services. It also explains how complaints are dealt with by the Council and also how to approach the Local Government Ombudsman if it is felt that a complaint has not been properly resolved. The leaflet is available from the Council Offices.

The Council always welcomes any comment or suggestions as to how its services could be improved

## GLOSSARY OF TERMS

### ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- (i) recognising,
- (ii) selecting measurement bases for, and
- (iii) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the accounts it is to be presented.

### ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- (b) the actuarial assumptions have changed.

### BEST VALUE

A Government initiative introduced in 1998 in a series of pilot projects and now supported by legislation from 1999, which is aimed at measuring the economy, efficiency and effectiveness of all local authority services.

### BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)

The code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

### BUDGET

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

### CAPITAL CHARGES

Charges to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

### CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure, which adds to and not merely maintains the value of an existing fixed asset.

## CAPITAL ADJUSTMENT ACCOUNT

An account that reflects the extent to which fixed assets have been financed from revenue contributions or capital receipts, and the provision for the repayment of external loans. This account replaced the Capital Financing Account from 1<sup>st</sup> April 2007.

## CAPITAL RECEIPTS

The proceeds from the sale of (or reduction in our interest in) capital assets such as land, buildings and equipment.

## COLLECTION FUND

An account maintained by a district council recording the amounts collected in council tax.

## COMMUNITY ASSETS

The council also owns assets classified as community assets. This includes land in cemeteries and parks which is held for community use in perpetuity, has no determinable useful life and may have restrictions on disposal. These assets are generally valued at historic cost and are not shown in the balance sheet as the historic cost is de-minimus.

## COMPREHENSIVE PERFORMANCE ASSESSMENT (CPA)

This assesses how well the Council delivers services and how well the Council is run, as this will affect how services are delivered in the future.

## CONSISTENCY

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

## CONTINGENCY

A situation, which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

## CONTINGENT LIABILITIES

A potential liability that is uncertain because it depends on the outcome of a future event.

## CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

## COUNCIL TAX

A local tax levied by local authorities on its citizens.

## CREDITOR

An individual or body to which the Council owes money at the balance sheet date.

## CURRENT ASSET

An asset that is realisable or disposable within less than one year without disruption to services.

## CURRENT LIABILITY

A liability that is due to be settled within one year.

## CURRENT SERVICE COST (PENSIONS)

The increase in present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

## CURTAILMENT

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- (a) termination of employee's services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business; and
- (b) termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

## DEBTOR

An individual or body that owes money to the Council at the balance sheet date.

## REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue expenditure funded from capital under statute represent spending which may properly be capitalised, but where no tangible fixed asset is created e.g. improvement grants and social housing grants.

## DEFINED BENEFIT SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions (fixed as an amount or as a percentage of pay) and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current prior periods.

## DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time, obsolescence or other changes.

## DISCRETIONARY BENEFITS

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 2006.

## DOUBTFUL DEBT

A debt that the Council is unlikely to recover. A provision is made in the accounts for doubtful debts each year based on how long debts have been outstanding.

## EXPECTED RATE OF RETURN ON PENSION ASSETS

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

## EXPERIENCE GAINS/LOSSES

These are a type of actuarial gain/loss within the valuation of the pension fund. See actuarial gains/losses.

## FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

## FINANCIAL REPORTING STANDARD (FRS)

Accounting standards governing the treatment and reporting of income and expenditure in an organisation's accounts.

## FIXED ASSETS

Tangible assets that benefit the local authority and the services it provides for a period of more than one year.

## GENERAL FUND

The division of the Council's accounts covering services paid for by the precept on the Collection Fund (Council Tax).

## GOING CONCERN

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

## GOVERNMENT GRANTS

Government assistance whether in the form of cash or transfers of assets in return for compliance with certain conditions relating to the activities of the authority.

## IMPAIRMENT

A reduction in the value of a fixed asset below its carrying amount in the balance sheet.

## INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure that is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

## INVESTMENTS

A long-term investment that is intended to be held for use on a continuing basis in the activities of the authority.

## INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development have been completed and which is held for its investment potential.

## LIQUID RESOURCES

Current asset investments that are readily disposable by the authority without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

## LONG-TERM ASSET

A fixed asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

## LONG-TERM BORROWING

A loan repayable in more than one year from the balance sheet date.

## LONG-TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

## LONG-TERM DEBTOR

An individual or body that owes money to the Council that is not due for payment within one year from the balance sheet date.

## NATIONAL NON-DOMESTIC RATE

Business rate levied on Companies, firms etc.

## NET ASSETS

The amount by which assets exceed liabilities (same as net worth).

## NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

## NET CURRENT LIABILITIES

The amount by which current liabilities exceed current assets.

## NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

## NET EXPENDITURE

Total expenditure for a service less directly related income.

## NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

## NET WORTH

The amount by which assets exceed liabilities (same as net assets).

## NON-DISTRIBUTED COSTS

Overheads for which no direct user benefits and which are therefore not apportioned to services.

## NON-OPERATIONAL ASSETS

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

## OPERATING LEASES

A lease other than a finance lease.

## OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

## PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

## POST BALANCE SHEET EVENTS

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

## PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- (a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases; and
- (b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

## PROVISIONS

An estimated figure within the accounts for liabilities that are known to exist, but that cannot be measured accurately.

## RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- (i) one party has direct or indirect control of the other party; or
- (ii) the parties are subject to common control from the same source; or
- (iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

## RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

## REMUNERATION

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

## RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

## RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employer's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.



## REVALUATION RESERVE

Unrealised gains and losses on revaluation of fixed assets.

## REVENUE EXPENDITURE/INCOME

The cost or income associated with the day-to-day running of the services and financing costs.

## REVENUE SUPPORT GRANT

Government financial support that does not have to be spent on a particular service. It is based on the Government's assessment of the Council's spending need, its receipt from national business rates, and its ability to generate income from the council tax.

## SCHEME LIABILITIES

The liabilities of a defined scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

## SETTLEMENT

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- (a) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- (b) the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- (c) the transfer of scheme assets/liabilities relating to a group of employees leaving the scheme.

## STATEMENT OF STANDARD ACCOUNTING PRACTICES (SSAP)

Accounting practices recommended by the major accounting bodies. The application of SSAP's to local authorities is reflected in Statements of Recommended Practice (SORP).

## STOCKS

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Stocks comprise the following categories:

- (a) goods or other assets purchased for resale;
- (b) consumable stores;

## STRAIGHT-LINE BASIS

Dividing a sum equally between several years.

## USEFUL LIFE

The period over which the local authority will derive benefits from the use of a fixed asset.

## VESTED RIGHTS

In relation to a defined benefit scheme, these are:

- (a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- (b) for deferred pensioners, their preserved benefits;
- (c) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependents.



GOVERNMENT

# Report to those charged with governance (ISA 260) 2009/10

Spelthorne Borough Council

16 September 2010

AUDIT

# 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.

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 Andrew Sayers, who is the engagement partner to the Authority (telephone 020 7694 8981, email [andrew.sayers@kpmg.co.uk](mailto:andrew.sayers@kpmg.co.uk)) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto: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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

## Executive summary

### Scope of this report

This report summarises:

- the key issues identified during our audit of the financial statements of Spelthorne Borough Council ('the Authority') for the year ended 31 March 2010; and
- our assessment of the Authority's arrangements to secure value for money in its use of resources.

### Financial Statements

The table below summarises the key findings from our work in relation to the financial statements audit. Section two of this document provides further details.

<b>Proposed opinion</b>	<p>We anticipate issuing an unqualified audit opinion by 30 September 2010.</p> <p>We will also report that the wording of your Annual Governance Statement complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE in June 2007 and it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.</p>
<b>Accounts production and audit process</b>	<p>The quality of the accounts and the supporting working papers provided has been good. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>The Authority has implemented all but one of the recommendations in our <i>ISA 260 Report 2008/09</i>. This relates to the creation of one-sided journals and is classed as medium priority.</p> <p>A mitigating control has been put in place in relation to this risk.</p>

<b>Critical accounting matters</b>	<p>We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed all issues appropriately including accounting for fixed assets and agency accounting.</p>
<b>Audit differences</b>	<p>Our audit identified one audit adjustment with a value of £54,000 where a prepayment had been included in expenditure. The impact of this adjustment is to:</p> <ul style="list-style-type: none"> <li>Increase the balance on the general fund account as at 31 March 2010 by £54,000;</li> <li>Decrease the deficit on the income and expenditure account for the year by £54,000 and</li> <li>Increase the net worth of the Authority as at 31 March 2010 by £54,000.</li> </ul> <p>Additionally we identified a number of non-significant presentational adjustments.</p> <p>All adjustments were processed by the Authority. Since there were no significant adjustments we have not included a list in this report, but a full list is available upon request.</p>
<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete.</p> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>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.</p>

We have raised four recommendations following our audit work, which are included in Appendix C. None of these are classified as high priority.

## Executive summary

### Use of Resources

The table below summarises the key findings from our assessment of the Authority's arrangements to secure value for money in its use of resources.

Our findings are detailed in section three of this report.

<b>Proposed opinion</b>	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.
<b>Use of resources assessment</b>	<p>Following the change in government, the use of resources assessment at local authorities ceased with immediate effect in May 2010.</p> <p>The Authority will therefore not receive scores in respect of the 2010 assessment.</p> <p>However, the fieldwork that we had carried out prior to the cessation of the assessment indicated to us that overall the Authority had maintained the level of performance we had seen in the prior year when it was judged to be performing adequately.</p>

### Exercise of other powers

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 our attention in order for it to be brought to the attention of the public. In addition we have a range of other powers under the 1988 Act.

No issues have arisen that have required us to issue a report in the public interest.

### Certificate

We are required to certify that we have completed the audit 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 you and to issue a draft opinion on the financial statements.

At present there are no issues that would cause us to delay the issue of our certificate of completion of the audit.

### Acknowledgements

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

# Introduction

**We have completed our work on the 2009/10 financial statements.**

**We anticipate issuing an unqualified audit opinion by 30 September 2010.**

## The Authority's and our responsibilities

Spelthorne Borough Council is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.

We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements.

## Introduction

Our audit of the financial statements can be split into four phases:



## Planning

We issued our Annual Fee letter on 15 April 2009. This was followed by our Audit Plan on 27 January 2010. Our planning stage involved:

### Planning Procedures

- Performing risk assessment procedures and identifying risks
- Determining our audit strategy
- Determining our planned audit approach, including liaising with internal audit

## Control Evaluation

Our interim audit visit took place in March 2010 for two weeks. During this time, we carried out the following work:

### Control Evaluation

- Understanding accounting and reporting activities
- Evaluating the design and implementation of selected controls
- Testing the operating effectiveness of selected controls
- Assessing control risk
- Testing a sample of the work of internal audit to allow us to place reliance on their work

## Substantive Procedures

Our final accounts visit on site took place between 19 July and 6 August. During these three weeks, we carried out the following work:

### Substantive Procedures

- Planning and performing substantive audit procedures
- Concluding on critical accounting matters
- Identifying audit adjustments
- Reviewing the Annual Governance Statement

## Introduction (continued)

**We have completed our work on the 2009/10 financial statements.**

**We anticipate issuing an unqualified audit opinion by 30 September 2010.**

We have now substantially completed our audit of the Authority's 2009/10 financial statements.

### Completion

We are now in the final phase of the audit. Some aspects are discharged through this report:

#### Completion

- Declaring our independence and objectivity
- Obtaining management representations
- Reporting matters of governance interest
- Forming our audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2010.



## Organisational control environment










Your organisational control environment is effective overall.

### Work completed




- 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. Most of the organisational controls we assess are linked to our use of resources work, which also considers the Authority's system of internal control. In particular, the areas risk management, internal control and ethics and conduct also have implications for our financial statements audit.
- We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not completed detailed testing of these controls.

### Key findings

- We consider that your organisational controls are effective overall.

Aspect	Assessment
Organisational structure	
Integrity & ethical values	
Philosophy & operating style	
Participation of those charged with governance	
Human resource policies and practices	
Risk assessment process	
Information systems relevant to financial reporting	
Communication	
Monitoring	

**Key:**

-  Significant gaps in the control environment
-  Minor deficiencies in respect of individual controls
-  Generally sound control environment

# IT control environment

**Your IT control environment is effective overall**

**We noted areas for further improvement.**





## Work completed

- The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.



## Key findings

- We found your IT control environment is effective overall. We noted two areas for further improvement:
  - There is currently no periodic review performed of the access rights users of the financial systems are allocated; and
  - The Frontier system (payroll) has a profile which has superuser access to the system but is not assigned to one individual within the system. Any of the four superusers on Frontier can use this profile. In addition there are fifteen standard user profiles that are not assigned to individual staff. There is a risk that users may have inappropriate levels of access to the systems in place at the authority and make entries which are inappropriate or in excess of a users job role. Additionally the identity of a member of staff posting an entry may not be able to be ascertained.

We have raised two recommendations in relation to these items in Appendix C.

Aspect	Assessment
Access to systems and data	
System changes and maintenance	
Computer operations, incl. processing and backup	
End-user computing	

### Key:

-  **Significant gaps in the control environment**
-  **Minor deficiencies in respect of individual controls**
-  **Generally sound control environment**

## Controls over key financial systems

The controls over all of the key financial system are generally sound.

We noted some minor weaknesses in respect of some systems.











### Work completed

- We work with the Authority's internal auditors to update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.
- Our assessment of a key system will not always be in line with the internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.




### Key findings

- The controls over all of the key financial system are generally sound. We noted some minor weaknesses in respect of individual financial systems:
  - The Authority has approximately 25 suspense/holding accounts within debtor and creditor balances, the balances on these suspense/holding accounts being £126,000 and £20,000 respectively. This resulted in a presentational adjustment to debtors and creditors to ensure that they were presented gross in the financial statements: and
  - Finance send out annual related party updates for members to sign and return but not all of these were received back from members. This increases the risk that related party transaction are not identified and disclosed in the financial statements.

We have raised two recommendations in relation to these items in Appendix C.

Key system	Assessment
Financial reporting	
Housing rents income	
Council tax income	
Business rates income	
Sundry income	
Payroll expenditure	
Non-pay expenditure	
Benefits expenditure	
Cash	
Treasury management	

#### Key:

-  Significant gaps in the control environment
-  Minor deficiencies in respect of individual controls
-  Generally sound control environment

## Review of Internal Audit

Internal audit complies with the *Code of Practice for Internal Audit in Local Government*.

We were able to place full reliance on internal audit's work on the key financial systems.

### Work completed

- We work with the Authority's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their 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.
- The *Code of Practice for Internal Audit in Local Government* ('the Code') defines the way in which the internal audit service should undertake its functions. We assessed internal audit against the eleven standards set out in the Code.
- We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

### Key findings

- We have performed an assessment of the internal audit function encompassing: the nature and extent of the internal audit function's assignments; whether management acts on internal audit reports and recommendations; the technical competence of the internal audit function; the due professional care of internal audit and the objectivity of internal audit.
- Based on our assessment, internal audit complies with the Code.
- We did not identify any significant issues with internal audit's work and are pleased to report that we were again able to place reliance on internal audit's work on the key financial systems.

**Key:**  
● Non-compliance with the standard  
● Minor deficiencies  
● Full compliance with the standard

Standard	Assessment
Scope of internal audit	●
Independence	●
Ethics for internal auditors	●
Audit Committee	●
Relationships with management, other auditors and other review bodies	●
Staffing, training and development	●
Audit strategy and planning	●
Undertaking audit work	●
Audit strategy and planning	●
Due professional care	●
Reporting	●

## Accounts production and audit process

**We have noted that the quality of the accounts and the supporting working papers was good.**

**Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.**

**The Authority has implemented all of the recommendations in our ISA 260 Report 2008/09 relating to the financial statements production.**

**The wording of your Annual Governance Statement accords with our understanding.**

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the 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	The Authority has good financial reporting processes. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 24 July 2010.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued on 12 April 2010 and discussed with the Principal Accountant, set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our Accounts Audit Protocol.
Response to audit queries	The majority of additional audit queries were resolved in a reasonable time. There were no significant delays and the relevant staff members were available during the course of the audit. Where staff were not available for particular periods, this was clearly communicated to us.

### Prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements production.

Appendix D provides further details.

### 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 in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.



## Critical accounting matters

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

**The Authority addressed these issues appropriately.**

### Work completed



- In our *Financial Statements Audit Plan 2009/10*, presented to you in January 2010, we identified the key risks affecting the Authority's 2009/10 financial statements.
- We have now completed our testing of these areas and set out our final evaluation following our substantive work. We also provide findings of other critical accounting matters identified during the course of our work

Key audit risk	Issue	Findings
 <p style="text-align: center;"><b>Valuation of Authority Assets</b></p>	<p><b>Valuation of Authority Assets</b></p> <p>We planned to review third party valuations obtained by the Authority to ensure that asset values have been correctly recorded in asset registers and the financial statements.</p> <p>We reviewed the Authority's processes for identifying assets which may require impairment and considered whether any impairments were accounted for correctly within the financial statements.</p> <p>Assets included in the Balance Sheet at current value are revalued where there have been material changes in value, but as a minimum every five years.</p>	<p>There have been no revaluations or impairments of fixed assets in 2009/10.</p> <p>The principal accountant reviewed the Authority's major assets during the year and concluded that there was no indication of a significant decline in their market value.</p> <p>A specific revaluation exercise was undertaken in 2008/09 of the ten largest assets due to the economic climate.</p> <p>A full revaluation exercise of all land and properties is to be undertaken in 2010/11.</p> <p>We are satisfied that the valuation of fixed assets at 31 March 2010 in the accounts is appropriate.</p>
 <p style="text-align: center;"><b>Capitalisation of Expenditure</b></p>	<p><b>Correct Capitalisation of Expenditure</b></p> <p>We reviewed the capitalisation policy in place to ensure that it complies with the SORP</p> <p>On a sample basis we tested capital transactions to ensure that these have been appropriately capitalised in line with the Authority's policy.</p>	<p>We found that the Authority's capitalisation policy is in line with the SORP.</p> <p>All tested fixed asset additions had been correctly capitalised in line with the Authority's policy.</p>

## Critical accounting matters (continued)

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

The Authority addressed these issues appropriately.

Key audit risk	Issue	Findings
 <p style="text-align: center;"><b>Agency accounting</b></p>	<p><b>Changes to Council tax and NNDR accounting</b></p> <p>In the 2009/10 SORP changes were made to the requirements for the accounting for Council tax and NNDR. Billing authorities are now considered to be acting as agents for major preceptors when collecting Council tax and for the UK government when collected NNDR.</p> <p>This required a prior period adjustment to the 2008/09 comparatives to recognise the change in accounting policies. It also required a change in the entries for Council tax income and receipts, NNDR receipts and associated debtors and creditors.</p>	<p>We have substantively tested the entries made in the 2009/10 accounts and the adjustments made to restate the prior year comparatives and no errors were identified.</p>
 <p style="text-align: center;"><b>Implementation of IFRS</b></p>	<p><b>Preparation of 2010/11 Accounts under IFRS</b></p> <p>The Authority will need to prepare its 2010/11 Accounts under IFRS.</p>	<p>We have reviewed the Authority's progress in implementing IFRS against its convergence plan and held discussions with officers on key areas.</p>

## Audit differences

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

### Work completed

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.

### Key findings

We did not identify any material misstatements.

Our audit identified one audit adjustment with a value of £54k where a prepayment had been included in expenditure. The impact of this adjustment is to:

- Increase the balance on the general fund account as at 31 March 2010 by £54,000;
- Decrease the deficit on the income and expenditure account for the year by £54,000; and
- Increase the net worth of the Authority as at 31 March 2010 by £54,000.

Additionally we identified a number of non-significant presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2009: A Statement of Recommended Practice* ('SORP').

All of the identified adjustments were adjusted by Authority. Since there were no significant adjustments we have not included a list in this report, but a full list is available upon request.



## Completion

**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, and have provided a draft version at Appendix F.**

**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 Spelthorne Borough Council for the year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Spelthorne 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 E 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 included a copy of a representation letter as Appendix F. We have provided a draft to the Director of Finance. We require a signed copy of your management representations before we issue our audit opinion.

### **Other matters**

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

### **Opinion**

We anticipate issuing an unqualified audit opinion by 30 September 2010.

Our proposed opinion on the financial statements is presented in Appendix A.

## Introduction

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

### The Authority's and our responsibilities

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

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. We refer to this as the 'value for money (VFM) conclusion'.

### Introduction

Our assessment previously drew mainly on the findings from the use of resources assessment (UoR) framework, as the specified criteria for the VFM conclusion were the same as the UoR Key Lines of Enquiry (KLoE).

In May 2010 the new government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This includes work for UoR assessments at local authorities.

However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion.

At the time of the announcement, the majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion.

### Conclusion

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

Our proposed conclusion is set out in Appendix B.

VFM criterion	Met
<b>Managing finances</b>	
Financial planning	✓
Understanding costs and achieving efficiencies	✓
Financial reporting	✓
<b>Governing the business</b>	
Commissioning and procurement	✓
Data quality and use of information	✓
Governance	✓
Risk management and internal control	✓
<b>Managing resources</b>	
Use of natural resources	✓
Strategic asset management	x*
Workforce planning	x*

\* - not assessed for district councils in 2009/10

The following pages include further details on the use of resources assessment.

# Use of resources assessment

**The Audit Commission announced that its use of resources assessment at local authorities ceased with immediate effect in May 2010.**

**The Authority will therefore not receive scores in respect of the 2010 assessment.**

## Work completed

- We completed work on the 2010 use of resources assessment between March and May 2010.
- Our work involved review of the Authority’s self-assessment, some discussions with key officers and review of relevant internal and external documentation.

## Key findings

- Even though the 2010 UoR assessment was substantially completed, we have been advised by the Audit Commission not to share indicative scores with audited bodies.

- We have therefore only included general messages in this report about the Authority’s performance in each area. In particular, we have highlighted the key issues and themes which we consider should be brought to the attention of those charged with governance.
- Below we set out our findings in respect of each area.

## Managing finances

### Headlines

- A balanced and realistic revenue budget is in place, which is supported by savings plans. A 5 year capital budget for 2008/09-2011/12 was approved in February 2008. It details the key issues, the options available, the financial implications, and the way in which risks will be mitigated.
- A Treasury Management Statement and Investment Strategy is approved by the Cabinet annually.
- The Authority’s Medium Term Budget Strategy (MTBS), is updated on an annual basis by Cabinet as part of the Council Tax setting process. The MTBS looks at a five-year horizon, clearly setting out the Authority’s financial position and the risks facing the Authority’s budget.
- Savings plans are identified early, as part of the budget setting process and are backed up by action plans. The action plans are monitored to identify whether savings can be achieved. A Business Improvement Programme (BIP) is in place, chaired by the Chief Executive. A full programme of reviews is looking at all areas of the Authority.
- The 2010/11 budget linked spending to the objectives set out in the Authority’s Corporate Plan.
- The Authority is a debt-free organisation. The Authority holds regular meetings with its treasury management advisors and in-house performance is carefully monitored.
- The most recent published accounts are available to the public and appeared on the Authority’s website. A summary statement is produced annually to inform residents in an abbreviated form of the major areas of the financial statements. This was circulated with the Borough Bulletin to all households in the district.

### Issues arising

- The Authorities usable reserves have decreased from £29m in 2005/06 to £14m in 2009/10.
- The Authority needs to ensure it retains sufficient reserves to cushion the impact of unexpected events or emergencies, to meet anticipate liabilities, to fund future capital investment in services for residents and to be able to generate a reasonable level of interest to support the budget for the provision of revenue services to the residents.

## Use of resources assessment (continued)

**The Audit Commission announced that its use of resources assessment at local authorities ceased with immediate effect in May 2010.**

**The Authority will therefore not receive scores in respect of the 2010 assessment.**

### Governing the business

#### Headlines

- The corporate plan sets out the Authority’s vision “To Make Spelthorne a Safe, Healthy, Inclusive, Prosperous and Sustainable Community” and its corporate priorities in achieving this.
- The Authority has introduced ‘Have Your Say’ public meetings to engage with the residents.
- The Authority has updated its Procurement Strategy which specifically refers to addressing inequalities and diversity issues with emphasis on sustainable procurement and had its 2008-09 procurement spend data analysed to identify efficiency and savings.
- The Authority has worked in partnership with Runnymede and Elmbridge Borough Councils and A2Dominion and Elmbridge Housing Trust to successfully implement Choice Based Lettings.
- The Authority has a business continuity plan in place to provide protection for records and performance data, in the form of an Authority wide disaster recovery plan and annual disaster recovery test.
- The Authority’s Corporate Governance framework is based on the CIPFA/SOLACE Corporate Governance Framework. A Protocol for Member / Officer relations is part of the constitution.
- The Authority has clearly defined codes of conduct for both officers and members, detailing appropriate courses of action in the event of any conflict of interest.
- A clearly defined whistle-blowing policy and anti-fraud policies, updated in 2009-10, are available on the Authority’s website.
- The Authority maintains many separate risk registers and one corporate risk register which is reviewed by the audit committee quarterly. This register lists the responsible officer to take lead on actions to mitigate the risk. Risks are assessed on likelihood and impact, giving an overall score for priority. Risks assessed are based on strategic aims and priorities.
- The Authority has a sound system of internal control which includes delivering the core functions of an audit committee, providing effective internal audit in accordance with the CIPFA Code of Practice, an assurance framework informing transparent governance reporting, standing orders, standing financial instructions and a scheme of delegation, ensuring compliance with relevant laws and regulations and that expenditure is lawful and sound internal financial control for key systems.

#### Issues arising

- As identified in the Annual Governance Statement there is a need for the Authority to improve in the following areas to further enhance governance arrangements:
- All service plans should be updated following a review of corporate priorities; and
- The review of health and safety procedures and responsibilities relating to leased assets should be finalised.
- The Authority is planning to take steps to address the above matters to further enhance governance arrangements. The Authority will monitor their implementation and operation.

## Use of resources assessment (continued)

**The Audit Commission announced that its use of resources assessment at local authorities ceased with immediate effect in May 2010.**

**The Authority will therefore not receive scores in respect of the 2010 assessment.**

### Managing resources

#### Headlines

- The Authority has a Sustainable Development Strategy covering 2009-2013, this is based on the 4 priorities and principles outlined in the National strategy. In addition the Authority has set up a Sustainable Delivery Board and 10 Sustainable Development Action plans. These plans set out milestones and progress against these is reported on a quarterly basis to the Board. The Authority is a member of Surrey Climate Change and works with partners in the Borough (including other local government and the NHS) to review and update the strategy.
- The Authority is working towards understanding its own carbon emissions, water usage and consumption of other resources. To combat these it has put in place a number of initiatives including:
- Increased use of recycling (paper, plastic bottles, stationary etc);
- Introduction of energy metres in Knowles Green making people more aware of their usage and this has reduced the usage by 10%; and
- Cycle to work schemes.

#### Issues arising

- The Authority now needs to ensure that the Sustainable Development Strategy is fully embedded into the operations of the Authority to ensure that it is maximising its sustainable use of resources.

## Appendix A: Proposed Opinion on the Financial Statements

**Our proposed opinion is unqualified.**

**There are no expected modifications to the auditors' report.**

### **Independent auditors' report to the Members of Spelthorne Borough Council**

#### **Opinion on the accounting statements**

We have audited the accounting statements and related notes of Spelthorne Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Spelthorne 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 Spelthorne Borough Council, as a body, those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Spelthorne 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 auditors**

The Director of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements 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 accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority and its income and expenditure for the year.

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 financial statements. 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.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

## Appendix A: Proposed Opinion on the Financial Statements (continued)

**Our proposed opinion is unqualified.**

**There are no expected modifications to the auditors' report.**

### **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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements 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 accounting statements 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 accounting statements and related notes.

### **Opinion**

In our opinion the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the as at 31 March 2010 and its income and expenditure for the year then ended.

**Andrew Sayers**

**Senior Statutory Auditor**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

*15 Canada Square*

*Canary Wharf*

*London*

*E14 5GL*

[Date]

## Appendix B: Proposed use of resources conclusion

**Our proposed use of resources conclusion is unqualified.**

### **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.

#### **Auditors' 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 us 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 us 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. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Spelthorne Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010

#### **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.

**Andrew Sayers**

**Senior Statutory Auditor**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

*15 Canada Square*

*Canary Wharf*

*London*

*E14 5GL*

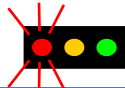


[Date]



# Appendix C: Recommendations

**We have raised four priority three recommendations to strengthen the system of internal control at the Authority.**

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p><b>Priority one:</b> 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.</p> 	<p><b>Priority two:</b> 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.</p> 	<p><b>Priority three:</b> 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.</p> 

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
1	<b>3</b>	<p><b>User Access Rights</b></p> <p><b>Observation</b></p> <p>There is currently no periodic review performed of the access rights users of the financial systems are allocated.</p> <p><b>Risk</b></p> <p>There is a risk that users may have inappropriate levels of access to the systems in place at the authority.</p> <p><b>Recommendation</b></p> <p>The authority should initiate an annual review of the access rights issued on all systems at the authority to ensure that appropriate access rights are in place.</p>	<p>Agreed.</p> <p>Accountancy already reconcile leavers on a quarterly basis to ensure they are removed, Lists will be sent by the financial system administrator to heads of service on an annual basis for approval of all users and their rights.</p> <p>Responsible officer : Systems Accountant before financial year end.</p> <p>Additionally the Council's Information Security Review Group will discuss and agree on 9th September 2010 an approach to implementing annual reviews of user rights of all other systems.</p> <p>Responsible officer Chief Finance Officer.</p>

## Appendix C: Recommendations (continued)

We have raised four priority three recommendations to strengthen the system of internal control at the Authority.

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
2	3	<p><b>Frontier Access Rights</b></p> <p><b>Observation</b></p> <p>The Frontier system has a SECURITY/ADMIN profile which has superuser access to the system but is not assigned to one individual within the system. Any of the 4foursuperusers on Frontier can use this profile.</p> <p>In addition there are fifteen standard user profiles that are not assigned to individual staff.</p> <p><b>Risk</b></p> <p>There is a risk that the identity of a member of staff posting an entry can not be ascertained.</p> <p>Staff may make entries which are inappropriate or in excess of a users job role.</p> <p><b>Recommendation</b></p> <p>A review should be undertaken of the users and their access rights and the following actions should be taken:</p> <ul style="list-style-type: none"> <li>• All users should be issued one account only; and</li> <li>• All joint or group accounts should be disabled.</li> </ul>	<p>Agreed</p> <p>HR Manager (Debbie O’Sullivan) will review users and access rights on her return from maternity leave, and action will be taken to disable any unused profiles.</p> <p>This will be by the end of the financial year.</p>
3	3	<p><b>Suspense/ Holding Accounts</b></p> <p><b>Observation</b></p> <p>The Authority has a number of suspense/ holding accounts within its accounts, this resulted in debtor and creditor balances in creditors and debtors respectively.</p> <p><b>Risk</b></p> <p>Debtor and creditor balances are miss-stated in the financial statements.</p> <p><b>Recommendation</b></p> <p>Suspense/ holding accounts should be reviewed prior to accounts close down to ensure the items are allocated correctly.</p>	<p>Agreed.</p> <p>Chief Accountant on his return from sick leave will review the suspense accounts in autumn – with target date of before end of November.</p> <p>A further prior year end review to be undertaken in late February/early March</p>

## Appendix C: Recommendations (continued)

We have raised four priority three recommendations to strengthen the system of internal control at the Authority.

No.	Priority	Issue & Recommendation	Management Response / Responsible Officer / Due Date
4	3	<p><b>Related Parties</b></p> <p><b>Observation</b></p> <p>Finance send out annual related party updates for members to sign and return but these were not received back for all members.</p> <p><b>Risk</b></p> <p>Related party transaction are not identified and disclosed in the financial statements.</p> <p><b>Recommendation</b></p> <p>Finance should ensure that responses are received from all members.</p>	<p>Agreed.</p> <p>Additional emphasis will be placed on obtaining responses from councillors. Importance of this process will be flagged as part of the induction process for new councillors following the May borough council elections. Accountancy will work with Committee Services to obtain a full response.</p> <p>Responsible officer: Chief Accountant – due date 30 May 2011.</p>

## Appendix D: Follow-up of prior year recommendations

The Authority has implemented all but one of the recommendations in our *ISA 260 Report 2008/09*.

A mitigating control has been put in place in relation to this risk.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2008/09*

Number of recommendations that were:		
Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
8	7	1

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at August 2010
1	2	<p><b>One-sided journals</b></p> <p>There is currently a problem with Integra, the general ledger system, that results in the interface between itself and the purchase ledger occasionally failing, resulting in one sided journals being created. These must then be identified and corrected by the systems accountant.</p> <p>This results in a risk that information obtained from the ledger is incorrect.</p> <p>The Authority has communicated the problem to IB Solutions, the provider of Integra, but the problem has yet to be resolved.</p> <p>The Authority should apply pressure to the supplier to provide a solution as soon as possible. We will require a clear demonstration during our accounts audit that these issues have not caused unresolved discrepancies that have the potential to impact on the financial statements.</p>	<p><b>Response</b></p> <p>Accepted</p> <p>The Authority has set up a crystal report to allow it to list, monitor and retrospectively approve any one sided journals which occur.</p> <p>Spelthorne alone has limited influence over improvements implemented by the software supplier. Due to the relative infrequency of unbalanced journals occurring, it is unlikely to be treated as a priority by IB Solutions, but the Authority will raise the issue as part of Integra 4 rollout.</p> <p><b>Officer and Due Date</b></p> <p>Assistant Chief Executive</p> <p>Ongoing</p>	<p>Incomplete</p> <p>One-sided journals are still being produced by the system as per discussions with the, systems accountant.</p> <p>However, we recognise that the Authority has put in place a mitigating control to manage this risk by setting up a report that alerts the system accountant whenever a one-sided journal occurs.</p>

## Appendix E: 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.

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 Audit 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.

## Appendix E: 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.**

### **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.

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 Spelthorne Borough Council for the financial year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and the Spelthorne 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.

## Appendix F: Draft management representation letter

**We ask you 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.**

**The wording for these representations is standard and prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

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 other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Spelthorne Borough Council for the year ended 31 March 2010.

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 Spelthorne 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 Committee meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority 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 Authority 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 2010.

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 Authority 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 Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## Appendix F: Draft management representation letter (continued)

**We ask you 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.**

**The wording for these representations is standard and prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

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 Authority 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.

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 Audit Committee on 16<sup>th</sup> September 2010.

Yours faithfully

Terry Collier, Assistant Chief Executive  
On behalf of Spelthorne Borough Council



**CORPORATE RISK MANAGEMENT**  
**Audit Committee: 16 September 2010**  
**Report of the Chief Finance Officer**  
**REPORT SUMMARY**

**How does the content of this report improve the quality of life of Borough Residents**

Regular review of the corporate risk register helps to improve overall risk management arrangements, which supports all corporate priorities.

**Purpose of Report**

This report provides MAT and the Audit Committee with an opportunity to review the Corporate Risk Register and note outstanding actions.

**Key Issues**

- The Corporate Risk Register has been reviewed and updated.
- Progress on outstanding actions has been documented on the register.
- Further actions have been proposed in the register to mitigate risks.

**Financial Implications**

Staff time to implement actions proposed should be contained within existing budgets.

**Corporate Priority**

All corporate priorities.

**Officer Recommendations**

The Audit Committee is asked to note and accept the contents of the Corporate Risk Register.

**Report Author: Punita Talwar/Deanna Harris, Head of Audit Services, 01784 446207.**

**Contact: Deanna Harris, Head of Audit Services, 01784 446207.**

**Lead Member: Councillor Royer**

**Portfolio Holder: Councillor Vivienne Leighton**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 Risk management is frequently defined as "*The identification, analysis and economic control of all threats to the achievement of the organisation's strategies and operational activities*".

Spelthorne provides a wide range of services to residents, local workers and visitors. The nature of these services presents a significant potential for loss (both financial and otherwise), disruption, damage and injury.

Although some risks will always exist and can never be fully eliminated, the adoption of a structured approach to identify, manage, monitor and review risks offers many potential benefits. It will help the Council achieve its corporate objectives and enhance the value of services it provides.

The Council's Risk Management policy/strategy, flowchart of responsibilities and Corporate Risk Register can be found on Spelnet.

- 1.2 This report provides the Audit Committee with an opportunity to review the revised Corporate Risk Register, assess progress on actions previously recommended, and review new actions proposed for improvement.

### 2. KEY ISSUES

- 2.1 The Corporate Risk Management Group has revised the Corporate Risk Register ([Appendix 1](#)).

- 2.2 Progress on actions has been documented on the attached register (see control/action and progress columns). Progress has been made in the following areas:

- MAT has considered a report outlining recommendations for improving **project management** arrangements across the authority.
- **IT Security** (additional security measures implemented and penetration test scheduled for Autumn 2010 as part of the COCO requirements).
- Issues arising from the corporate training on **Business Continuity** in 2009 are being taken forward by the Business Continuity forum and some testing has been conducted.
- The Health and Safety Officer is currently updating the Gold corporate **Business Continuity plan**. An audit will be undertaken later in the year of each service's Business Continuity plan by the Business Continuity forum.
- An **Emergency Planning Officer** is now in post (shared resource with Runnymede Borough Council). The Emergency Plan will be reviewed in due course and a further corporate desk top training exercise will be arranged shortly.
- The general procedure document required to clarify health and safety responsibilities/arrangements where the authority **leases assets** is due to go to the Corporate Risk Management Group for consideration in August 2010.

- A risk document is due to be prepared for the **Asset Management partnership**. Risks relating to potential partnerships such as the IT partnership with Runnymede will be assessed.
- Delivery Board meetings are held to monitor implementation of the **Sustainability Strategy** and delivery of National Indicator 188 (Climate Change), and action plans prepared assigning tasks and targets to named officers, with timescales for delivery.

2.3 The following area has not been fully addressed:

- (a) **Service Plans** are still to be updated for all areas to reflect the six new corporate priorities agreed by Cabinet in July 2010. A new template for service plans has been agreed. (See part 1 of the risk register).

2.4 Some new actions have been added to the register to mitigate risks as follows:

- (a) MAT should ensure the Business Transformation Programme incorporates arrangements for centralisation of all **system administrator** roles or have some alternative arrangements in place to provide back up in key service areas. This may have an impact on resources. (See Technology/Infrastructure /Operations risk under category 14).
- (b) The Head of Housing Options to regularly check cases/referrals relating to **vulnerable children** and report any outstanding issues to Surrey County Council. (See Regulation/Legal/Litigation risk category 15).
- (c) In light of changes in Government policy to restrict **housing benefit**, Service Heads/MAT to monitor and evaluate performance and recommend changes in staffing requirements. (See Financial risk category 16).

2.5 The risk of a reduction in service delivery and possible loss of internal control as a result of savings required to balance the budget has been added to the register. (See Financial risk category 17).

### 3. OPTIONS ANALYSIS

**Either:**

1. To note and accept the contents of the Corporate Risk Register and three new actions for improving overall risk management arrangements (preferred option). The revised register is considered to be an accurate reflection of the high level risks affecting the authority, as well as the progress made on actions previously proposed, based on our assessment of risk and controls in operation.

**Or:**

2. To recommend amendments to the Corporate Risk Register for consideration by the Corporate Risk Management Group.

### 4. PROPOSALS

4.1 To agree option one above.

### 5. BENEFITS AND SUSTAINABILITY

5.1 Proposals set out in the Corporate Risk Register should improve overall risk management arrangements across the Authority, which supports all corporate priorities.

**6. FINANCIAL IMPLICATIONS**

- 6.1 Resources required (staff time) to implement actions proposed in the Corporate Risk Register should be contained within existing budgets.

**7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS**

- 7.1 Potential legal consequences should the risks identified not be addressed adequately. The purpose of the risk register is in part to avoid such consequences.

**8. RISKS AND HOW THEY WILL BE MITIGATED**

- 8.1 The risks and associated actions are set out in the Risk Register.

**9. TIMETABLE FOR IMPLEMENTATION**

- 9.1 The Corporate Risk Register shows officers responsible for progressing actions, together with timescales for implementation.

**Report Author: Punita Talwar/Deanna Harris, Head of Audit Services, 01784 446207.**

**Background Papers: There Are None.**

**SPELTHORNE BOROUGH COUNCIL  
CORPORATE RISK REGISTER – 2010/11 QUARTER 2**

The register summarises the high level risks faced by the Council in relation to achieving the objectives and priorities as defined in the Council's Corporate Plan. The register sets out the control procedures in place to mitigate these risks, and identifies any further action needed to manage these risks effectively. Actions are assigned to appropriate officers with target dates for implementation.

Corporate Priority themes are referred to in the risk register.

Level of risk: Likelihood vs. Impact on a scale of 1 (lowest) to 4 (highest)

Risk Category	Risk / Consequences	Corp Priority	Level Of Risk	Control / Action	Owner ship	Target Date	Progress
1. <b>Technology/ Infrastructure /Operations</b>	Failure to align service objectives to corporate aims	All	3	<b>Controls:</b> Service plans are derived from Community and Corporate Plans. <b>Action: All Service Plans require updating annually and need to reflect corporate priorities.</b>	Service Heads	Oct 2010	Some <b>Aug 2010: Six new corporate priorities agreed July 2010. New template for service plans agreed.</b>
2. <b>Technology/ Infrastructure /Operations</b>	Failure of projects due to poor project management arrangements.	All	3	<b>Controls:</b> Project management principles and methodology agreed some years ago, although not consistently applied and scope for senior management to re launch on a corporate level. <b>Actions May 2010: Review corporate reporting and management of projects; allocation of responsibilities and resources; corporate guidance; business case preparation and post implementation reviews.</b>	MAT	Ongoing	Ongoing
						Sep 2010	Ongoing <b>Aug 2010: MAT agreed improvements</b>

APPENDIX 1

Risk Category	Risk / Consequences	Corp Priority	Level Of Risk	Control / Action	Owner ship	Target Date	Progress
3. Technology/ Infrastructure /Operations	i. Security breaches, system failure, loss of data	All	3	<p><b>Controls:</b>                      Back up and continuity arrangements managed by Steria and tested by Service Heads.                      IT security policies. Personal Commitment statement required from all staff.                      Contractual responsibilities of Steria.                      IT security group assess ongoing risks.                      IT disaster recovery test successfully carried out in June 2010.</p>	TC/HD	Ongoing	Ongoing
	ii. Failure to meet the minimum security requirements of the Government Code of Connection resulting in termination of connection to any other government sites/data.	All	3	<p><b>Controls:</b>                      COCO review group assess compliance with the Code of Connection.                      Successfully passed security requirements of the Government Code of Connection in January 09, and reassessed in March2010 as continuing to meet requirements.                      IT Security Penetration test completed in April 2009. New firewall been installed.                      Independent health check completed in July 2009 –actions addressed                      Additional security measures have been implemented, including encryption of laptops, CD’S and memory sticks, (memory sticks will be banned until they are ‘white-listed’ as known devices on the network), locking down USB ports and improved authentication for remote working. Dual factor authentication is currently being tested.  <b>Action May 2010: Penetration testing to be conducted annually, in accordance with COCO requirements.</b></p>	TC/HD	October 2010	Some <b>Aug 2010: Penetration testing will be conducted once the new Earth Server has been installed in September 2010.</b>

**APPENDIX 1**

<b>Risk Category</b>	<b>Risk / Consequences</b>	<b>Corp Priority</b>	<b>Level Of Risk</b>	<b>Control / Action</b>	<b>Ownership</b>	<b>Target Date</b>	<b>Progress</b>
<b>4. Financial</b>	Poor return on long term investments /investments insecure in current climate.	All	3	<p><b>Controls:</b>                      Treasury Management strategy approved by Members. Aim to select counter parties of the highest credit quality; credit ratings monitored closely.                      Council's investments managed internally in consultation with Sector Treasury.                      Use Fitch ratings and criteria recommended by Sector Treasury.                      Regular monitoring and reporting of investment portfolio and returns achieved.</p>	TC		
<b>5. Technology/ Infrastructure /Operations</b>	Disaster in Council buildings / Lack of continuity planning within services and reliance on individuals/ systems	All	3	<p><b>Controls:</b>                      The Health and Safety Officer chairs the gold corporate Business Continuity group under the guidance of the ACX (Brian Harris).                      The Health and Safety Officer is responsible for the coordination of business continuity plans.</p>	Service Heads/ MAT /SM		Actioned/ Ongoing <b>Aug 2010: The Health and Safety Officer is updating Gold corp Business Continuity plan.</b>  <b>Business Continuity Forum will audit service Continuity Plans during 2010/11</b>
				<p>A corporate training/desk top test was held in 2009 which focused on assessing the consequences of Pandemic flu on SBC services. The current focus is on consolidating this into the Business Continuity Plans.                      An action Plan is in place for the business continuity forum which is monitored.</p>	Service Heads/ MAT/ SM		
				<p><b>Action: The authority must ensure the plans are fully communicated, tested and updated regularly.</b></p>	Service Heads/ MAT/ SM	Annual /ongoing	

**APPENDIX 1**

<b>Risk Category</b>	<b>Risk / Consequences</b>	<b>Corp Priority</b>	<b>Level Of Risk</b>	<b>Control / Action</b>	<b>Owner ship</b>	<b>Target Date</b>	<b>Progress</b>
<b>6. Environment</b>	Disaster- major in borough, e.g. pandemic influenza, resulting in inability to provide services	Environment	4	<p><b>Controls:</b> Emergency plan been updated Aug 09, acknowledging need for Deputy Officers to provide cover as appropriate. Annual review and testing of plan scheduled. Desk top testing exercise successfully completed in Dec 08 with lessons learnt fed into revised Emergency plan. Risk assessments completed and major incident flood plan been submitted to Surrey Local Resilience forum. Advice and training provided by Surrey Local Resilience forum and the PCT.</p> <p><b>Action Nov 09: To ensure there is adequate support and resilience within the Authority should an emergency arise, opportunities for the former Environmental and Technical Projects Officers post to be shared with another authority need to be explored.</b></p>	LB/SM	Sep 2010	Actioned/ Ongoing <b>Aug 2010: Emergency Planning Officer in post and will be reviewing Emergency Plan and arranging a further corporate training exercise.</b>
<b>7. Environment</b>	Uncertainty surrounding the financial /other consequences of contaminated land	Environment	4	<p><b>Controls:</b> Legal duty to inspect land and prioritise action Progress reports issued to MAT outlining financial and other risks</p> <p><b>Action: A separate risk assessment is required to address contractual, financial/resources and legal/regulatory risks. Controls to reduce risks associated with potential lack of resources to undertake further detailed site investigations should be identified.</b></p>	LB/LO	Annual/ ongoing	Actioned/ Ongoing <b>August 2010: Risk assessment presented to Audit Cttee Dec2009. To be reviewed every two years (next due Sep 2011), or earlier if issues arise which would indicate the need for more prompt review.</b>



APPENDIX 1

Risk Category	Risk / Consequences	Corp Priority	Level Of Risk	Control / Action	Owner ship	Target Date	Progress
8. Regulation/ Legal / Litigation	Health and Safety failing resulting in death or serious injuries to staff/public and legal action against the Council	All	4	<p><b>Controls:</b>            Managers responsible for conducting regular risk assessments            Induction training for staff and policies clarify responsibilities            Health and Safety Officer in post and reports relevant issues/legislation to Executive, MAT, CRMG, all staff, e.g. Corporate Manslaughter act and associated risks.            Contract let to manage Legionella and progress reported to AMG and MAT as appropriate.</p> <p><b>Action: Procedure document required to clarify health and safety responsibilities/ arrangements where the authority leases out assets.</b></p>	DP	Aug 2010	<p>Ongoing  <b>Aug 2010: All properties reviewed. Information will be held on the Council's SHE system for ongoing mgt by Health &amp; Safety Officer and Asset Mgt. The general procedure document is due to go to the CRMG in Aug 2010.</b></p>

APPENDIX 1

Risk Category	Risk / Consequences	Corp Priority	Level Of Risk	Control / Action	Owner ship	Target Date	Progress
<p><b>9. Regulation/ Legal / Litigation</b></p>	<p>Failure to comply with employment legislation or statutory duty leading to possible compensation (unlimited), damage to reputation, Legal costs and significant officer time.</p>	<p>All</p>	<p>3</p>	<p><b>Controls:</b>                      Human Resources identify new employment legislation                      HR provide staff guidance on new/existing legislation and arrange training to ensure compliance                      Clear documented processes exist for Recruitment and Selection, and Managers Briefings provide opportunity to promote corporate procedures.                      Equality and Diversity working group set up.</p>	<p>Service Heads/                      JH/                      MAT</p>		
<p><b>10. Partner/ Contractor/ Commercial</b></p>	<p>Failure to obtain vfm / lack of transparency in awarding contracts</p> <p>Contractual disputes and potential claims through poor documentation.</p> <p>Weak contract management resulting in Contractors/partners failing to deliver expected outcomes</p>	<p>All</p>	<p>3</p>	<p><b>Controls:</b>                      Performance measures in place and contractual safeguards - Management responsibility.                      Review of strategic and internal partnerships                      Contract guidelines (simplified version of CSO'S in place with compliance checklist).                      Partnership governance policy in place, and reminders issued to Service Heads on need to comply.                      Significant partnerships identified.                      Performance management and review committee to periodically review partnerships.                      E-tendering system.                      Procurement and contract management training.                      Procurement Officer in post (shared resource).  <b>Action May 2010: Risks relating to individual partnerships to be identified and reviewed, e.g. Asset Management partnership with Runnymede Borough Council.</b></p>			

APPENDIX 1

Risk Category	Risk / Consequences	Corp Priority	Level Of Risk	Control / Action	Owner ship	Target Date	Progress
	Weak partnership governance arrangements				Service Heads/MAT	Sep 2010	Some <b>Aug 2010: A risk document is due to be prepared for the Asset partnership and for others such as IT partnership with Runnymede.</b>
	Suppliers/ contractors go out of business, affecting the completion of contract works/service delivery, and ability to pay business rates.	All	3	<b>Controls:</b> Financial Services monitor the financial media in relation to larger companies and critical commercial partners that the authority engages with.	Service heads/MAT/TC		Ongoing
<b>11. Economic/Social</b>	Service planning difficulties due to changes in economic and social conditions beyond Council's control	Environment /Economic Development	3	<b>Controls:</b> Long term strategic planning Corporate and community plans linked to service plans New corporate priority themes	SM/BC	Ongoing	

**APPENDIX 1**

<b>Risk Category</b>	<b>Risk / Consequences</b>	<b>Corp Priority</b>	<b>Level Of Risk</b>	<b>Control / Action</b>	<b>Owner ship</b>	<b>Target Date</b>	<b>Progress</b>
<b>12. Environment</b>	Failure to deliver sustainable community strategy / deliver climate change strategy: -Contravening legislation (climate change act 2008) -Poor resilience to climate change by services and community -Services not adequately prepared for climate change, effecting service delivery.	Enviro nment	3	<b>Controls:</b> Sustainability and Climate change strategy. Action plans prepared assigning tasks and targets to named officers, with timescales for delivery. Surrey wide climate change projects being developed, to be assigned as and when appropriate. Environmental impact assessments completed. Delivery board set up to monitor implementation of sustainability strategy and delivery of National Indicator 188 (Climate Change). Meetings held every six weeks and minutes available.	LB/SM	Ongoing	Ongoing
<b>13. Financial</b>	Fraud / theft (income, assets, payments), resulting in financial losses and damage to reputation of authority.	All	3	<b>Controls:</b> Corporate Policies in place to help create a culture of honesty and ethical behaviour such as Whistle blowing, anti-fraud and corruption, employee code of conduct, gifts and hospitality, Register of Interest . Service risk assessments outlining control procedures and arrangements in place to prevent the risk of fraud or help detect it. Key controls include compliance with policies and procedures such as Fin Regs and CSO'S, management checks, segregation of duties, reconciliation processes for financial systems, good IT Security measures.	Service Heads/ MAT	Ongoing	

## APPENDIX 1

Risk Category	Risk / Consequences	Corp Priority	Level Of Risk	Control / Action	Owner ship	Target Date	Progress
	In current economic climate, increased risk that individuals will be tempted to perpetrate fraud.						
<b>14. Technology/Infrastructure/Operations</b>	Failure in service delivery due to over reliance on individuals eg Housing Options, Revenue and Benefit system administrator roles.	All	3	<b>Controls:</b> In some services back up can be provided by other trained staff, documented procedures or support could be bought in. <b>Action Aug 2010: MAT should ensure the Business Transformation Programme incorporates arrangements for centralisation of all system admin roles or have some alternative arrangements in place to provide back up in key service areas. This may involve additional funding.</b>	MAT	Aug 2010	
<b>15. Regulation/Legal/Litigation</b>	Failure by County to address Spelthorne referrals relating to vulnerable children .	All	3	<b>Controls:</b> The Council has policy/procedures in place and all relevant staff have been trained. A meeting has been held between the ACX (LB) and Surrey County Council to discuss this issue, and the Leader has also met with the CX of Surrey County Council. <b>Action Aug 2010: To check regular cases and report any outstanding issues to Surrey County Council .</b>	KS/DA	Ongoing	

APPENDIX 1

Risk Category	Risk / Consequences	Corp Priority	Level Of Risk	Control / Action	Owner ship	Target Date	Progress
16. Financial	Pressures on Housing Service as a result of changes in government policy to restrict housing benefit and general economic climate.	All	3	<p><b>Controls:</b> Service Heads/ MAT/Members aware of possible risks. Internal structures being reviewed.</p> <p><b>Action Aug 2010: Service Heads/MAT to monitor, evaluate performance and recommend changes in staffing requirements as appropriate. Team Leader to issue report to Cabinet in September 2010 highlighting the possible impact of Local Housing Allowance changes.</b></p>	KS/DA/MAT	Oct 2010	
17. Financial	Reduction in service delivery and possible loss of internal control as a result of savings required to balance budget	All	3	<p><b>Controls:</b> ACX/MAT/Members aware of savings although these may change. Progress is being made to identify savings.</p> <p><b>A programme involving prioritisation of discretionary services and service review is currently under consideration.</b></p> <p><b>Management is responsible for maintaining internal controls. Any savings offered will be accompanied with summary of any foreseen associated risk.</b></p>	MAT/ Service Heads	Ongoing	

*Reviewed August 2010*

## **ANNUAL REVIEW OF THE SYSTEM OF INTERNAL AUDIT**

**Audit Committee: 16 September 2010**

**Resolution Required**

**Report of the Assistant Chief Executive**

**REPORT SUMMARY**

### **How does the content of this report improve the quality of life of Borough Residents**

The Audit Service provides assurance that the authority's risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.

### **Purpose of Report**

The review of the system of internal audit is a statutory requirement of the Accounts and Audit Regulations.

### **Key Issues**

- Meeting Audit aims and objectives
- Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2006
- External audit assessment/ reliance on internal audit
- Adding value and assisting the organisation in achieving its objectives
- Achievements during 2009/10
- Improvement plan

### **Financial Implications**

No financial implications.

### **Corporate Priority**

All corporate priorities

### **Officer Recommendations**

The Audit Committee is asked to note the contents of the Annual Review of the system of internal audit.

**Report Author: Deanna Harris (Head of Audit Partnership) 01784 446207**

**Area of Responsibility: Terry Collier (Assistant Chief Executive)**

**Cabinet member: Councillor Vivienne Leighton**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 Internal Audit is a statutory function and it is the responsibility of the Council to 'maintain an adequate and effective system of internal audit...'
- 1.1 The amended Accounts and Audit Regulations require the authority to undertake an annual review of the system of internal audit.
- 1.2 The Audit Service is responsible for:
- (a) Providing **assurance** to the authority that risk management processes, control systems, accounting records and governance arrangements are in place and operating properly.
  - (b) Providing **advice** regarding risk, internal control and governance arrangements.
  - (c) Assisting management in **assessment of risk**.
  - (d) Undertaking special investigations as necessary.
  - (e) Testing of financial and IT systems on behalf of external audit.
- 1.3 The nature of this review has not been specified externally but advice has been obtained regarding issues which should be considered and these are detailed below. There are no nationally set indicators relating to audit.

### 2. KEY ISSUES

- 2.1 Meeting aims and objectives Aims and objectives are set out in the Service Plan but these are largely focussed on fulfilling statutory requirements and compliance with Cipfa's Code of Practice for Internal Audit (see 2.2 below). The Audit Plan sets out proposed work for the year and actual work has been reported to the Audit Committee regularly.
- 2.2 Compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice 2006
- 2.3 The Code of Practice defines the way in which the internal audit service should undertake its functions. It sets out a framework for measurement, management and monitoring of the audit function. Exceptionally, there may be circumstances preventing full compliance but the authority should demonstrate that there are alternative measures in place.
- 2.4 The checklist appended to the Code of Practice has been used to confirm overall compliance with the Code.
- 2.5 An audit manual ensures all practices are aligned to the Code of Practice.
- 2.6 External audit assessment / reliance on internal audit
- 2.7 External audit assessment of audit is 'good' and they continue to place reliance on the work of internal audit to support their opinions.
- 2.8 Adding value and assisting the organisation in achieving its objectives



2.9 The following headings have been extracted from the CIPFA Code of Practice as useful indicators to demonstrate the audit service is adding value and assisting the organisation in achieving objectives:

- (a) Audit has an understanding of the organisation, needs and objectives through:
- Attendance at corporate meetings and working groups
  - Review of Management Team (MAT) reports
  - Regular contact with senior management/Assistant Chief Executives
  - Audit Plan relating to corporate objectives and other key projects
- (b) Audit has an understanding of its position with respect to the organisation's other sources of assurance through:
- Working closely with external audit, Head of Corporate Governance and Assistant Chief Executive (TC).
  - Contribution to Annual Governance Statement, Use of Resources Assessment and annual review of the Code of Corporate Governance.
  - Direct involvement with the authority's risk management arrangements including participation in Corporate Risk Management Group, coordination of corporate risk register and risk based audit approach.
- (c) Audit may act as a catalyst for change at the heart of the organisation. Examples include:
- Involvement in various corporate initiatives eg risk management, information security and performance management
  - Contribution to corporate issues eg partnering, Use of Resources, project management etc
  - Involvement in selection of IT systems and other new developments
  - All recommendations arising from planned / other audit work
- (d) Audit can add value and assist the organisation in achieving its objectives.
- All recommendations are related to risk and assist the authority to make better use of resources
- (d) Audit are forward looking – knowing where the organisation wishes to be and aware of the national agenda and its impact. This is achieved through:
- Auditors are professionally qualified and are kept up to date on national issues through CIPFA, Institute of Internal Auditors (IIA), contact with other auditors and various other sources of information.
  - Internally, auditors receive information via various communication channels including Management Team (MAT), departmental management teams (DMT), managers briefings, staff meetings, publications, Continuing Professional Development (CPD) training, close working with business improvement staff and Assistant Chief Executive (TC).
  - All senior managers are consulted regarding the audit plan

- All key issues are incorporated within plan and risk assessments
- (f) Auditors are innovative and challenging
- Risk based audit approach has been used for many years
  - Summary reports introduced
  - Partnering initiative and expansion of the internal audit partnership to Elmbridge
  - See Annual Report for detail of audit work undertaken
- (g) Audit helps shape ethics and standards of the organisation
- Contribution to Code of Corporate Governance
  - Close working with Head of Corporate Governance/Assistant Chief Executive
  - Review Confidential Reporting (Whistleblowing) Code, Codes of Conduct, Code of Corporate Governance, Anti Fraud and Corruption Policy
  - Incorporate relevant issues in each service risk assessments
- (h) Audit ensure the right resources are available, recognising that the skills mix, capacity, specialisms, qualifications and experience requirements all change constantly.
- Plan allocated to auditors according to skills and experience
  - Training and development identified in appraisals
  - Examples of training include Institute of Internal Audit, CIPFA Diploma in Audit, ECDL, CIPFA professional updates
  - Budget available for IT audit
  - IT audit training provided for all staff and IT work shadowing implemented
  - Sharing of training knowledge through joint team meetings with colleagues from Elmbridge and recently Woking.
- (i) Audit share best practice with other auditors through:
- Partnership in place
  - Close working with others through contacts in Surrey Audit Group
  - Reference to Cipfa on-line technical service which refers to best practice models
- (j) Seek opportunity for joint working with other organisations
- Partnership in place with Elmbridge.
  - Informal partnership with Woking formed July 2010
  - Other initiatives in progress

### **3. ACHIEVEMENTS 2009/10**

3.1 The Annual Audit report (separate report considered in June 2010) sets out audit work undertaken during the year.

- 3.2 Continued to operate risk based approach to audit work and to manage the Council's risk management process which included regular updating of the corporate risk register, reporting to members of Audit Committee and Cabinet.
- 3.3 Continued to develop internal audit partnership working and initiated a number of joint audit projects eg IT security, performance management, procurement and managed audits.
- 3.4 Completed all external audit testing and complied with requirements of external auditors, KPMG.
- 3.5 Reported to Audit Committee and developed role resulting in significant reduction in outstanding actions relating to significant risks.
- 3.6 Contributed to Use of Resources assessment and review of the Council's corporate governance arrangements following the publication of new CIPFA/SOLACE guidelines.
- 3.7 Operation of new audit recommendation monitoring system.

#### **4. IMPROVEMENT PLAN 2010/11**

- 4.1 Develop further partnership working where possible through various initiatives including working with Woking and the private sector.
- 4.2 Introduce monthly allocation of planned audit work to auditors to improve workload management.
- 4.3 The Head of Audit Partnership will meet with Assistant/Deputy Chief Executives to identify and discuss emerging issues relating to the Audit Service or significant risks.

#### **5. OPTIONS ANALYSIS**

- 5.1 There are none

#### **6. PROPOSALS**

- 6.1 There are none

#### **7. BENEFITS AND SUSTAINABILITY**

- 7.1 Not applicable

#### **8. FINANCIAL IMPLICATIONS**

- 8.1 There are none

#### **9. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS [Community Strategy, Crime and Disorder, Equality, Diversity and Disability Equality, Freedom of Information, Human Rights, Human Resources, Social Inclusion and Sustainability etc.]**

- 9.1 This review has been undertaken to comply with the Accounts and Audit Regulations.

#### **10. RISKS AND HOW THEY WILL BE MITIGATED**

- 10.1 Failure to operate an effective internal audit service could reduce the level of assurance provided to management and members regarding risk management processes, control systems, accounting records and governance arrangements.

## **11. TIMETABLE FOR IMPLEMENTATION**

11.1 Not applicable

**Report Author: Deanna Harris (Head of Audit Partnership) 01784 446207**

**Background Papers:  
There are none**

**WORK PROGRAMME 2010 – 2011**

**AUDIT COMMITTEE - 16 SEPTEMBER 2010**

**Resolution Required**

**1. Work Programme**

- 1.1 This report covers the Work Programme for the 2010/11 municipal year.
- 1.2 The Committee's terms of reference are set out at the front of the agenda.

**2. Current Work Programme**

- 2.1 The remaining two meetings of this Committee have been scheduled in the Council's Diary for 2010 -11 on the following dates:-
  - 9 December 2010
  - 24 March 2011
- 2.2 Any topics identified during consideration of the business at this meeting, will need to be included in the Work Programme.
- 2.3 Other issues Members wish to raise for consideration at the next or any future meeting and agreed by the Committee may be included in the Work Programme.
- 2.4 External audit may have one or two reports that arise from time to time which are not possible to predict in advance but will be incorporated into the Work Programme or appear on the agenda as appropriate.
- 2.5 The Committee may require a Head of Service to attend the next meeting of the Committee, where the Head of Audit Services has identified a risk but the target for controls to be put in place remains outstanding. This may be agreed either at the request of the Committee or if the matter is considered urgent, by the Chairman in consultation with the Chief Finance Officer.
- 2.6 Details of the currently identified items in the Work Programme are as follows:

<b>9 December 2010</b>		
Audit Services half-yearly Report	Head of Audit Services	Report for period April 2010 to October 2010
Corporate Risk Management	Chief Finance Officer	Review
Corporate Risk Register ( <i>provisional</i> )	Head of Service - as appropriate	Updates on target dates missed
Confidential Reporting Code (Whistleblowing Policy)	Assistant Chief Executive	Review
Committee's Work programme	Head of Audit Services/ Chief Finance Officer/Audit Committee	Report
<b>24 March 2011</b>		
Annual Audit and Inspection Letter	External Audit and Audit Commission	Report

**Agenda Item: 7**

Corporate Risk Management	Chief Finance Officer	Review
Corporate Risk Register (provisional)	Head of Service - as appropriate	Updates on target dates missed
Anti Fraud and Corruption Strategy	Assistant Chief Executive	Review
Annual Audit Plan	Head of Audit Services	Report
Committee's Work programme	Head of Audit Services/ Chief Finance Officer /Audit Committee	Report

**3. Resolution**

The Audit Committee is asked to consider and approve the Work Programme as submitted and/or amended at the meeting.

**Contact: Deanna Harris, Head of Audit Partnership (01784) 446207**

**Report Author: Gillian Hobbs, Committee Manager (01784) 444243**