Please reply to:
Contact: Chris Curtis
Service: Committee Services
Direct line: 01784 446240
E-mail: c.curtis@spelthorne.gov.uk
Date: 20 March 2019

Notice of meeting

Audit Committee

Date: Thursday, 28 March 2019

Time: 7.30 pm

Place: Goddard Room, Council Offices, Knowle Green, Staines-upon-Thames TW18 1XB

To the members of the Audit Committee

Councillors:

M.J. Madams (Chairman)	Q.R. Edgington	H.A. Thomson (Vice-Chairman)
C.A. Davis	J.G. Kavanagh	H.R.D. Williams

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.

AGENDA

Minutes of the Audit Committee
1 November 2018

Present:
Councillor M.J. Madams (Chairman)

Councillors:

J.G. Kavanagh H.A. Thomson H.R.D. Williams

Apologies: Councillors C.A. Davis and Q.R. Edgington

251/18 Election of Vice Chairman of Audit Committee
It was proposed by Councillor Williams and seconded by Councillor Madams and **resolved** that Councillor H.A. Thomson be appointed Vice Chairman of the Audit Committee for the remainder of the municipal year 2018/19.

252/18 Minutes
The minutes of the meeting held on 26 July 2018 were approved as a correct record.

253/18 Disclosures of Interest
There were none.

254/18 Corporate Risk Management
The Internal Audit Manager reported that positive progress had been made in a number of areas and there were no red risk categories. The risks affecting the Council were summarised as outlined in the report and a number of items were highlighted, including information governance, system administrator roles, acquisitions and investments and procurement. An update on the monitoring of development works being undertaken on behalf of the Council was circulated and is attached to the minutes.

The Committee discussed a number of risks including those associated with the system administrator roles and where they should sit, staffing levels, the information governance development plans and risks associated with Surrey County Council's need to save £85m over the next year.

The Corporate Risk Register was considered to be an accurate reflection of the risks affecting the Authority and progress on actions was documented on the Register.

Resolved that:
1. The contents of the Corporate Risk Register be noted and accepted;
2. That the Corporate Risk Register be recommended to Cabinet for approval.

255/18 Brexit

The Committee were advised that central government were now starting to issue further information on Brexit and some technical papers had been received. It was considered that matters should become clearer in the next month or so. It was considered that the Council was not as exposed as some others due to the demographics and as a result of the Council not receiving any EU funding. The main risks were considered to be costs in the supply chain. It was likely that there would be change in public procurement regulations but not immediately.

The Committee noted the report and asked for an update at their next meeting so they could continue to assess any risks associated with Brexit.

256/18 Update on outstanding external audit matters

Joanne Lees, the KPMG partner with responsibility for the Council's audit, was unable to attend the meeting. KPMG had provided a concise status update of the areas they were working on.

The Committee noted the report and that KPMG anticipated the work would be completed by the end of November 2018. The Committee were concerned and very disappointed that there appeared to have been little progress made since July and KPMG's target for completion in August had not been met. The Committee discussed the options available to escalate the complaint process should the revised target date not be met. The Chairman asked to be kept updated of events.

257/18 External Audit Plan update

Leigh Lloyd-Thomas of BDO LLP, the Council's auditors from April 2018, was present at the meeting and advised the Committee that they could not access files until KPMG had issued the Value for Money statements for 2016/17 and 2017/18. If KPMG concluded their work before Christmas it would not be an issue, but he warned that beyond that would have a serious impact.

BDO advised that they were able to start on the transactional business and planning aspect of the audit prior to finalisation of KPMG's work.

258/18 SBC Property/Relationship with External Auditor

Deputy Chief Executive Collier outlined the commercial relationship between the external auditors, BDO LLP, and Spelthorne Borough Council following the Council's acquisition of Thames Tower, Reading. BDO have a number of offices and the terms of the lease for this particular office had been agreed with the previous owner of the premises.

A letter from BDO confirming that their Ethical Partner had considered the situation and concluded that it did not present a threat to their independence and objectivity was considered by the Committee.

The Committee noted the relationship and were agreed that it did not compromise the independence of the auditor.

259/18 Report on the effectiveness of the system of Internal Audit
The Internal Audit Manager presented her report on the effectiveness of the system of internal audit and gave an update on the external quality assessment referred to in the report.

An external quality assessment had been conducted as part of a three way reciprocal arrangement with two other Surrey borough councils and a draft report relating to Spelthorne Internal Audit had been received; this would be shared with the Committee once it had been finalised. The overall conclusion was that generally we conformed to standards and, if the areas for improvement are addressed, would be able to report substantial compliance with standards. The action areas highlighted were areas that the Internal Audit Manager had identified during the self-assessment process.

The Chairman thanked Punita for her report.

Resolved to note the report on the effectiveness of internal audit 2018/19.

260/18 Internal Audit Interim Report
The Internal Audit Manager presented her report which summarised the work undertaken by Audit Services during the period April 2018 to September 2018 and provided the Council with assurance on the adequacy of its internal audit systems of control. Attention was drawn to the positive feedback received in relation to the arrangement with Reigate and Banstead Borough Council for counter fraud work which had resulted in significant positive returns.

It was **resolved** to note the Interim Internal Audit report.

261/18 Committee Work Programme
The Committee considered its Work Programme for the remainder of the 2018/19 municipal year.

Resolved that the Committee Work Programme for the remainder of the 2018/19 municipal year, be approved subject to the addition of the following updates in March 2019:

- Recruitment and retention
- Procurement
- Brexit

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Minutes of the Audit Committee
5 February 2019

Present:
Councillor M.J. Madams (Chairman)
Councillor H.A. Thomson (Vice-Chairman)

Councillors:

H.R.D. Williams

In attendance: Councillor I.T. Harvey, Leader of the Council

Apologies: Councillors C.A. Davis and Q.R. Edgington

27/19 Disclosures of Interest

There were none.

28/19 External Audit Report on Audit and Statement of Accounts 2016/17

The Chief Finance Officer reported that external auditors appointed by the Public Sector Auditor Appointments, KPMG, were 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

They also report annually on their audit of the Council's accounting and internal control systems.

KPMG had presented a draft ISA260 report to the Audit Committee in October 2017, pending completion of their Value For Money (VFM) work on the BP campus acquisition. An update on that work was provided at the July 2018 meeting. Having completed this work, KPMG had issued their opinions on the 2016/17 Accounts and on the Value for Money Statement.

Joanne Lees, on behalf of KPMG, presented the report. She stated that the financial statements required some adjustments, mainly due to turnover of staff in the Finance team. KPMG was ready to issue an unqualified opinion on the financial statements.

Ms Lees emphasised that it was the auditor's responsibility to look at the *arrangements* the Council had in place to secure economy, efficiency and effectiveness in its use of resources (i.e. VFM), not to consider the 'value for money' of any specific investments themselves. As reported to the July 2018 Audit Committee, KPMG were issuing an adverse VFM conclusion, making four recommendations on the BP acquisition process, which were set out on pages 116-121 of the supplementary agenda, along with the Management responses.

The Monitoring Officer commented that the Council disagreed with the auditor's findings leading to the qualified conclusion and these had been set out in the Management responses to the auditor's report. These particularly concerned the auditor's assessment of the Council's Value for Money arrangements in relation to the purchase of the BP campus.
He summarised the Management responses:

- It was the Council's opinion that the auditor had focussed on some factors which did not affect economy, efficiency and effectiveness, i.e. publication of decisions in line with Regulation 13 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 and documented evidence that the Council had considered Counsel's opinion on the proportionality of the BP investment.
- The Council had provided the auditor with a large volume of documentation to evidence the decision making process and was disappointed that the email trails were not sufficient to satisfy the auditor in terms of a written record of decisions taken.
- The Council had assessed the Council's position at the end of the BP 20 year lease with regard to alternative use values for the site, bearing in the mind the strength of the location close to an expanding Heathrow and a future Crossrail 2 station. Reports from competent professionals on these assessments had been shared with the auditors.
- Counsel's opinion on the proportionality of investment property transactions only related to the BP transaction not all future property transactions, so the auditor ought not to construe this opinion applies to all our arrangements.

Philip Johnstone, KPMG, responded to concerns about the conclusions which had led to their adverse opinion.

The Leader, Councillor I.T.E. Harvey commented that the Council had gone to great lengths to ensure transparency around the BP acquisition, including presentations to all councillors and residents' associations, press releases, radio interviews, and FAQs on the Council's website. He further stressed that as a result of the Council's property investment strategy, the Council had not needed to make cuts to services or draw on reserves to maintain them, with the result that residents were in a better position than those in many other local authority areas.

Resolved that:

1) the Audit Committee notes the External Auditor's 2016/17 audit report;
2) the Chief Finance Officer and Chairman of the Committee sign the statement of accounts; and
3) the Audit Committee notes the draft officer responses to the recommendations made in Appendix 1 of the Auditors' report.

Annual Audit Letter 2016/17

Spelthorne Borough Council

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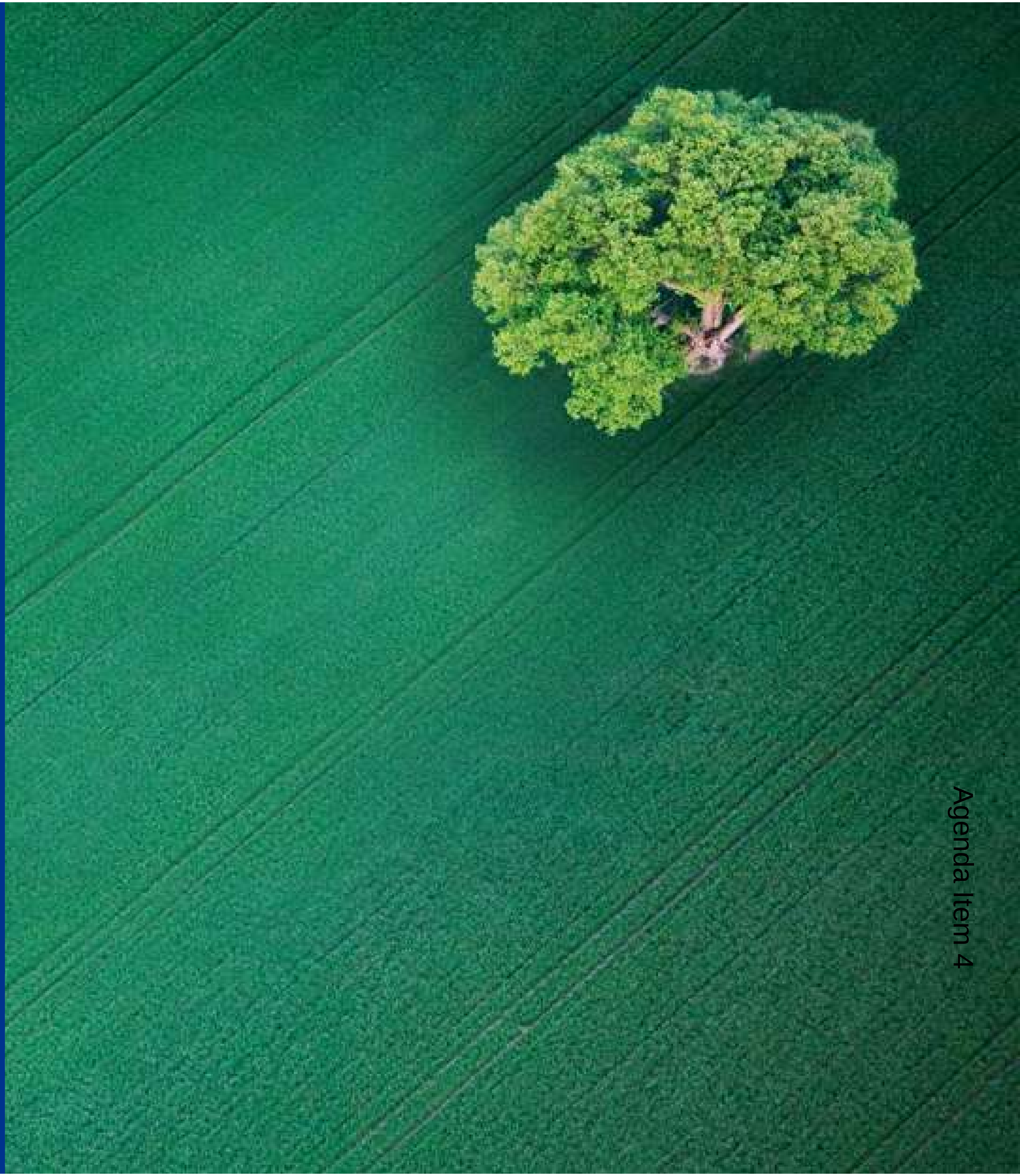
March 2019



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Contacts in connection with this report are:

Joanne Lees
Director

KPMG LLP (UK)

Tel: +44 (0)20 7311 1367
joanne.lees@kpmg.co.uk

Hannah Andrews
Senior Manager

KPMG LLP (UK)

Tel: +44 (0)20 7694 8868
hannah.andrews@kpmg.co.uk

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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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

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

Headlines

This Annual Audit Letter summarises the outcome from our audit work at Spelthorne Borough Council in relation to the 2016/17 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	We issued a qualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016/17 on 19 February 2019. This means we are not satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. This is as a result of significant weaknesses identified in those arrangements in relation to the Authority's purchase of the BP campus. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.
VFM risk areas	We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. Our work identified the following significant risk: — The purchase of the BP campus: an adverse qualified opinion was issued due to weaknesses identified with the trail to support the decision making process in relation to the acquisition, and fully considering the financial impact on the Authority after the leaseback period ended. We identified areas of audit focus related to procurement and financial resilience, however, we did not identify any matters through our work on these areas that were required to be reported to the Audit Committee.
Audit opinion	We issued an unqualified opinion on the Authority's financial statements on 19 February 2019. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Authority's Group, which consists of the Authority itself and Knowle Green Estates Limited.
Financial statements audit	Our work on the financial statements audit highlighted: — One unadjusted audit difference identified as part of the audit which has been reported to the Audit Committee; — 24 adjusted audit differences identified through the audit. These have all been reported to the Audit Committee; — The initial draft of the financial statements provided was of poor quality and we have raised a number of recommendations to improve this process in future years. This included four high priority and two medium priority recommendations all raised within the ISA 260 which has been reported to the Audit Committee.
Other information accompanying the financial statements	Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Section one

Headlines (cont.)

We have issued our certificate to confirm the completion of our audit responsibilities for the 2016/17 audit year.

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Whole of Government Accounts	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We were not required to review your pack in detail, as although the Authority is above the threshold where an audit is undertaken, due to the timeframe in which financial statements were finalised and signed, this was no longer required. The Authority has confirmed this with the Treasury.
High priority recommendations	We raised five high priority recommendations as a result of our 2016/17 audit work (one related to VFM and four related to the financial statements). These are detailed in Appendix 1 together with the action plan agreed by management. — Weaknesses identified in the arrangements that the Authority put in place to assure itself that it was achieving value for money in relation to the purchase of the BP campus. This included the documentation of investment decisions, whole investment cost analysis, publication of decisions in line with the regulations and the documentation of the consideration of proportionality of the investment property transaction; — Independent review of the financial statements by a senior officer; — Resilience of the Authority finance team; — Appropriate publication of the Notice of Audit; and — Retention of adequate supporting evidence for journals, as well as enforcing segregation of duties in the approval of journals. We will formally follow up these recommendations as part of our 2017/18 work.
Certificate	We issued our certificate on 19 February 2019. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
Audit fee	Our planned fee for the audit was £48,128 excluding VAT (£48,128 excluding VAT in 2015/16). As a result of the delays in provision of information, the poor quality of information provided and the complexity of our VFM work relating to the sale and leaseback of the BP campus, we have incurred very significant overruns on our audit costs. We will agree an additional fee with the Authority and the PSAA in due course.

Appendix One

Key issues and recommendations

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

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

#	Risk	Recommendation	Management Response / Officer / Due Date
Value for Money			
1	❶	**Purchase of BP campus** Our work to consider the arrangements that the Authority put in place in relation to the purchase of the BP campus has identified the following weaknesses: • *Documentation of investment decisions:* the audit trail to support the decision to purchase the BP campus was poor, and contained within a number of emails and meeting notes. There was no clear documentation which chronologically set out the basis on which the decision to purchase and the purchase price agreed • *Whole investment cost analysis:* whilst modelling of the costs and revenue generated had been undertaken for the life of the lease with BP, there was no detailed modelling and stress testing of the period beyond that lease life to build on the potential future options paper that was commissioned by an external property valuer, to set out how the remaining significant lease costs would be met • *Publication of decisions in line with the Regulations:* The decision to purchase the campus was not published in line with Regulation 13 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012. • *Proportionality of investment property transactions:* Legal counsel advised that the proportionality of such a transaction should be considered in terms of the Authority's overall capital programme. The consideration of whether it did represent a disproportionate amount of the capital programme was not formally documented. *Continued overleaf*	**Documentation of investment decisions** There was very clear delegation of decision making from Cabinet, after consideration of the reports on the proposal to pursue purchase, with delegation to the Leader of the Council, Chief Executive, Finance Portfolio Holder and Section 151 Officer. This delegation process was followed. The Council's decision makers sought appropriate professional advice from a range of best in class advisers who provided exhaustive due diligence and ensured that risks were identified, discussed and mitigated. There were many hundreds of hours of consideration of the proposal and this did indeed generate a large volume of email records. Due to the timing of when the BP opportunity arose there were a number of teleconferences required at which advisers, senior officers (including the Chief Executive and Section 151 Officer) or councillors (the Leader and the Finance Portfolio Holder) were dialling in. The use of email did ensure a written record of decision taking and discussions existed. The four decision makers all reviewed the extensive reports provide by our external advisors, and were briefed by both senior officers and our advisors, prior to giving their delegated approval. *Continued overleaf*

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Document Classification: KPMG Confidential

Key issues and recommendations (cont.)

#	Risk	Recommendation	Management Response / Officer / Due Date
Value for Money			
1	❶	**Purchase of BP campus - *continued*** During 2017/18 and 2018/19, the Authority has continued to purchase commercial investment properties with the primary aim of developing further revenue streams to support the delivery of its budget. It is essential that: • A full documentation trail is in place, which sets out the information reviewed, the external specialist advice sought and the modelling and scenario planning undertaken to support the decision to purchase (or not proceed with a purchase) of an investment property. This should include full documentation of who decision making was delegated to and demonstration that all conditions upon which the delegation was made have been met • Costing and financial analysis should be undertaken for the full term that costs will be required to be met by the asset (normally this will extend to the life of the loan which is financing the purchase). Where multiple future options exist, these should be fully modelled and stress-tested so that all of the risks attached to the purchase can be analysed and understood • Decisions are published in line with Regulation 13 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 • The proportionality of all investment property transactions are considered in terms of the overall capital programme of the Authority, in line with the legal counsel opinion, and that this consideration is formally documented along with the rationale for the decision reached.	The Council has put in additional governance arrangements including: • Weekly review of performance of acquisition, progress of developments, and evaluation of possible acquisitions commenced firstly from October 2017 as part of an expanded Corporate Management Team meeting and then subsequently by a separately weekly scheduled senior officer Development and Investment Group (DIG) on which sits the Chief Executive, Monitoring Officer, Chief Finance Officer, Deputy Chief Executive, Property and Development Manager, Group Head for Regeneration, Housing Policy Manager, Development Manager. The DIG meetings commenced 9th April 2018 • Monthly meetings of Investment and Property Committee on which Leader and Finance Portfolio Holder sit, to review and discuss investments performance of investments and developments and to consider and evaluate possible acquisitions and whether to put forward to Cabinet for consideration. The Investment and Property Committee meetings commenced 6th February 2018 • The Council has significantly expanded its in-house professional and commercial property expertise, bringing in a number of staff with significant commercial property experience both with respect to acquisitions and developments and with respect to managing property funds. The Council appointed its Property and Development Manager on 3 July 2017, its Asset Manager on 19th February 2018 • The Council has brought in (November 2017) additional advisers to provide a second opinion on lead advisers advice and to produce reports on the financial robustness of tenants in potential acquisitions. Periodic update reports on the health of tenants in acquired assets are produced. More regular updates can be provided where necessary •The Council has subscribed, since January 2018, to S&P's credit rating database and set up watch lists for its tenants to alert it to any deterioration in the health of its tenants. Where there is any deterioration the potential impact of this is reviewed by the internal team. • Quarterly performance review reports have been produced since August 2018, on the Council's overall investment portfolio • Sensitivity analysis is undertaken with respect to variables such as rental growth. *Continued overleaf*

Key issues and recommendations (cont.)

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#	Risk	Recommendation	Management Response / Officer / Due Date
Value for Money			
1	❶	**Purchase of BP campus - *continued***	**Whole investment cost analysis** It is not standard Asset Management Practice to project scenarios 20 to 50 years ahead. We have taken the time to assess the Council's position at the end of lease, with reports from competent professionals which have been shared with the auditors. In the view of most competent estate management professionals, such projections are meaningless. The Council commissioned an independent report on alternative use values at the end of the initial 20 year lease, and has very clear and financially sound options for the BP site at the end of 20 years in the event BP do not renew: • Refurbishment to a general multi-let business park • Refurbishment to another corporate HQ business park • Refurbishment to airport related business park (in light of Heathrow expansion) • Residential development There are also variations of the above in the event of the tenant (who has been on the location for over 100 years) remaining on part of the site at the end of the lease. It should be remembered the strengths of the location of the BP campus, given its proximity to an expanding Heathrow, M3 and M25, and future Cross Rail 2, that the site is likely to remain a highly sought after and valuable location. Despite questions as to the usefulness of such analysis, the Council has on more recent acquisitions nevertheless undertaken full 50 year rental projections on both a cautious base case and worst case set of scenarios. The Council's second set of advisers modelled for Hammersmith Grove a number of scenarios around rental risk *Continued overleaf*

Key issues and recommendations (cont.)

#	Risk	Recommendation	Management Response / Officer / Due Date
Value for Money			
1	❶	**Purchase of BP campus - *continued***	**Publication of decisions in line with regulations** Information as regards Regulation 13 has been published on our website. The issue of Regulation 13 is not, in the Council's view, significant in the circumstances. The Council acknowledges the error in this regard, and it is fair comment for the Auditor to bring it to our attention. Steps have been taken to review this process since. However, this issue is not, in the Council's view, material to the question of economy, efficiency and effectiveness. The Council was very transparent in ensuring that residents and stakeholders were promptly made aware of the acquisition through a number of press releases and other communication channels. **Proportionality of investment property transactions** The advice from Counsel was considered by the Council. The Council took it into account when making its decision. The Council clearly had in mind that a £380m purchase was beyond any transaction which it contemplated before and was suitably cautious and considered all the papers and issues put before them. KPMG wished to see this consideration documented in detail in the minutes. This is fair comment and noted. However, in the Council's view, whether the consideration was noted in the minutes or not, has no bearing on whether the Council can deliver its services and secure economy, efficiency and effectiveness overall in doing so. The advice from Counsel was specific to the BP purchase because proportionality was an issue at that time, with that transaction of £380m against a small portfolio and capital programme as it existed in 2016. Since that time, and for future transactions, proportionality may not be an issue given the size of the Council's existing portfolio and capital programme. The Council will however document considerations of proportionality where they arise and are relevant. The Council has always had regard to the external legal advice it has received. The significant increase in internal commercial expertise put in place following the BP acquisition, combined with expanding the range of external advisers, has enabled the Council to have capacity to handle risks associated with expanding the investment portfolio further.

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Key issues and recommendations (cont.)

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

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	❶	**Financial statements production** The draft accounts published by the Authority on 17 July 2017 had not been adequately prepared or reviewed by an appropriate member of the Authority's finance team. Due to staff turnover, both of the subsequent accounts preparers were new joiners and did not have historical knowledge of the Authority's systems or operations to prepare the accounts. There was limited evidence of an independent review of the draft accounts. As a result, the accounts did not appropriately reflect significant transactions that took place during the year, such as the acquisition of the BP campus or the drawdown of over £400m in loans. In addition, we identified a significant volume of presentational/disclosure errors, material inconsistencies within the accounts, and departures from the CIPFA guidance notes. This caused significant delays in the audit timetable, and we were required to postpone our work mid-audit and reschedule the remaining fieldwork until the accounts had been corrected. We recommend that the financial statements are prepared by individuals with sufficient knowledge and experience of the organisation. Following preparation, the accounts should be independently reviewed by a senior officer and any errors or discrepancies identified should be recorded in advance of the onsite audit period. The Authority must strengthen its financial reporting in order to put it in a good position to meet the new 2017/18 deadline of 31 July. Additional reviews of working papers, particularly those that involve key areas of judgement, should be made a matter of routine.	**Accepted** As the report highlights several key members of the Accountancy team left during the accounts process and there were issues with an interim individual. The Council now has in place a permanent Chief Accountant with many years experience of closing of accounts (and indeed has been involved recently in piloting CIPFA's "Big Red Button" process for speeding up accounts closure. We also now have in place a permanent Deputy Chief Accountant with a broad range of technical accounting experience. The Chief Accountant and Chief Finance Officer are undertaking a fundamental review of the close down process and will ensure that it is speeded up and additional review is built into the process to be completed before Christmas 2017. Other members of the team are being provided with additional training. The Accountancy team will also draw on its Treasury Management advisers to review relevant technical (financial instruments etc.) notes and treatment during the closure process. **Action by:** Chief Finance Officer / Chief Accountant **Due date:** 23 December 2017

Key issues and recommendations (cont.)

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
2	❶	**Resilience of Authority finance team** Significant personnel changes have occurred across the Authority's financial team with further changes anticipated. As a result, there is increased risk around succession planning, retaining corporate memory and maintaining business as usual at the Authority. We recommended that the Authority develops a succession and stability plan to ensure that the finance team is resilient to personnel and structural changes and that stability is maintained when individuals leave. The Authority should also consider creating practical strategies that Management can use to engage and retain talent within its finance team.	**Accepted** As per response to Recommendation One, we are undertaking a training plan to develop the skills and experience of the team and to build in more experience. We are examining options to help retain talent within the team. The Chief Accountant will be reviewing succession planning and looking to ensure that there is greater resilience in the accountancy team. **Action by:** Chief Finance Officer / Chief Accountant **Due date:** 23 December 2017
3	❶	**Notice of Audit** The Authority has failed to advertise the audit via a public inspection notice in accordance with the Accounts and Audit Regulations 2015. The Regulations require the accounts to be available for public inspection for 30 working days. For the year ended 31 March 2017 the Authority's period commenced on 18 July 2017 and ended 17 August 2017, a period of 21 working days. Although this is not in accordance with the Regulations, we are satisfied that the Authority has afforded electors an appropriate opportunity to exercise their rights. The Authority must ensure that it advertises the audit of its accounts in accordance with the Accounts and Audit Regulations 2015. For the financial year ended 31 March 2018, the period is required to include the first 10 working days of June 2018.	**Accepted** Whilst the advert was posted the duration was insufficient. Management will ensure that the full 31 working days is allowed in the future **Action by:** Chief Accountant **Due date:** complete and ongoing

Key issues and recommendations (cont.)

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
4	❶	**Journal approvals and segregation of duties** During our testing of journals we identified issues relating to the way some transactions were processed and evidenced during the financial year 2016/17. The Authority has concluded that it is not possible to recreate the evidence for why these journals were processed. The individuals who processed and/or approved the journals have now left the Authority and have left no written record of why they were processed and the line descriptions are often inadequate. We recommend that for all journal entries, the Authority ensures: ▪ All journal entries are approved by an individual separate from the person who uploads them; ▪ Either the Deputy Chief Accountant or the Chief Accountant approves all journals over £20,000 in value; ▪ A meaningful description is provided for each journal entry stating the reason why the journal was necessary and what the journal represents in accounting terms; ▪ Adequate supporting evidence is kept on file for each journal raised; and ▪ Accountancy team Management regularly review the files to monitor compliance and raise with individuals through one to ones or the annual appraisal system if there are recurring issues.	**Accepted** Chief Accountant will provide a quarterly review to Chief Finance Officer to confirm compliance. Action by Chief Accountant. **Action by:** Chief Finance Officer / Chief Accountant **Due date:** Now implemented

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Key issues and recommendations (cont.)

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
5	2	**Valuation of land and buildings** As part of our procedures to provide assurance over the valuation of land and buildings within the financial statements, a review of the year end Valuation Report produced by the external valuer and commissioned by the Authority was undertaken as well as a review of the Authority processes and controls in relation to the valuation exercise. From this review, we have identified a number of detailed recommendations to strengthen the approach that the Authority takes to the valuation of its land and buildings and have shared these with the Finance Team. This includes demonstration of the consideration and challenge of the assumptions applied by the external valuer and ensuring a robust data trail underpins the valuations applied to the accounts. We recommend that the Finance Team implement our action plan ahead of the next valuation exercise.	**Accepted** Agreed. **Action by:** Chief Accountant **Due date:** 1 February 2018
6	2	**Fixed asset registers** During our testing of fixed assets we were unable to obtain Fixed Asset Registers in relation to IT equipment, intangible assets and heritage assets. Without a complete listing, the Authority is unable to effectively manage and report on the assets it holds. We recommend the Authority conducts an exercise to produce a full listing of assets held within the IT equipment, intangible and heritage asset categories. All assets should be assessed for impairment to ensure that the valuations held within the financial statements are materially correct.	**Accepted** We will conduct an exercise to produce a full listing of IT equipment. Whilst we have in recent years reviewed heritage assets we will conduct further review. **Action by:** Chief Accountant **Due date:** 31 March 2018

Key issues and recommendations (cont.)

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
4	2	2

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at October 2017
Financial statements				
1	2	**Valuation Frequency and Timing** While the Authority is moving to a programme of rolling valuation from 2015/16, up until this point the Authority obtained a full valuation of its land and buildings portfolio once every five years on 1 April for the financial year in which the valuation was accounted for. We recommend that the Authority should seek to obtain valuations as at 31 March to minimise the risk of potentially significant changes in valuation during the course of the financial year, either impairments or upwards movements. Due to the new policy of revaluing some assets each year this creates a risk that significant asset changes for those assets not valued in that year are not recorded in the intervening period, potentially leading to material movements at the end of the revaluation cycle. As a matter of course we would recommend that as part of its annual reporting that management formally communicate to members their in-year assessment of any impairment or potential upward valuation of assets where those assets have not been subject to valuation at year end. This is particularly important where the Authority elects to continue to obtain valuations dated 1 April.	**Accepted** We will change the valuation dates to 31 March. As part of the formal annual reporting management will report to councillors their in-year assessment of any impairment or upward revaluation of assets where those assets have not been subject to valuation at year end. **Action by:** Principal Accountant and Head of Asset Management **Deadline:** 30 June 2016 As part of the revaluation rolling programme, the valuers were instructed to value the properties which were due on the rolling programme valuation list for 2015/16 to be valued at 31 March 2016. Management has not reported to councillors on the in-year assessment of impairment and upward revaluation where those assets have not been subject to valuation at year end. Specific consideration should be given to management reporting to councillors in 2016/17. **Action by:** Principal Accountant and Head of Asset Management **Revised deadline:** 30 June 2017	**Management Response:** Action agreed outstanding. **Action by:** Chief Accountant in partnership with Commercial Property Manager **Due date:** 1 March 2018

Key issues and recommendations (cont.)

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at October 2017
Financial statements				
2	3	**Timeliness of reconciliations** During our testing of payroll controls it was noted that reconciliations are not being prepared and reviewed in a timely manner. During our testing of cash, it was noted that reconciliations were not performed for nine months. The main cause is due to the Council not having a contingency plan in place when staff are on sick leave or unavailable. We recommend that the Council implement a robust plan to ensure that there is sufficient resilience within the finance team to cope with short term absences.	**Accepted** We will review our procedures around preparing and reviewing the reconciliations that are preformed and will look at the resilience issues within the team to cover short term absences. The problems around the testing of cash were not as a result of staff being unavailable or on sick leave. **Due date:** 31 December 2016	We reviewed two payroll reconciliations from the 2016/17 year and noted that neither had been reviewed within a month of the reconciliation being produced. We have therefore re-raised this recommendation to Management. **Management Response:** Action agreed outstanding. Sickness absences have impacted. **Action by:** Deputy Chief Accountant **Due date:** 30 November 2017

KPMG

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Appendix Two

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.spelthorne.gov.uk.

2015/16 Certification of Grants and Returns (January 2017)	This letter summarised the outcome of our certification work on the Authority's 2015/16 grants and returns.
2016/17 External Audit Plan (March 2017)	The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion for 2016/17.
2017/18 Audit Fee Letter (April 2017)	The Audit Fee Letter set out the proposed audit work and draft fee for the 2017/18 financial year.
2016/17 Interim ISA260 (October 2017)	The interim ISA260 summarised the audit work completed for 2016/17 to date as at October 2017.
2016/17 Certification of Grants and Returns (January 2018)	This letter summarised the outcome of our certification work on the Authority's 2016/17 grants and returns.
2017/18 External Audit Plan (March 2018)	The External Audit Plan set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion for 2017/18.
2017/18 Report to Those Charged with Governance (July 2018)	The Report to Those Charged with Governance summarised the results of our audit work for 2017/18 as at July 2018 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.
2016/17 Report to Those Charged with Governance (February 2019)	The Report to Those Charged with Governance summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.
2016/17 Auditors Report (February 2019)	The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate for 2016/17.
2017/18 Certification of Grants and Returns (February 2019)	This letter summarised the outcome of our certification work on the Authority's 2017/18 grants and returns.
2016/17 Annual Audit Letter (March 2019)	This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

Appendix Three

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our planned fee for the audit was £48,128 excluding VAT (£48,128 excluding VAT in 2015/16). As a result of the delays in provision of information, the poor quality of information provided and the complexity of our VFM work relating to the sale and leaseback of the BP campus, we have incurred very significant overruns on our audit costs. We will agree an additional fee with the Authority and the PSAA in due course.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is complete. The final fee was in line with the planned fee of £7,568.

Other services

We did not charge any additional fees for other services.

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Audit Committee

28 March 2019

Title	External Audit Report on the 2017/18 Audit and Statement of Accounts		
Purpose of the report	To make a decision		
Report Author	Terry Collier		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	The Audit Committee is asked to note the External Auditor's 2017/18 draft audit report (Appendix A).		
Reason for Recommendation	The final ISA 260 is not yet available, this mini version gives an update to the Committee		

1. Key issues

1.1 External auditors appointed by the Public Sector Auditor Appointments (PSAA), 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 KPMG have produced a draft ISA260 report. At this stage KPMG do not feel they are in a position to sign off due to their Value for Money work on the acquisitions not being completed. That work is expected to be completed in the summer.

1.4 KPMG state in the attached report that 'Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified opinion on the Authority's financial statements'.

1.5 The latest draft version of the Statement of Accounts is attached as Appendix B, this is awaiting final agreed sign off from KPMG.

1.6 KPMG make six recommendations (pages 16-18 of their report) arising from their statement of accounts audit. These will be responded to, reported back to the Committee, and taken into account for the 2018/19 audit process.

1.7 KPMG will provide an oral update on the status of their audit at the meeting.

2 Next Steps

2.1 That the Deputy Chief Executive in his role as the statutory Chief Financial Officer continue to liaise with KPMG to ensure a satisfactory completion to the audit.

2.2 That management responses are made to the recommendations, and that progress on implementation will be reported back to future meetings of the Committee.

3 Financial implications

3.1 KPMG state in their report that 'We have incurred significant overruns on our audit costs. We will agree an additional fee with the Authority and the PSAA in due course'.

3.2 A report will be brought to this Committee when the proposed costs are known.

4 Other considerations

4.1 There are none.

5 Timetable for implementation

5.1 To be determined.

Background papers: None

Appendices: Appendices:

A – KMPG draft Report
B – Latest Statement of Accounts 2017/18

KPMG

External Audit Report 2017/18

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Spelthorne Borough Council

—

28 March 2019

Content

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Contacts in connection with this report are:

Joanne Lees
Director

KPMG LLP (UK)

Tel: +44 (0)20 7311 1367
joanne.lees@kpmg.co.uk

Hannah Andrews
Senior Manager

KPMG LLP (UK)

Tel: +44 (0)20 7694 8868
hannah.andrews@kpmg.co.uk

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

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

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

Important notice

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

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

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

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

Status of our audit: Our audit is substantially complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

- Financial statements audit: Review of the narrative sections of the financial statements, including the AGS and final casting and internal consistency checks
- Value for money conclusion: Our work on the value for money conclusion is not yet complete

Summary

DRAFT

Financial statements audit – see section 2 for further details
Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements. We have completed our audit of the financial statements. Our key findings are: • There is one unadjusted audit difference, explained in section 2 and appendix 2. • We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. • We did not receive any queries or objections from local electors this year. The audit cannot be formally concluded and an audit certificate issued as we are completing our work on the value for money conclusion. Until we have completed our work, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Other matters
ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include: • Significant difficulties encountered during the audit; • Significant matters arising from the audit that were discussed, or subject to correspondence with management; • Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and • Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.). We identified two prior year recommendations that require further action by Management, these have been re-raised in 2017/18. We have made six new recommendations as a result of our 2017/18 work. They key recommendations relate to the Knowle Green Estates Ltd accounts and bank reconciliations. All recommendations are shown in appendix 1. The fees for this work is explained in section two.

Financial statements audit

DRAFT

We audit your financial statements by undertaking the following:

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

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

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made six recommendations which relate to the audit of Knowle Green Estates Ltd, bank reconciliations, the methodology for completing valuations, the notification of accruals to the Finance Team, payroll reconciliations and the recognition of grants. We believe that these recommendations (see appendix 1) will strengthen your control environment.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with the Chief Accountant and this was issued as a final document to the finance team.

Financial statements audit

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4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to: • Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis; • Amended guidance on the Annual Governance Statement.
5. Accounts Production	We received complete draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We thank Finance for their cooperation throughout the visit.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. have identified presentational changes to the accounts along with a number of audit adjustments which we have presented in appendix 2.
7. Representations	We will provide a draft of our management representation letter when our work on both the financial statements and VFM has been concluded.

Financial statements audit

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

— Significant difficulties encountered during the audit;

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

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

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

There are no others matters which we wish to draw to your attention at this stage in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

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

- The results of the procedures we performed over the valuation of investment properties and land and buildings and the valuation of pension assets and liabilities which were identified as significant risks within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

DRAFT

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings	PPE £57.8m PY £45.6m	The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. We reviewed the approach that the Authority has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We considered movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time. In relation to those assets which have been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions). As a result of this work we determined that improvements can be made to the way in which the valuations are carried out, however, no exceptions related to the valuation of the investment properties.
Investment properties	Investment properties £635.7m PY £392.1m	The Authority purchased a number of investment properties during the 2017/18 financial year, in addition to the BP Campus which was purchased in 2016/17. There is a risk that such assets, which are outside the Authority's core operations are overvalued and not accounted for correctly within the financial statements. We reviewed the approach that the Authority has adopted to assess the risk that the valuation of investment assets are not materially misstated and consider the robustness of that approach. We assessed the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions). We reviewed the accounting entries to understand whether the purchase of the properties has been recorded correctly in the accounts. We challenged management around whether there any indicators of impairment. We have identified misstatements related to the way that a rent free period was accounted for related to Hammersmith Grove, however, no exceptions related to the valuation of the investment properties.

Financial statements audit

DRAFT

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension assets and liabilities	Net liability £44.8m PY £44.1m	The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the Surrey Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements. As part of our work we reviewed controls that the Authority has in place over the information sent directly to the Scheme Actuary. We liaised with the auditors of the Pension Fund to gain an understanding of the effectiveness of controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We reviewed the appropriateness of key assumptions in the valuation, compared them to expected ranges, and consider the need to make use of a KPMG actuary. We reviewed the methodology applied in the valuation by the actuary. In addition, we reviewed the overall Actuarial valuation and consider the disclosure implications in the financial statements. No exceptions were identified. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 13.

Section Two

Financial statements audit

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SIGNIFICANT audit risk	Summary of findings
Faster close	In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 draft accounts are required by 31 May and final signed accounts by 31 July. These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts is reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years. To meet the revised deadlines, the Authority needed to make greater use of accounting estimates. In doing so, consideration needed to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. We liaised with officers in preparation for our audit to understand the steps the Authority is taking to meets the revised deadlines. Where there was greater reliance upon accounting estimates we considered the assumptions used and challenge the robustness of those estimates. The financial statements produced for audit in 2017/18 were improved from the prior year, and a timetable had been produced to allow faster close. We have raised one recommendation in relation to ensuring that the close timetable allows for updates to areas of estimate in the accounts, such as accruals (see Appendix 1). At the time of the 2017/18 audit, work was still ongoing on the 2016/17 accounts and VFM conclusion, and work remains ongoing on the 2017/18 VFM conclusion. We note that the Authority did not appoint subsidiary auditors to audit Knowle Green Estates Ltd, instead choosing to take the small companies exemption, which is not permitted for Local Authorities.

Financial statements audit

DRAFT

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Group accounts	Group CIES, Group Balance Sheet	The Authority has a wholly owned subsidiary, Knowle Green Estates Ltd and was required to prepare Group Accounts in 2017/18 on the basis of materiality. There is a risk that the assets within the subsidiary are not valued appropriately and that the related party entries disclosed within the Authority accounts are materially misstated. There is also a risk that the disclosures required per applicable Accounting Standards and Code Guidance are not made appropriately within the financial statements. We reviewed the valuation of the assets held within Knowle Green Estates Ltd, including assessing the professional competence of the valuer engaged and reviewing the instructions sent to the valuer. We reviewed and checked the disclosures made within the Authority accounts for accuracy, presentation and compliance with applicable Accounting Standards and Code guidance. As a result of this work we determined that the Authority had incorrectly applied the small company exemption to KGE Ltd in 2017/18. We reviewed transactions related to KGE Ltd and confirmed these had been correctly consolidated into the Group accounts.

Financial statements audit

DRAFT

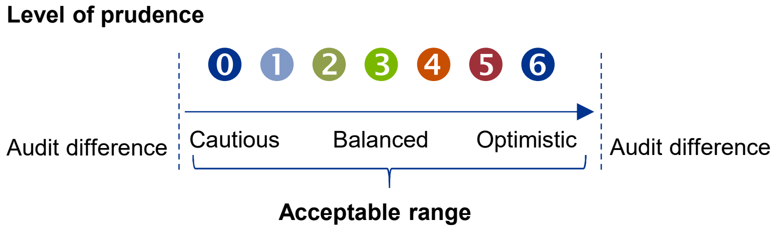
Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents, annual central Government grants and social services income and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to rental income and grant income with conditions.	We have identified a recommendation around the recognition of government grants.
Fraud risk from management override of controls	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	During our testing of journals we did not identify any issues.

Financial statements audit

DRAFT

Judgements in your financial statements

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



Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions (excluding NDR)	3	3	£150k PY: £150k	We consider the provision disclosures to be balanced (excluding the NDR provisions).
NDR provisions	3	4	£2.1m PY: £1.6m	In 2013/14, local authority funding arrangements meant that the Authority is now responsible for a proportion of successful rateable value appeals. The Authority has provided for a fixed percentage of outstanding appeals in accounting for the potential liability, based on historical appeals success rates. In 2017/18 the Authority used an expert to place a value on the NDR appeals which represents a more balanced approach than in previous years when this was done in house. When subject to sensitivity analysis, the appeals provision did not differ materially from the value included within the financial statements which is a positive change to the prior year when a misstatement was identified.
Pension liability	2	3	£44.8m PY: £44.1m	The pension liability has 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. discounted to present values. We have reviewed the accounting entries for pensions supplied by the Surrey Pension Fund actuary, Hymans Robertson, and consider the disclosures to be appropriate. The actual assumptions adopted by the actuary fell within the cautious side of our expected ranges.

Financial statements audit

DRAFT

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
PPE: asset lives	3	3	No changes noted	Vehicles, plant, furniture and equipment is allocated over the useful life of the asset as defined by a suitably qualified officer. Our work on PPE has not indicated any significant losses on disposal or assets no longer in working order which would indicate that asset lives used are no longer appropriate.
Debtors provisioning	2	2	£1.9m PY: £2.1m	The council had opening balances of £1.9m and has increased its provision by £0.2m This is a result of an increase in the outstanding business rates and housing benefit overpayments. We consider the provision disclosures to be acceptable, though this remains cautious.
PPE	4	4	£46.3m PY: £45.6m	A full valuation took place in 2014/15 before the adoption of a five year rolling valuation programme in 2015/16. 20% of land and buildings were revalued in the current year with no material movements noted. We consider the revaluation basis to be appropriate. The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised an external valuation expert, Kempton Carr Croft, to provide valuation estimates for council assets. We reviewed instructions provided to Kempton Carr Croft and deem that the valuation exercise was generally completed in line with the instructions. We have raised a further recommendation to try and strengthen this process at Appendix One.

Financial statements audit

DRAFT

Group audit

As the Authority did not employ an auditor to audit the transactions within the Knowle Green Estates Ltd financial statements, to gain assurance over the Authority's group accounts, we tested transactions related to the Authority's subsidiaries:

— Knowle Green Estates Ltd, turnover £0.28m;

A recommendation has been raised relating to this process. There were no issues to note in relation to the consolidation process.

Narrative report of the Authority

We have not yet reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Queries from local electors

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

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as we have not yet completed the work on the value for money conclusion.

Whole of Government Accounts (WGA)

The Authority is required to confirm with HM Treasury whether a WGA return is required to be submitted

Other grants and claims work

We do not undertake other grants and claims work for the Authority that does not fall under the PSAA arrangements.

Audit fees

Our planned fee for the audit was £48,128 excluding VAT (£48,128 excluding VAT in 2016/17). As a result of the complexity of our VFM work relating to the purchase of investment properties subsequent to the BP purchase, we have incurred significant overruns on our audit costs. We will agree an additional fee with the Authority and the PSAA in due course.

Our work on the certification of Housing Benefits (BEN01) is complete. The scale fee for this work was £7,102 excluding VAT (£7,568 excluding VAT in 2016/17).

We have not completed any additional non-audit work at the Authority in the 2017/18 year.

Recommendations raised and followed up

DRAFT

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

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

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	❶	**Bank reconciliation** Bank reconciliations were not completed on a consistent basis throughout 2017/18. There is no system in place for the preparation of the bank reconciliation on a periodic basis - the year end bank reconciliation had a number of adjustments which could have been avoided if reconciliations were prepared on a monthly basis throughout the year. In addition the bank reconciliation is not completed on an individual bank account basis – the bank reconciliation at year end was completed for all four bank accounts in aggregate, resulting in differences arsing on each bank account which could not be fully reconciled (with an unexplained difference of £12,653). Given the bank reconciliation is a core control, we recommend that a formal process is put in place for the completion of the bank reconciliation on a monthly basis. This should include back up procedures for when key members of staff are out of the office, for example, on annual leave or sick leave. We also recommend that the reconciliation is reviewed by the Chief Accountant each month, and evidence of the review retained. We recommend that bank accounts are reconciled on an individual basis, and not in aggregate.	

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Appendix one

Recommendations raised and followed up

DRAFT

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
2	❶	**Audit of subsidiary** The Authority's subsidiary Knowle Green Estates Limited (KGE) has exercised the Small Company audit exemption. A Local Authority subsidiary is unable to take this exemption as it is not able to meet the Companies Act 2006 requirements. As KPMG are Group auditors and KGE is consolidated, we performed procedures to ensure that the balances relating to KGE were not materially misstated in the Council's Group accounts. As we have not been appointed the auditor of KGE we have no responsibility to the company or its directors, however, as Group Auditors we consider that there is a need to ensure the Council and its subsidiaries comply with relevant legislation. We strongly recommend that the Council appoints an auditor for KGE as a matter of priority for all periods going forward.	
3	❷	**Year-end notification of accruals** As part of our testing of post year-end expenses, we identified £221,000 of expenditure incurred in April and May 2018 which related to the 2017-18 financial year. Inquiries of management established that services were given a deadline of early April to notify amounts requiring accrual to Finance, meaning that invoices received after this deadline were omitted. With the faster closedown period now required by LG bodies, there is a risk that the volume of unaccrued expenditure may exist, so giving an inaccurate view of the Council's general fund balance. We recommend that the Council makes greater use of Purchase Order data to identify amounts that may require accruing, and to consider - where possible - giving services additional time to notify accruals to Finance. This could involve, for instance, a second submission at the end of April.	

Recommendations raised and followed up

DRAFT

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
4	2	**Valuation of assets** SBC only revalues 20% of PPE each year as per the policy of revaluing assets every five years. As a result of this, there are the total PPE with book values of £44 million which were not revalued this year. This is inconsistent with the accounting standard. We noted that majority of the assets that were not revalued were community assets resulting in possible misstatement of only £433k by non-revaluation. However, it is best practice to revalue all the assets every year or to apply an indexation uplift to the assets not formally valued	
5	2	**Payroll reconciliations** Payroll reconciliations have not been prepared and reviewed on a timely basis throughout the year. This increases the risk of reconciling items not been identified and appropriately followed up. Although we understand that there were no material differences on the year-end payroll reconciliation this risk increases if reconciliations are not prepared and reviewed in a timely manner. We recommend that a formal process is put in place for the completion of the payroll reconciliation on a monthly basis. This should include back up procedures for when key members of staff are out of the office, for example, on annual leave or sick leave. We also recommend that the reconciliation is reviewed by the Chief Accountant each month, and evidence of the review retained.	
6	3	**Categorisation of grants** During our audit, we noted that there is no proper control in place to identify the correct classification of grants between ringfenced and non-ringfenced grants. One grant was misclassified because it had been notified to the Council late by the grant paying body, and there was insufficient time to review the grant and account for it correctly. We recommend that the Council implements procedures to monitor and properly account for grants. This may include a grants register which details current and anticipated grants for categorisation purposes.	

Materiality and reporting of audit differences

DRAFT

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

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

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in March 2018.

Materiality for the Authority's accounts was set at £1 million which equates to around 1.45% of gross expenditure in 2016/17.

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

Reporting to Audit Committee

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

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £50k for the Authority.

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

Audit differences

DRAFT

Unadjusted audit differences – Authority

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £50K are shown.

Authority unadjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Dr Cost of Services (Expenditure) £221k	Dr MIRS – General Fund £221k		Cr Short Term Payables £221k	Cr General Fund £221k	During the testing of payments made after 31 March 2018, we identified payments relating to the 2017/18 financial year but recorded in the 2018/19 financial year. We were informed that these transactions relate to expenses that were incurred after the cut-off date for accruals to be notified by services to Finance. The decision on whether this is to be adjusted is still under discussion with management.
Total	**Dr £221k**	**Dr £221k**		**Cr £221k**	**Cr £221k**	**Total impact of uncorrected audit differences**

Unadjusted audit differences – Group

There are no unadjusted audit differences relating to the group accounts not already captured above.

Audit differences

DRAFT

Adjusted audit differences – Authority

To assist the Audit Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences identified during the course of our audit. The adjustments below have been included in the financial statements.

We have not reported adjustments to opening balances identified as a result of the 2016-17 audit, which due to timing result in adjustments to the opening balances and some “change/movement in” lines (for instance in the Collection Fund) in the 2017-18 accounts. For further details refer to our report to the Audit Committee dated February 2019.

Authority adjusted audit differences (£’000)

#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Cr Surplus/Deficit on the revaluation of PPE £732k	Dr Movement in Reserves – Revaluation Reserve £732k	Dr PPE – Land and Buildings £732k		Cr Revaluation Reserve £732k	A portion of the revaluation gain was mixed with an opening balance adjustment for Property, Plant and Equipment (PPE). This adjustment was made through the 2016/17 unaudited accounts.
2			Dr Cash £500k Cr Short Term Investments £500k			The Authority (correctly) reclassified its Short Term Investments as a cash equivalent however in applying the reclassification £500,000 of investments were erroneously not recoded.
3			Cr Short Term Receivables £1,503k	Dr Short Term Payables £1,503k		In applying agency accounting rules to the collection fund balances, some balances with precepting bodies were shown as gross rather than net. This resulted in the Council showing both a debtor and a creditor with itself for its own contribution to the Collection Fund deficit, and other precepting bodies being incorrectly shown gross of provisions and allowances for appeals and bad debts.

Audit differences

DRAFT

Authority adjusted audit differences (£'000)						
#	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Comments**
4	Cr Cost of Services (Income) £325k Dr Taxation and Non-Specific Grant Income £325k					A Government grant relating to homelessness was erroneously categorised as a non-ringfenced grant when it is instead reserved only for use of the housing department. We were informed this misstatement arose because of the late notification of the grant to Finance.
5		Dr Movement in Reserves – Capital Adjustment Account (Revaluation) £70k Cr Movement in Reserves – Capital Adjustment Account (Disposals) £70k			Dr Capital Adjustment Account (Revaluation) £70k Cr Capital Adjustment Account (Disposals) £70k	The portion of the revaluation movement in the Capital Adjustment Account and Adjustments between Accounting and Funding Basis notes included a portion relating to the disposal of an asset. These amounts should be entered as two separate rows in each note, leading to no overall impact to either the Movement in Reserves statement or the Capital Adjustment Account.
6	Dr Financing and Investment I&E £8,723k	Cr Movement in Reserves – Earmarked Reserves £8,723k		Cr Short Term Payables £8,723k	Dr Earmarked Reserves £8,723k	The tenants of the Hammersmith Grove building purchased by the Authority have a rent free period which was topped up by the vendor. The correct in-year element of the top up was recognized as income in the year, however the future year element was erroneously credited to revenue rather than receipts in advance when preparing the manual adjustments table.
Total	**Dr £7,991k**	**Cr £7,991k**	**Cr £771k**	**Cr £7,220k**	**Dr £7,991k**	**Total impact of corrected audit differences**

Audit differences

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Adjusted audit differences – Group

To assist the Audit Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences identified during the course of our audit. The adjustments below have been included in the Group MIRS, Balance Sheet and CIES of the financial statements. These adjustments are in addition to those relating to the Authority only.

Note that the first draft of the accounts did not include the Group Accounts but instead a simplified consolidation note. Below we set out the adjustments compared to the first version of the group accounts we received.

Group adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Cr Cost of Services £171k Dr Taxation and Non-Specific Grant Income £21k Dr Surplus/Deficit on revaluation of PPE £1,168k	Cr Movement in Reserves – Income and Expenditure relating to KGE £1,168k Dr Movement in Reserves – Adjustments between KGE and SBC £30k	Cr Property, Plant and Equipment £848k Dr Short Term Receivables £12k	Cr Short Term Payables £50k	Cr Usable Reserves £269k Dr Unusable Reserves £1,154k	A number of differences were identified between the Council's work papers for the consolidation and the published, unaudited accounts for Knowle Green Estates Ltd (KGE). We have raised a recommendation separately relating to the audit of KGE. The most significant movement related to a fair value adjustment of KGE's building. The Council obtained a valuation from its valuer however had not applied this upon consolidation. The majority of the impacts shown to the left reflect the revaluation of the asset and the corresponding impact to unusable reserves.
Total	**Dr £1,018k**	**Cr £1,018k**	**Cr £836k**	**Cr £50k**	**Dr £885k**	**Total impact of corrected audit differences**

Audit differences

DRAFT

Presentational adjustments

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant (i.e. material) nature and details of these are provided in the following table. All the below matters have been corrected.

Presentational adjustments	
#	**Basis of audit difference**
1	**Group Accounts (Knowle Green Estates Ltd.):** Disclosures related to the subsidiary company were not in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This included the provision of more detailed balances related to the subsidiary. The misstatement noted above is in comparison to the first version of the more detailed balances presented to us.
2	**Operating Leases (Council as Lessor):** Due to a formula error, the 2-5 year band was overstated by £31,478k and the 5+ year band was understated by a corresponding amount.
3	**Expenditure and Funding Analysis:** The Council has chosen to re-present the EFA showing the General Fund balance excluding Earmarked Reserves. The 2016-17 comparatives were not restated to make the note consistent. The value of Earmarked Reserves in 2016-17 post-audit were £10,102k.
4	**Financial Instruments:** Due to a combination of the above misstatements and other errors, numerous errors were identified in the Financial Instruments note. The most significant movements were a £3.1m increase in the carrying value of trade receivables, a £2.8m decrease in the carrying value of trade payables, a £1.9m decrease in the fair value of trade receivables, a £42.4m decrease in the fair value of trade payables, and a £2.7m increase in the fair value of long term borrowings
5	**Trade Payables:** Analysis of a specific creditor marked as "Other Entities and Individuals" established that a portion was misclassified. £35k was reclassified from "Other Entities and Individuals" to "Central Government Bodies" and £2,646k was reclassified from "Other Entities and Individuals" to "Other local authorities".
6	**Trade Receivables:** Analysis of a specific debtor **partially** marked as "Other Entities and Individuals" established that a portion was misclassified. The Authority had, unlike with #5 above, did partially classify the debtor correctly. "Central Government bodies" increased by £2,022k. "Other local authorities" fell by £307k. "Other entities and individuals" fell by £1,715k. There was no change to the provision for doubtful debts.

We did not identify any presentational matters which only affected the Group Accounts.

Audit independence

DRAFT

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ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF SPELTHORNE BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Audit independence

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Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period overleaf, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £
Audit of the Authority (scale fee)	48,102*
Total audit services	**48,102**
Allowable non-audit services	-
Audit related assurance services	-
Mandatory assurance services (housing benefit claim)	7,102
Total Non Audit Services	**55,204**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. There were no non-audit services carried out in year.

* Please note, as a result of the work required to support our VFM conclusion, significant overruns are being incurred. We will discuss the final fee level with management once we have concluded our work.

Audit independence

DRAFT

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
None			0	0
Audit-related assurance services				
None			0	0
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	7,102	7.568
Certification of the housing benefit subsidy return	Required by PSAA so no independence threats identified.			

Appendix three

Audit independence

DRAFT

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix four

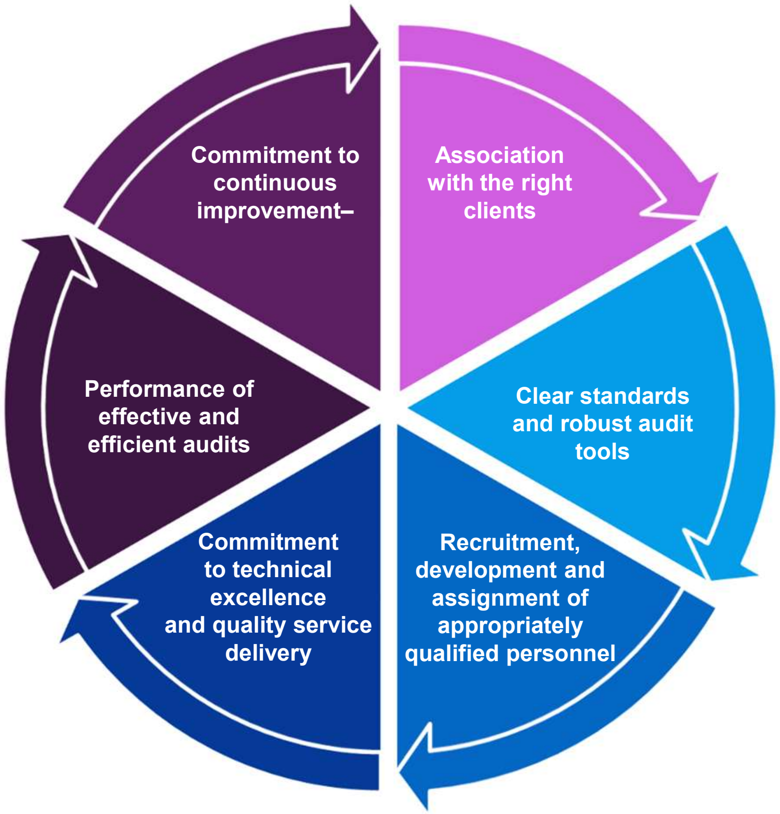
Audit quality framework

DRAFT

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

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

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



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

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

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

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

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SPELTHORNE
MEANS BUSINESS

Spelthorne Borough Council

Final draft
Statement of Accounts
2017/18

T Collier
Chief Finance Officer

Financial Statements and Annual Report

Contents

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No.

Narrative Statement

By the Chief Finance Officer

Spelthorne Borough Council is a borough council located in the north west corner of the administrative county of Surrey and it is the only Surrey borough council located north of the River Thames which runs along its boundary. The Borough covers 19.75 square miles and is a mix of urban and non-urban environments with 17% of the Borough made up of water and 12 miles of River Thames frontage. It combines a vibrant economy with an attractive environment. In recent years there has been a high level of small business start up activity in the Borough.

The total population of Spelthorne according to the 2017 mid year estimate is 99,120, which is a 3.7% increase since the last Census in 2011. There are 39,512 households with the average household size being 2.4 people.
Our population continues to age with 17.4% of residents being over 65 years of age, and with that proportion expected to increase in the coming years.

The urban part of the Borough comprises the towns of Ashford, Laleham, Shepperton, Staines upon Thames, Stanwell and Sunbury on Thames.

65% of Spelthorne is within the Green Belt and includes 18 Parks, embanked water retaining reservoirs, narrow buffering land being arable farming and horse grazing meadows with sheep grazing on the reservoir embankments.

The local economy comprises over 4,500 business including large employers like BP, Wood Group Kenny and Shepperton Studios. A major economic influence on the Borough is Heathrow with the airport directly and indirectly being the largest source of employment within the Borough. The Borough will be significantly impacted if Heathrow expands with a third runway and the Council is actively engaging with the airport expansion consultation process.

The Borough is twinned with the French town of Melun and Grand Port Mauritius.

Spelthorne Borough Council is a multifunctional and complex organisation. Its policies are directed by the political administration and implemented by the Corporate Management Team.

Political Structure in the 2017/18 Municipal Year

Spelthorne has 13 wards represented by 39 Councillors. The Council last held all out borough elections on the 7 May 2015 and the current political make-up of the council is:

Conservative Party 31
Ashford & Staines Residents Group (ASRG) 3
Liberal Democrat Party 3
Labour Party 1
Independents 1

The Council has adopted the Leader and Cabinet model as its political management structure arising from the Local Government and Public Involvement in Health Act 2007. The Leader of the Council has responsibility for the appointment of Members of the Cabinet, the allocation of Portfolios and the delegation of Cabinet Functions. Cabinet Members are held to account by a system of scrutiny which is also set out in the Constitution. Scrutiny of Cabinet decisions for 2017/18 has been undertaken by either:

• the Overview and Scrutiny Committee; or
• the Audit Committee.

The current Leader, Cllr Ian Harvey, has been leader for the past two years with the Deputy Leader, Cllr Tony Harman.

Management Structure

Supporting the work of councillors is the organisational structure of the Council headed by the Corporate Management Team, led by the Chief Executive Mr Daniel Mouawad.

The Corporate Management team consists of:
- Chief Executive
- Deputy Chief Executive / Chief Finance Officer
- Deputy Chief Executive

The Corporate Management Team is responsible for the delivery of Council services, directing improvements and future plans for Spelthorne. It provides managerial leadership and supports Councillors in:
- developing strategies;
- identifying and planning resources;
- delivering plans; and
- reviewing the Council's effectiveness with the overall objective of providing excellent services to the public.

The Corporate Management Team are supported by the following Group Heads and senior managers
- Group Head of Regeneration and Growth
- Group Head of Community and Wellbeing
- Group Head of Commissioning and Transformation
- Group Head of Neighbourhood Services
- Head of Corporate Governance (Monitoring Officer)
- Deputy Group Head Customer Relations

The financial year 2017-18 was another challenging financial year for local government with further reductions in government funding. For the second year running the Council received no Revenue Support Grant (RSG). The Council broadly maintained collection rates at the same level as for the previous year achieving 98.5% for Council Tax and 98.7% for Business Rates. In these circumstances the Council did well to deliver a net underspend against budget as summarised in page 9 of this narrative statement and to strengthen the balance sheet by adding to reserves.

Acquisitions strategy

During 2017-18 the Council continued its drive to generate alternative long term sustainable income streams to offset the impact of disappearing central government grant support, in order to ensure that it can continue to provide services to its residents at the levels they deserve. As part of this approach the Council has, following on from the acquisition within the Borough of the BP Campus at Sunbury in 2016-17, acquired more investment assets in 2017-18, these include the World Business Centre 4 office building at Heathrow and Hammersmith Grove 12 offices in Hammersmith. As a result of these acquisitions the Council is now receiving a rental income stream as set out in the table overleaf, which after debt financing and setting aside prudent provisions for future refurbishment of the assets, provides additional funding to support the provision of services to residents.

Note 13 sets out the disclosure requirement for Investment Properties. As this does not include items relating to debt management and associated contributions to reserves, the following table provides that analysis.

2017/18 Actual £'000		2018/19 Forecast £'000
(21,415)	Rental income from properties	(39,402)
56	Operating expenses	1,787
4,517	Minimum revenue provision (MRP)	7,299
10,089	Interest on borrowing	18,824
2,700	Set-aside & sinking fund contributions	4,696
(4,053)	Net income	(6,796)

Given that the Council now has a substantial commercial property portfolio on its balance sheet, the Council has invested in ensuring it has the right resources and expertise to manage effectively its portfolio. The Council has also reviewed and updated its decision making and governance arrangements for evaluating opportunities. For all acquisitions very extensive due diligence is undertaken, for example to evaluate the financial health of potential tenants. This is referred to in the Annual Governance Statement (page 70).

During 2017-18 the Council faced a number of additional statutory pressures for example implementing the Homelessness Reduction Act which took effect in April 2018 and ensuring it meets the requirements of the General Data Protection Regulations which took effect on 25 May 2018.

The Council's diversified treasury management portfolio continued to produce good resulting in £18.952m of pooled funds (backed by equities, assets or corporate bonds) returning on average just over 4.97% and making approximately £1.4m capital appreciation since inception.

The Statement of Accounts is presented in accordance with the Code of Accounting Practice on Local Council Accounting in the United Kingdom 2017-18 as required by the Accounts and Audit Regulations 2015.

The purpose of the Statement of Accounts is to give electors, other local taxpayers, councillors, employees and other interested parties, clear information about the Council'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 objective is to give a 'true and fair' view of the financial position and transactions of the Council.

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

The Statement of Accounts' core statements consist of the following:

- Movement in Reserves Statement (page 13)
- Comprehensive Income and Expenditure Statement (page 14)
- Balance Sheet (page 15)
- Statement of Cash Flows (page 16)
- Expenditure Funding Analysis (page 30)

The **Movement in Reserves Statement** (page 13) shows the movement in the year on the different reserves held by the Council analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The increase for 2017-18 shown on the movement in year on Total Comprehensive Income and Expenditure of £12.908m (Prior Year (PY) deficit of £27.347m) shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. The surplus/deficit figures are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes.

The net transfer to cash backed usable reserves is £7.749m (PY a transfer of usable reserves of £3.383m).

The **Comprehensive Income and Expenditure Statement** (page 14) shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations. The segmental reporting note to the Statement enables a comparison of the outturn figures to the format in which budget monitoring figures have been reported to Councillors throughout the year. The total net surplus on the Total Other Comprehensive Income and Expenditure Statement of £6.056m reflects a deficit on the provision of services of £12.908m and a £6.852m surplus on other items which is brought about by the re-measurement of the net defined pension benefit and revaluations of land and buildings. Full details are shown on the Comprehensive Income and Expenditure Statement.

The **Balance Sheet** (page 15) shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets £0.452m (PY £6.508m) of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable (i.e. cash backed) reserves (as at 31 March 2018 totalling £19.018m), i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those the Council is not able to use to provide services, known as non-usable reserves (as at 31 March 2018 totalling £18.566m) - note these are non cash accounting reserves and have a negative value (PY £4.661m). This category includes reserves that hold unrealised gains and losses (for example the revaluation reserves) where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The **Statement of Cash Flows** (page 16) shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash inflows arising from operating activities £23.528m (£20.534m in 2016-17) is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. The investing activities represent the extent to which cash outflows have been made for resources intended to contribute to the Council's future service delivery.

Local Councils have been required to produce their statements of accounts in accordance with International Financial Reporting Standards (IFRS). Whilst not a core statement within the Statement of Accounts as a local Council with responsibility for collecting council tax and business rates we are required to prepare an annual **Collection Fund Statement** (pages 68-69). The Local Government Finance Act 1988 requires each charging council to operate a Collection Fund to account for the Council Tax and Business Rate Income and its distribution to

Precepting Councils (Surrey County Council and Surrey Police and Crime Commissioner) and Central Government.

This Council's levy on the Collection Fund for 2017-18 was set at £192.44 per Band D property (a 2.6% increase on the previous year) and a transfer of £0.167m, out of the Collection Fund following higher than expected collection rates for Council Tax during the previous year. 2017-18 saw the continued development of the localised retention of business rates scheme introduced in 2013-14, under which part of the business rates are retained by the Council and the County Council to contribute towards their revenue budgets. The changes to the business rates appeals system resulted in continued uncertainties as to the levels of provision required to be made for potential successful appeals which would then be backdated. Spelthorne made a full provision of £5.2m for 2017/18, an increase of £1.3m from 2016/17. The largest single contribution towards this increase was to build in provision for the potential impact of an appeal by the NHS for the foundation trust hospital in the Borough to be treated as a charity and to be entitled to charitable relief. This is part of a national appeal by the NHS. The impact of this appeals provision has contributed to a business rates loss of £7.439m in 2017-18. Looking ahead in 2018-19 the Council is participating with all the districts and boroughs in Surrey along with Surrey County Council in a pilot for retaining 100% of growth in business rates income above the baseline set by Government within Surrey. The additional retained income across Surrey is estimated to potentially be £28m and this will be shared between the County Council and the districts and boroughs, with Spelthorne's share estimated to be an estimated additional £1.4m of which approximately £1m will be ring-fenced for investment in initiatives to support economic growth, an example being setting up an incubator to support the growth of small businesses in Staines-upon-Thames. The increased provision for appeals will give greater certainty for the first year of the pilot. On council tax there was a deficit of £0.894m, mainly due to adjustments to allocate surpluses accumulated in previous financial years.

In May 2016, the Council set up a 100% owned subsidiary Knowle Green Estates Ltd which will be the Council's delivery vehicle for additional housing within the Borough. The Council is looking to increase the supply of a range of housing tenures including temporary accommodation, affordable housing and private sector rental in order to ease housing pressures within the Borough and help the Borough meet its future Local Plan housing targets. In order to give readers of the Accounts an overall picture of the extended services and economic activity that is under the control of the local authority we have made a set of Group Account disclosures in the notes (pages 65-67) setting out on a Group basis the four core Statements (ie Movement in Reserves, Income and Expenditure Statement, Balance Sheet and Cashflow Statement).

Capital Expenditure

The Council's capital expenditure plans must be prudent and affordable in the longer term and the Council adheres to guidance set out in the *CIPFA Prudential Code for Capital Finance in Local Councils,* which has legislative backing. Whilst it has taken the view that it will use capital receipts to fund its capital programme, it may consider using borrowing in the future for specific capital projects.

The Capital Programme is prepared on a 4 year rolling basis and is reviewed every year. The Capital Programme consists of housing investment, including projects to increase housing supply within the borough and renovation and renewal grants made to individuals and tenants of housing associations, and non-housing activities including information technology, vehicle replacement and improvements of major assets and acquisition of assets.

Total gross capital expenditure in 2017-18 was £273.36m and a breakdown of the schemes making up this spend can be found in note 30 (page 57). The majority of this related to further property acquisitions within the Borough and in close proximity to the Borough both as commercial investments (£258m) designed to generate long term sustainable income streams and sites (£11.6m) to enable the Council to commence undertaking housing development to start delivering a mix of housing tenures to meet the housing needs of the Borough and assist the Council in meeting its Local Plan housing numbers. The acquisitions were financed by borrowing from the Government's Public Works Loan Board (PWLB) at fixed low rates of interest. The housing developments will be transferred to the Council's 100% owned Housing Delivery company Knowle Green Estates Ltd to manage. The following statement shows the total gross capital expenditure for the year and how it has been financed.

2016/17 £'000	Total Capital Expenditure	2017/18 £'000
422,414	Total Capital Expenditure	273,360
	Financed by:	
(2,718)	Capital Receipts	(1,250)
(624)	Grants and Contributions	(1,021)
(5,808)	Revenue Resources	(838)
(413,264)	Borrowing	(270,251)
(422,414)	Total Capital Financing	(273,360)

The Programme in the past was mainly financed from capital receipts generated from asset sales (primarily the share of Right to Buy receipts on dwellings which used to be the Council's housing before the Large Scale Voluntary Transfer in 1995), however as highlighted above the acquisition of commercial income generating assets was financed by borrowing from the Public Works Loan Board (PWLB) in the form of low fixed rate loans. In addition, grants and contributions received from other bodies including central government are used for financing specific expenditure.

Future capital expenditure and resources are as follows:

Future Capital Investment Plans and Resources	Estimate 2018/19 £'000	Estimate 2019/20 £'000	Estimate 2020/21 £'000	Estimate 2021/22 £'000
Capital Programme	409,000	78,000	52,000	39,000
Resources				
Capital Grants/Contributions & Capital Receipts	(1,000)	(1,000)	(1,000)	0
Revenue Contributions (including Reserves)	(17,000)	(11,000)	(12,000)	(10,000)
Borrowing	(391,000)	(66,000)	(39,000)	(29,000)
	(409,000)	(78,000)	(52,000)	(39,000)

Capital receipts also generate investment income but the Council is looking to hold its assets for the long term so in the near term capital spending which generates ongoing income streams will continue to be financed from borrowing on a prudential basis. In future years commencing from 2018-19 the Council will looking to make increasing contributions from revenue towards capital to assist in funding the capital programme. To strengthen these reserves potential asset sales are kept under review.

In May 2016, the Council set up a 100% owned subsidiary Knowle Green Estates Ltd which will be the Council's delivery vehicle for additional housing within the Borough. The Council is looking to increase the supply of a range of housing tenures including temporary accommodation, affordable housing and private sector rental in order to ease housing pressures within the Borough and help the Borough meet its future Local Plan housing targets.

Pensions (see notes Pages 59 to 64)

International Accounting Standard 19 'Employee Benefits' ('IAS19') requires Councils to provide clear information on the impact of the Council's obligation to fund the retirement benefits of its staff. Information has been received from the Actuary on the latest position as at March 2018, showing a deficit of £44.860m for this Council, which represents a £0.731m increase relative to 2016-17.

- The deficit has increased due to a number of factors the main one being an increase in the-present value of the defined benefit obligations by £1.340 million, which is more than the £0.609m increase in the value of the pension fund assets.

- It must be emphasised that this calculation has been made for the specific requirements of 'IAS 19' and should not be used for any other purpose. There was a separate triennial revaluation based on the pension fund as at 31 March 2016, the result of which kept employer ongoing current contributions unchanged but which resulted in past service contributions increasing in steps of £180k in each year between 2015-16 and 2017-18. The liabilities of £44.860m show the underlying commitments that the Council has in the long run to pay retirement benefits. The liability has a substantial impact reducing the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The Council's share of the deficit on the Surrey Pension Fund continued to reduce the Council's net asset position. Spelthorne's Balance Sheet shows a Pensions liability of £44.860 million). There has been minimal change in the accounting valuation of the fund compared 31 March 2017. The current actuarial valuation, based on forecast yields rather than corporate bond yields as required by the accounting standards, shows that the fund is very close to being fully funded at 31 March 2018.

The deficit on the pension scheme will be made good by contributions over the remaining working life of employees as assessed by the scheme actuary.

Finance is only required to cover discretionary benefits when the pensions are actually paid.

Borrowing

During the year the Council entered into external long term borrowing of £246.5m to finance asset purchases with a balance of long term total debt outstanding of £650.6m as at 31 March 2018 on the balance sheet. The balance is offset by the value of the assets acquired on the balance sheet. This resulted in a financing charge of interest and principal repayments of £14.6m being charged in the accounts all of which was more than covered by additional income generated by the assets acquired.

Provisions

The 50% Business Rates Retention system was introduced from 1st April 2013 under which part of the business rates collected are retained by the Council. There was an element of risk linked to the new system in respect of appeals which can be made by businesses over their rateable value. Accordingly, a provision of £4.5m was made in 2017/18 to reflect the possible impact of outstanding appeals being successful and also the potential impact of the NHS being able to claim charitable relief for Foundation hospital trusts.

Revenue Expenditure

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

Comparison of Revenue Budget to Revenue Outturn	Revenue Budget 2017/18 *£'000*	Revenue Outturn 2017/18 *£'000*	Variance Outturn to Budget *£'000*
Gross Expenditure	59,695	57,268	(2,427)
Gross Income	(59,976)	(63,086)	(3,110)
	(281)	(5,818)	(5,537)
Interest on balances	(900)	(1,027)	(127)
Transfers (from)/to Earmarked Reserves	700	7,540	6,840
Interest on repayments	8,307	10,089	1,782
Debt repayment	4,482	4,517	35
	12,308	15,301	2,993
Financed by:			
Non-ringfenced grants and contributions	(1,627)	(2,670)	(1,043)
Net receipts from Business Rates	(3,009)	(5,024)	(2,015)
Council Tax (Demand on Collection Fund & Surplus)	(7,655)	(7,656)	(1)
(Surplus)/deficit for the year	17	(49)	(66)

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

The previous analysis covers revenue expenditure and income only and is not directly comparable with the Expenditure and Funding Analysis statement on page 30 which provides a more detailed breakdown at service expenditure level, for revenue and capital.

Financial Strategy Review

The Council continuously reviews and updates its financial strategy. During 2017-18 the strategy was updated to respond to the grant cuts the Council will experience over the next few years. The Council is preparing for the prospect that potentially from 2018-19 it will not only no longer receive Revenue Support Grant funding but will have start making payments to the Government, of approximately £750,000 per annum, effectively negative grant allocations.

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

- The need to maximise savings and efficiencies. Strategies to deliver this include:
  - ➢ Sharing of services with other Councils - during 2017-18 the Council continued to share one head of service with a neighbouring borough council
  - ➢ Acquiring new revenue income generating streams
  - ➢ Maximising income from the assets the Council owns. The Council has prioritised a number of projects which over the medium term will deliver significant income
  - ➢ Continuing to diversify the Council's investment portfolio and seek to maximise investment returns whilst balancing risk

- Investing in initiatives to mitigate some of the homelessness pressures on the Council's revenue budget, including increasing supply of range of housing tenures within the Borough
- Seeking procurement savings - a new procurement officer post was filled in September 2017
- Rationalising accommodation and letting out office space. The Council is in 2018/19 reconfiguring its office accommodation to reduce the amount of space it occupies
- Tight vacancy control
- Reviewing fees and charges, balancing impact on local residents and the local economy with the need to increase income
- Smarter use of technology
- Seeking to encourage economic development within the Borough which will help stimulate business rates growth which will assist the Council's future funding.

The Council will continue to evaluate the impact of the decision in June 2016 for UK to move towards leaving the European Union on its budget strategy.

Post Balance Sheet Events

Since the Balance Sheet date of these Statement of Accounts of 31/3/18, both the external environment and the financial position of the Council has changed.

In June 2016 the outcome of the EU referendum was the decision of the UK to leave the EU. At the current date it is still unclear as to the nature of the Brexit or whether it will be delayed. The Council has been monitoring the position to evaluate potential impacts. It has added Brexit to its Corporate Risk Register, it is complying with the requirements of the EU Settlement scheme and will be drawing those arrangements to any of its employees who are EU nationals (who represent a relatively small proportion of its workforce). The Council is participating in Surrey wide business continuity preparations and its services are updating their Service Business Continuity Plans to take into account Brexit risks.

Since the balance sheet date the Council has acquired further commercial assets financed by borrowing, this is commented on in Note 37.

The Capital Strategy was approved at the February 2019 meeting of full Council.

Summary

The next few years will continue to be extremely challenging, with a post Brexit future adding to the uncertainties. The Council has been impacted by the public sector deficit reduction programme, which means levels of government grant are being cut and will continue to reduce for a number of years. There have been knock on effects from the financial pressures Surrey County Council is facing with funding reductions from Surrey County Council impacting on the Borough Council.

The additional ongoing revenue income from the enlarged commercial property portfolio enabled the Council to set a balanced budget for 2018-19.The Council has reserves but these have been used in the past to support the budget over a number of years. Significant sums are being put into earmarked reserves to ensure there are sufficient funds to manage future liabilities relating to the Council's property portfolio. The Council continues to be focused on delivering efficiencies and growing its commercial income. By pursuing these strategies we are confident that we can ensure that Spelthorne Borough Council has a sustainable financial future and will continue to be able to provide the range of services its residents deserve.

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

Following the EU referendum in June 2016 and the vote by the United Kingdom to leave the EU, the impact on the Council is uncertain at the present time, and the potential impacts for the Council are being kept under review.

Updated accounts were authorised by Mr T Collier, Chief Finance Officer on 19 March 2019 and events after the Balance Sheet date 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-upon-Thames, TW18 1XB.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council 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 Council, that officer is the Deputy Chief Executive / Chief Finance 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 Finance Officer's Responsibilities

The Deputy Chief Executive is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ('the Code').

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority "Code";
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of Spelthorne Borough Council and its Income and Expenditure for the year ended 31 March 2018.

Mr Terry Collier, CPFA, CA
Chief Finance Officer

Date: 28th March 2019

Councillor Mary Madams
Chair of Audit Committee

Date: 28th March 2019

Movement in Reserves Statement

This statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The (increase)/decrease line shows the statutory General Fund Balance movements in the year following those adjustments. The 2016/17 figures are shown for comparison.

2017/18	General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Reserves £'000
Balance brought forward 1 April	(11,053)	0	(116)	(11,169)	4,661	(6,508)
Movements in-year						
Total Comprehensive Income & Expenditure	12,908			12,908	(6,852)	6,056
Adjustments between accounting & funding basis under regulations	(20,657)	0	(100)	(20,757)	20,757	0
(Increase)/decrease in-year	(7,749)	0	(100)	(7,849)	13,905	6,056
Balance carried forward 31 March	(18,802)	0	(216)	(19,018)	18,566	(452)

2016/17	General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000	Total Reserves £'000
Balance brought forward 1 April	(12,601)	(1,448)	(503)	(14,552)	(25,184)	(39,736)
Movements in-year						
Total Comprehensive Income & Expenditure	27,347			27,347	5,881	33,228
Adjustments between accounting & funding basis under regulations	(25,799)	1,448	387	(23,964)	23,964	0
(Increase)/decrease in-year	1,548	1,448	387	3,383	29,845	33,228
Balance carried forward 31 March	(11,053)	0	(116)	(11,169)	4,661	(6,508)

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount funded from taxation. The Council raises taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis (page 30) and the Movement in Reserves Statement (page 13).

2016/17					2017/18		
Expenditure	Income	Net			Expenditure	Income	Net
£'000	*£'000*	*£'000*		*Notes*	*£'000*	*£'000*	*£'000*
859	(77)	782	Leader		1,448	(279)	1,169
675	(67)	608	Deputy Leader		786	0	786
2,138	(44)	2,094	Corporate Management		2,206	(1,124)	1,082
35,006	(33,448)	1,558	Housing		33,979	(32,685)	1,294
3,751	(503)	3,248	Finance		2,688	(15)	2,673
Amounts included in Finance Portfolio			Customer Service, Estates & Transport		3,018	(404)	2,614
11,106	(10,634)	472	Planning & Economic Development		8,052	(1,147)	6,905
10,320	(4,591)	5,729	Environment & Compliance		10,285	(4,047)	6,238
4,027	(2,645)	1,382	Community & Wellbeing		4,241	(2,297)	1,944
67,882	(52,009)	15,873	**Cost of Services**	1	66,703	(41,998)	24,705
3,460	(757)	2,703	Other Operating Expenditure		70	(1,250)	(1,180)
33,163	(9,760)	23,403	Financing & Investment Income & Expenditure	9	25,890	(22,442)	3,448
0	(14,632)	(14,632)	Taxation & Non-specific Grant Income	10	0	(14,065)	(14,065)
104,505	(77,158)	27,347	**(Surplus)/Deficit on the Provision of Services**		92,663	(79,755)	12,908
		(1,601)	(Surplus)/Deficit on the revaluation of Property, Plant & Equipment				(5,678)
		(1,071)	(Surplus)/Deficit on the revaluation of Available-for-Sale Assets				317
		8,553	Remeasurement of the Net Defined Benefit Liability				(1,491)
			Short Term Capital Grant Receipts in advance				
		5,881	**Other Comprehensive Income & Expenditure**				(6,852)
		33,228	**Total Comprehensive Income & Expenditure**				**6,056**

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve may only be used to fund capital expenditure or to repay debt.) The second category of reserves is those that the Council may not use to fund services. This category of reserves includes reserves that hold unrealised gains and losses, (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 Mar 17	Balance Sheet		31 Mar 18
£'000		*Notes*	*£'000*
45,614	Property, Plant & Equipment	11	57,827
154	Heritage Assets	12	147
392,145	Investment Properties	13	635,745
455	Intangible Assets	14	638
21,599	Long Term Investments	15	20,951
14,752	Long Term Receivables		14,700
474,719	**Long Term Assets**		730,008
0	Short Term Investments	15	0
58	Inventories		52
5,448	Short Term Receivables	16	11,644
7,545	Cash & Cash Equivalents	17	5,475
13,051	**Current Assets**		17,171
(7,752)	Short Term Borrowing	15	(13,965)
(21,585)	Short Term Payables	19	(35,063)
(1,703)	Short Term Provisions	20	(2,239)
(31,040)	**Current Liabilities**		(51,267)
(44,129)	Other Long Term Liabilities		(44,860)
(405,764)	Long Term Borrowing	15	(650,600)
(329)	Long Term Capital Grant Receipts in Advance		0
(450,222)	**Long Term Liabilities**		(695,460)
6,508	**Net Assets**		**452**
(11,169)	Usable Reserves		(19,018)
4,661	Unusable Reserves	21	18,566
(6,508)	**Total Reserves**		**(452)**

Statement of Cash Flows

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2016/17 *£'000*	Statement of Cash Flows	*Notes*	2017/18 *£'000*
27,347	Net (Surplus)/Deficit on the Provision of Services		12,908
(48,638)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements	22	(38,603)
757	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	22	2,167
(20,534)	Net cash flows from Operating Activities		(23,528)
428,832	Investing Activities	23	269,905
(409,491)	Financing Activities	24	(244,307)
(1,193)	Net increase or decrease in Cash & Cash Equivalents		2,070
6,352	Cash & Cash Equivalents at the beginning of the reporting period		7,545
1,193	Net increase or decrease in Cash & Cash Equivalents		(2,070)
7,545	Cash & Cash Equivalents at the end of the reporting period		5,475

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31st March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2017/18 (the Code), and are supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in these financial statements is principally historical cost, modified by revaluation of certain categories of non-current assets and financial instruments.

2. Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior year adjustment.

Material errors discovered in the prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

3. 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:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefit or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefit or service potential associated with the transaction will flow to the Council.
- 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 inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 revenue and expenditure has been recognised but cash has not been received or paid, a receivable or payable for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of receivables is written down and a charge made to revenue for the income that might not be collected.

4. Cash and Cash Equivalents

Cash comprises cash in hand and deposits with financial institutions repayable without penalty on notice of more than 24 hours. Cash equivalents are short term, highly liquid investments that mature in 7 days or less from the date of acquisition or are repayable without penalty on notice of no more than 7 days. They are readily convertible to known amounts of cash with insignificant risk of change in value. All funds held in money market funds that are repayable on notice, and bank deposits held are accounted for as cash equivalents. Term deposits that mature in more than 7 days from the date of acquisition are not classified as cash equivalents.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5. Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Account or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

6. Charges to Revenue for Non-current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible Non-current Assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make annual contribution from revenue towards the reduction in its overall borrowing requirement. Until 2015/16, the Council had no long term outstanding debt. As at the end of 2017/18, the Council has £650.6m outstanding debt. However, no minimum revenue provision is required until the first full financial year (2017/18) after the debt has been drawn in line with the Council's MRP policy. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

a) Benefits payable during employment

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render services to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b) Termination benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of termination benefits or when the council recognises the cost of restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated in accordance to the relevant accounting standard. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with the debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

c) Post-employment benefits
Employees of the Council are members of the Local Government Pension 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 Pension 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.

- The assets of the Surrey Pension Fund attributable to the Spelthorne Borough 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 the following components:
    - Service Cost comprising:
        - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
        - Past service cost – The increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
        - Net interest on the net defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit that arises from the passage of time charged to the financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit at the beginning of the period – taking into account any changes in the net defined benefit obligation during the period as a result of contribution and benefit payments.

- Re-measurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit – charged to the Pensions Reserve as other Comprehensive Income and Expenditure
  - 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

- Contributions paid to the Surrey Pension Fund - cash paid as employer's contributions to the Pension Fund in settlement of liabilities; not accounted for as an expense.

In relation to post-employment 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 Movement in Reserves Statement 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 negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

d) Discretionary benefits
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 and accounted for using the same policies as applied to the Local Government Pension Scheme.

8. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts may be adjusted to reflect such events.
- Those that are indicative of conditions that arose after the end of the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the authorisation for issue are not reflected in the Statement of Accounts.

9. Financial Instruments

Financial Liabilities
Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate of interest is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For all borrowings the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest; and the interest charged to the Comprehensive Income and Expenditure Statement is the amount due for the year according to the loan agreement.

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 and determinable payments.

Loans and Receivables
Loans and receivables are recognised in the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the assets multiplied by the effective rate of interest for the instrument. For most of the loans the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus accrued interest and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of the 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 Comprehensive Income and Expenditure Statement. Trade receivables are recorded at their nominal amount less an allowance for doubtful debts. The Balance Sheet and the notes to the accounts disclose the amount accordingly.

Available-for-sale Assets
Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. All the Available-for-sale assets held by the Council have fixed and determinable payments and annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Assets are maintained in the Balance Sheet at fair value, including equity shares where applicable, and values are based on the following principles:
- Instruments with quoted prices – the market price.
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:
- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly
- Level 3 inputs – unobservable inputs for the asset

Changes in the fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Surplus or Deficit on the Revaluation of Available-for-sale Financial Assets. The exception is where impairment losses have been incurred. These are debited to the Financing and Investment Income and Expenditure line in the Comprehensive

Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-sale 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 values fall below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective rate of interest. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayments and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-sale Reserve.

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

10. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Payable. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants and contributions) or Taxation and Non-Specific Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

11. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that the future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to the active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Account. The useful life is deemed to be five years and any gain or loss arising on disposal or abandonment of an intangible asset is posted to the Other Operating expenditure line in the Comprehensive Income and Expenditure Account.

When expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

12. Investment Property

Investment properties are those that are solely used to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm’s length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income and Expenditure line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any proceeds greater than £10,000) the Capital Receipts Reserve.

13. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

<u>The Council as Lessee</u>

<u>Finance Leases</u>

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease’s inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service benefiting from use of the leased property, plant or equipment. Changes are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent free period at the commencement of the lease)

The Council as Lessor

Finance Leases

Where the council grants a finance lease over a property or an item of plant and equipment, the relevant asset is written out of the balance sheet as a disposal and also written off to the Comprehensive Income and Expenditure Statement as part of the gain/loss on disposal.
A gain representing the Council's net investment in the lease is also credited in the Comprehensive Income and Expenditure Statement also as part of the gain/loss on disposal (ie netted off against the carrying value of the asset at the time of disposal) matched by a lease (long term debtor) asset in the Balance Sheet.
Lease rentals receivable are apportioned between a charge for the acquisition of the interest in the property and finance income. When future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor.

Operating Leases

Where the Council grants an operating lease over a property the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure in the Comprehensive Income and Expenditure Statement for non-investment property assets and to the Financing and Investment Income and Expenditure line for the income from leases of investment property.

14. Property, Plant and Equipment
Assets that have physical substance and are held for use in the provision of services, for rental to others or for administration purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition
Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential with the item will flow to the Council and the cost of the item can be reliably

measured. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The cost of assets other than by purchase is deemed to be its fair value.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure and community assets - depreciated historical cost.
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate for fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

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

Assets are assessed at the year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service lines in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service lines in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use.

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant and equipment - vehicles and plant and IT equipment 20% per annum on the reducing balance and other equipment, straight-line allocation over the estimated useful life of the asset, deemed to be 5 years.

Where an item of property has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In this context, significance arises when the carrying value of an individual asset is more than 10% of all assets and an individual component of that asset is greater than 25% of the asset.

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.

Disposals and Non- current assets held for sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset held for Sale. These assets are available for immediate sale in their present condition and where the sale is highly probable. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that the Council may sell at some point but which do not meet the criteria as set out in this policy, are classified as Surplus Assets held for Disposal. Assets that are abandoned or scrapped are not reclassified as Assets held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for disposals in excess of £10,000 are categorised as capital receipts which are credited to the Capital Receipts Reserve and can only be used for new capital investment. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

15. Heritage Assets
A heritage asset is an asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets can be either tangible assets or intangible assets.

Heritage assets are those assets that are intended to be preserved on trust for future generations because of their cultural, environmental or historical associations. They are held by the Council in pursuit of its overall objectives in relation to the maintenance of heritage. This class of asset includes historic buildings, archaeological sites, civic regalia, museum and gallery collections, works of art etc. The Council has very few material heritage assets, mainly war memorials and these are carried at valuation.

The carrying amounts of heritage assets are reviewed every year together with the annual impairment review which is carried out by the Head of Property and Development Unit in consultation with the Council's selected valuer. These assets are re-valued as part of the Council's 5 year rolling valuation programme and any impairment is recognised and measured in line with the Council's general polices on impairment.

16. Provisions, Contingent Liabilities and Contingent Assets

Provisions
Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. 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 as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.
When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made); the provision is reversed and credited back to the relevant service.

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 if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent liabilities also arise in circumstance where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot reasonably be measured.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets
A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

17. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. When subsequent expenditure is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Statement.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employment benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant policies.

18. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts so that there is no impact on the level of council tax.

19. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HM Revenue and Customs. VAT receivable is excluded from income. The net amount due to or from HM Revenues and Customs is included in Payable or Receivables in the Balance Sheet.

20. Fair Value Measurement

The Council measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

21. Council Tax and Non-Domestic Rates

The council acts as agent for the collection of Council Tax and Business Rates (NDR) on behalf of the major preceptors, including central government. The council is required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under these legislative arrangements, the council, major preceptors and central government share proportionately the risks and rewards of the sharing arrangements.
The council tax and NDR income included in the CI&ES represents the council's share of accrued income for the year. Regulations determine the amount of council tax and NDR that must be included in the council's General Fund. The difference between the accrued income and the regulatory amount is included in the Collection Fund Adjustment Account; a reconciling item being included in the Movement in Reserves Statement.
The council's balance sheet includes the council's share of the end of year balances for council tax and NDR relating to arrears, impairment allowances for doubtful debts, NDR appeals and overpayments and prepayments.

22. Interests in Companies and Other Entities
The Council has a material interest in the wholly-owned company Knowle Green Estates Limited. For 2017/18, the activities of this company are not significant and, therefore, no group accounts are required. The Council's accounts record transactions at cost.

23. Overheads
The costs of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

Notes to the Core Financial Statements

1. Statement of Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax (andrent) payers how the funding available to the Council (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by Councils in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposed between the Council's directorates (services or departments). Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17				2017/18		
Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Analysis Basis	Net Expenditure in the Compre-hensive Income and Expenditure Statement		Net Expenditure chargeable to the General Fund	Adjustments between the Funding and Analysis Basis	Net Expenditure in the Compre-hensive Income and Expenditure Statement
£'000	*£'000*	*£'000*		*£'000*	*£'000*	*£'000*
782	0	782	Leader	1,105	64	1,169
607	1	608	Deputy Leader	563	223	786
1,863	231	2,094	Corporate Management	745	337	1,082
1,601	(43)	1,558	Housing	1,498	(204)	1,294
3,342	(94)	3,248	Finance	2,576	97	2,673
Amounts included in Finance Portfolio			Customer Service, Estates & Transport	1,745	869	2,614
(7,248)	7,720	472	Planning and Economic Development	(19,103)	26,008	6,905
4,757	972	5,729	Environment and Compliance	4,981	1,257	6,238
153	1,229	1,382	Community and Wellbeing	72	1,872	1,944
5,857	10,016	15,873	**Cost of Services**	(5,818)	30,523	24,705
(4,912)	16,386	11,474	Other compatible income/expenditure	(6,288)	(5,509)	(11,797)
945	26,402	27,347	**Net position**	(12,106)	25,014	12,908
(1,896)			Opening balance for General Fund	(951)		
945			Net position above	(12,106)		
0			Minimum Revenue Provision	4,517		
0			Transfer to Reserves	7,540		
(951)			Closing balance for General Fund	**(1,000)**		

Adjustments between Funding and Accounting Basis 2017/18:

	2017/18			
Adjustments from General Reserves to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note i)	Net change for Pensions Adjustments (Note ii)	Other differences (Note iii)	Total
	£'000	*£'000*	*£'000*	*£'000*
Leader	0	63	1	64
Deputy Leader	209	13	1	223
Corporate Management	234	99	4	337
Housing	0	119	(323)	(204)
Finance	0	94	3	97
Customer Service, Estates & Transport	809	59	2	869
Planning and Economic Development	4,501	144	21,363	26,008
Environment and Compliance	874	371	12	1,257
Community and Wellbeing	1,724	143	4	1,872
Cost of Services	8,350	1,106	21,067	30,523
Other income and expenditure	11,332	1,116	(17,957)	(5,509)
	19,682	2,222	3,110	25,014

Note i: Adjustments relating to capital include depreciation, amortisation of intangible assets, impairment, revenue funded under statute, movement in the value of investment properties, gains/losses on disposal of non-current assets, capital grants and contributions and revenue contributions to capital outlay.

Note ii: Adjustments relating to pensions are the removal of employee pension costs for the Local Government Pension Scheme and their replacement with current service costs and past service costs plus net interest on the defined benefit pension liability.

Note iii: Other adjustments include the difference between what is chargeable under statutory regulations for council tax and NDR, employee benefits and investment property income.

Adjustments between Funding and Accounting Basis 2016/17:

Adjustments from General Reserves to arrive at the Comprehensive Income and Expenditure Statement amounts	2016/17 Adjustments for Capital Purposes (Note i)	Net change for Pensions Adjustments (Note ii)	Other differences (Note iii)	Total
	£'000	£'000	£'000	£'000
Leader	0	0	0	0
Deputy Leader	0	0	1	1
Corporate Management	288	0	(57)	231
Housing	0	0	(43)	(43)
Finance and Customer Service	1	0	(95)	(94)
Planning and Economic Development	1,122	0	6,598	7,720
Environment and Compliance	972	0	0	972
Community and Wellbeing	1,164	0	65	1,229
Cost of Services	3,547	0	6,469	10,016
Other income and expenditure	29,031	808	(13,453)	16,386
	32,578	808	(6,984)	26,402

Expenditure and income Analysed by nature - The Council's expenditure and income is analysed as follows:

	2016/17	2017/18
	£'000	£'000
Expenditure		
Employees benefits expenses	12,312	15,271
Other services expenses	41,282	43,113
Support service recharges	(57)	2,381
Depreciation, amortisation and impairment	38,353	21,808
Interest payments	4,135	10,089
Total Expenditure	96,025	92,662
Income		
Fees, charges and other service income	(56,183)	(34,199)
Interest and investment income	(1,332)	(31,165)
Income from Council Tax and Business Rates	(7,804)	(9,601)
Government grants and contributions	(3,359)	(4,789)
Total Income	(68,678)	(79,754)
(Surplus) or Deficit on the Provision of Services	27,347	12,908

2. Accounting Standards Issued but not yet adopted

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. In doing so, the Council is required to provide known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the Council's financial statements. This requirement applies to accounting standards that come into effect for the financial year commencing on or before 1 January 2018 for 2018/19,
For this disclosure, the standards introduced by the 2018/19 Code include:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- Amendments to IAS12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to IAS 7 *Statement of Cash Flows*

These will incorporated into the Statement of Accounts for 2018/19. At this stage, it is not anticipated that there will be any material effect on the Council's finances.

3. Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out on pages 17 to 29, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

4. Prior Period Adjustments

There were no prior period adjustments accounted for in 2017/18.

5. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustments in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Surrey Pension Fund have engaged a firm of consulting actuaries who provide the Council with expert advice.	The effect on the net pension's liability of changes in individual assumptions can be measured. However, the assumptions interact in complex ways.
Arrears	At 31 March 2018, the Council had a balance of Short Term Receivables of £13.7m and has made a provision of £2.1m for impairment of doubtful debts.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £2.1m to be set aside as an allowance.
Business Rates Appeals	A provision of £2.089m has been included in the accounts to reflect the Council's share (40%) of the estimated impact of business rate payers successfully appealing the rateable value assigned to their properties. This is based on the number of appeals outstanding as at 31st March 2018 and the historical success rate of all appeals since 2010.	The Council will be required to reimburse all rate payers who are successful with their appeals, and this will also impact upon business rates receivable in future years.

6. Material Items of Income and Expense

The major item of expenditure included in the Comprehensive Income and Expenditure Account is Housing Benefits which was £30.2m in 2017/18 (£31.2m 2016/17). However, this expenditure is fully recovered by the receipt of subsidy from central Government, £30.2m in 2017/18 (£31.2m 2016/17), so the net cost to the Council is minimal. In addition, a net £30.138m was received in terms of investment properties (see Note 13).

7. Adjustments between Accounting Basis and Funding Basis under Regulations

Adjustments are made to the Comprehensive Income and Expenditure Statement recognised by the Council in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The adjustments are made against the following reserves:

General Fund Balance

The General Fund is a statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practices. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows resources that have to be applied for these purposes at year end.

Capital Grants Unapplied

The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which that Council has met the conditions that would otherwise require the repayment of the monies but which have yet to be applied to meet capital expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

The following tables provide an analysis of the movement in the above reserves for 2017/18 and the prior year 2016/17:

2017/18	General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation	(2,458)			(2,458)	2,458
Changes in the valuation of Property, Plant and Equipment	(4,465)			(4,465)	4,465
Movement in the fair value of Investment Properties	(14,629)			(14,629)	14,629
Amortisation of Intangible Assets	(187)			(187)	187
Capital grants and contributions applied	1,021			1,021	(1,021)
Revenue Expenditure Funded from Capital under Statute	(1,241)			(1,241)	1,241
Amounts of non-current assets written off on disposal, derecognition or sale as part of the gain/loss on the disposal to the Comprehensive Income and Expenditure Statement	(70)			(70)	70
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Statutory provision for the financing of capital investment	838			838	(838)
Capital Expenditure charged against General Reserves	4,517			4,517	(4,517)
Adjustments primarily involving the Capital Grants Unapplied Account					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	100		(100)	0	0
Adjustments primarily involving the Capital Receipts Reserve					
Transfer of Cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,250	(1,250)		0	0
Use of Capital Receipts Reserve to finance new capital expenditure		1,250		1,250	(1,250)
Adjustments primarily involving the Pension Reserve					
Reversal of items relating to Retirement Benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,016)			(5,016)	5,016
Employer's pensions contribution and direct payments to pensioners payable in the year	2,794			2,794	(2,794)
Adjustments primarily involving the Collection Fund Adjustment Account					
Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(3,078)			(3,078)	3,078
Adjustments primarily involving the Accumulated Absences Account					
Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(33)			(33)	33
Total Adjustments	(20,657)	0	(100)	(20,757)	20,757

2016/17	General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Total Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Charges for depreciation	(2,392)			(2,392)	2,392
Changes in the valuation of Property, Plant and Equipment	(432)			(432)	432
Movement in the fair value of Investment Properties	(25,570)			(25,570)	25,570
Amortisation of Intangible Assets	(192)			(192)	192
Capital grants and contributions applied	386			386	(386)
Revenue Expenditure Funded from Capital under Statute	(550)			(550)	550
Amounts of non-current assets written off on disposal, derecognition or sale as part of the gain/loss on the disposal to the Comprehensive Income and Expenditure Statement	(3,436)			(3,436)	3,436
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Capital Expenditure charged against General Reserves	2,821			2,821	(2,821)
Adjustments primarily involving the Capital Grants Unapplied Account					
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	238		(238)	0	0
Reallocated to between Reserves		(387)	387	0	0
Application of capital grants and contributions to capital financing transferred to the Capital Adjustment Account			238	238	(238)
Adjustments primarily involving the Capital Receipts Reserve					
Transfer of Cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	883	(883)		0	0
Use of Capital Receipts Reserve to finance new capital expenditure		2,718		2,718	(2,718)
Adjustments primarily involving the Pension Reserve					
Reversal of items relating to Retirement Benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,277)			(3,277)	3,277
Employer's pensions contribution and direct payments to pensioners payable in the year	2,469			2,469	(2,469)
Adjustments primarily involving the Collection Fund Adjustment Account					
Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax income calculated for the year in accordance with statutory requirements	3,258			3,258	(3,258)
Adjustments primarily involving the Accumulated Absences Account					
Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	(5)			(5)	5
Total Adjustments	(25,799)	1,448	387	(23,964)	23,964

8. Transfers to and from Reserves

This note sets out the amounts set aside from the General Fund and balances in Earmarked Reserves to provide financing for future expenditure plans and the amounts transferred from Earmarked Reserves to meet General Fund expenditure in 2017/18.

Earmarked Reserves	31 Mar 17	Transfers in	Transfers out	31 Mar 18
	£'000	£'000	£'000	£'000
Revenue Grants Unapplied	(801)	(1,193)	158	(1,836)
Capital Fund	(443)	(1,000)	0	(1,443)
Interest Equalisation	(493)	0	0	(493)
New Schemes Fund	(1,221)	0	0	(1,221)
Housing Initiatives	(2,973)	0	838	(2,135)
Building Control Reserve	0	(65)	0	(65)
Insurance	(50)	0	0	(50)
New Homes Bonus	(50)	0	0	(50)
Revenue Carry Forwards	(239)	(472)	0	(711)
Bridge Street	(69)	0	36	(33)
Bronzefield Maintenance	(273)	0	1	(272)
Youth Council	(20)	0	0	(20)
Business Rates Equalisation	(1,145)	(3,053)	0	(4,198)
BP Main Site Reserves	(1,867)	(823)	0	(2,690)
BP SWC Reserves	(340)	(165)	0	(505)
Elmbrook House Reserves	(118)	(55)	0	(173)
12 Hammersmith Grove	0	(1,307)	0	(1,307)
Stockley Park	0	(350)	0	(350)
Local Environmental Assessment Reserve	0	(250)	0	(250)
Total Earmarked Reserves	(10,102)	(8,733)	1,033	(17,802)

9. Financing and Investment Income and Expenditure

2016/17 Expenditure	2016/17 Income	2016/17 Net		Notes	2017/18 Expenditure	2017/18 Income	2017/18 Net
£'000	£'000	£'000			£'000	£'000	£'000
0	(932)	(932)	Interest receivable		0	(1,027)	(1,027)
4,089	0	4,089	Interest payable		10,089	0	10,089
1,175	0	1,175	Net interest on net defined benefit liability		1,116	0	1,116
27,899	(8,828)	19,071	Income and expenditure in relation to investment properties and changes in their fair value		14,685	(21,415)	(6,730)
33,163	(9,760)	23,403	Financing and Investment Income and Expenditure		25,890	(22,442)	3,448

10. Taxation and Non Specific Grant Income

2016/17 Income	2016/17 Net		2017/18 Income	2017/18 Net
£'000	£'000		£'000	£'000
(7,320)	(7,320)	Council Tax	(7,552)	(7,552)
(3,742)	(3,742)	Business Rates	(2,049)	(2,049)
(2,946)	(2,946)	Non-ringfenced government grants	(3,343)	(3,343)
(624)	(624)	Capital grants and contributions	(1,121)	(1,121)
(14,632)	(14,632)	Taxation and Non-Specific Grant Income	(14,065)	(14,065)

11. Property, Plant and Equipment Movement on Balances in 2017/18:

Property, Plant & Equipment	Land & Buildings	Vehicles, Plant & Equipment	Total Property, Plant & Equipment
	£'000	£'000	£'000
Cost or valuation			
At 1 April 2017	45,934	7,871	53,805
Revaluation increases/(Decreases) recognised in the Revaluation Reserve	5,220		5,220
Revaluation increases/(Decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(4,295)		(4,295)
Derecognition	(69)		(69)
Additions	12,468	1,052	13,520
Other movements in cost or valuation		(170)	(170)
At 31 March 2018	59,258	8,753	68,011
Accumulated depreciation and impairment			
At 1 April 2017	(1,937)	(6,254)	(8,191)
Depreciation charge	(2,002)	(470)	(2,472)
Depreciation written out to the Revaluation Reserve	462		462
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	17		17
At 31 March 2018	(3,460)	(6,724)	(10,184)

Net book value at 31 March 2018	55,798	2,029	57,827
Net book value at 31 March 2017	43,997	1,617	45,614

Movement on Balances in 2016/17:

Property, Plant & Equipment	Land & Buildings	Surplus Assets	Vehicles, Plant & Equipment	Total Property, Plant & Equipment
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 April 2016	44,228	750	7,261	52,239
Revaluation increases/(decreases) recognised in the Revaluation Reserve	204	0	0	204
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	(488)	0	0	(488)
Assets reclassified from 'Held for sale'	1,935	(750)	(450)	735
Written back to CI&ES		0		0
Derecognition	(25)			(25)
Additions	80	0	1,060	1,140
Other movements in cost or valuation		0	0	0
At 31 March 2017	45,934	0	7,871	53,805
Accumulated depreciation and impairment				
At 1 April 2016	(1,528)	0	(5,751)	(7,279)
Depreciation charge	(1,863)	0	(503)	(2,366)
Depreciation written out to the Revaluation Reserve	1,398	0	0	1,398
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	56	0	0	56
At 31 March 2017	(1,937)	0	(6,254)	(8,191)

Net book value at 31 March 2017	43,997	0	1,617	45,614
Net book value at 31 March 2016	42,700	750	1,510	44,960

Depreciation
The following useful lives and depreciation rates have been used in the calculation of depreciation:

Land	Freehold land is not depreciated
Buildings	Remaining useful life as estimated by qualified valuer
Vehicles and IT Equipment	20% of the carrying amount
Other Equipment	5 years

Capital Commitments
The Council had no major capital commitments at 31 March 2018.

Effect of Changes in Estimates
In 2017/18, the Council made no material changes to its accounting estimates for property, plant and equipment.

Revaluations
The Council is required to revalue its property, plant and equipment at least once every five years. A full revaluation of all land and property assets was carried out as at 1st April 2015, and a rolling valuation programme has been implemented from this date onwards with the assets being valued split equally over the five year period. The valuations are carried out by Kempton Carr in accordance with the methodologies and basis for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS).
Valuations of vehicles, plant and equipment are based on current prices where there is a second-hand market or latest prices adjusted for the condition of the asset.

12. Heritage Assets

The Council's main heritage assets are war memorials and the total book value of these is as follows:

2016/17 £'000	Heritage Assets	Notes	2017/18 £'000
156	Balance at 1st April		154
(2)	Depreciation		(3)
0	Revaluation increases/(decreases) recognised in the Revaluation Reserve		(6)
0	Depreciation written out to the Revaluation Reserve		2
154	Balance at 31st March		147

Depreciation is not required on heritage assets which have indefinite lives. However, war memorials have been valued by a qualified valuer and are deemed to have finite lives so depreciation has been charged in line with the Council's policy.

Heritage assets (where only insurance values are available) have not been reflected in the balance sheet. The statues and sculpture assets are subject to vandalism and the insurance values reflects the level of past insurance claims and the civic regalia and works of art are regarded de-minimus under the Council's asset valuation policy.

13. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in respect of investment properties:

2016/17 £'000		2017/18 £'000
(8,828)	Rental income from properties	(21,415)
3	Operating expenses	56
25,570	Changes in valuations	14,629
16,745	Balance at 31st March	(6,730)

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to receive income and the proceeds of disposal.

The following table summarises the movement in the fair value of investment properties over the year:

2016/17 £'000	Investment Properties	Notes	2017/18 £'000
215	Balance at 1st April		392,145
417,500	Additions	23	258,229
(25,570)	Change in fair value		(14,629)
392,145	Balance at 31st March		635,745

Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2018 is shown below:

(level 2) 31 Mar 17 £'000	Fair value measurement	(level 2) 31 Mar 18 £'000
192,521	Land	201,961
199,624	Buildings	433,784
392,145	Balance at 31st March	635,745

Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

Significant Observable Inputs – Level 2
The land and buildings located in the local area are measured using the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Highest and Best Use of Investment Properties
In estimating the fair value of the Council's investment properties, the highest and best use of the properties is their current use taking into account any restrictions on use or sale. Such restrictions include known planning limitations on potential change of use and known title restrictions including existing tenancies.

Valuation Techniques
There has been no change in the valuation techniques used during the year for investment properties.

Valuation process for Investment Properties
The fair value of the Council's investment property is measured annually at each reporting date. All valuations were carried out by the Council's valuer in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Deputy Chief Executive on a regular basis regarding all valuation matters.

14. Intangible Assets

Intangible assets include purchased software licenses and these are amortised on a straight line basis over a period of five years.

2016/17 £'000	Intangible Assets	Notes	2017/18 £'000
409	Balance at 1st April		455
238	New capital expenditure	23	370
(192)	Amortisation		(187)
455	Balance at 31st March		638

15. Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

31 Mar 17			31 Mar 18	
Long term	Short term	Carrying values	Long term	Short term
£'000	£'000		£'000	£'000
		Investments		
2,331	0	Loans and receivables	2,156	0
19,268	0	Available-for-sale assets	18,952	0
0	7,337	Cash and cash equivalents	0	5,475
		Receivables		
0	6,169	Financial assets carried at contract amounts	0	6,169
		Borrowing		
(405,764)	(7,525)	Financial liabilities carried at amortised cost	(650,601)	(13,965)
		Payables		
0	(1,260)	Financial liabilities carried at contract amounts	0	(1,260)

Income, Expense, Gains and Losses

2016/17	Income, expense, gains and losses	2017/18
£'000		£'000
4,091	Interest payable	10,089
(945)	Interest receivable	(1,015)

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term receivables and payables 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, using the following assumptions:

- No early repayment or impairment is recognised.
- Where an instrument will mature within the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables and payables is taken to be the invoiced or billed amount.
- The fair value of cash, overdrafts, and other cash equivalents is taken to be the carrying amounts.

The fair values calculated are as follows:

31 Mar 17			31 Mar 18	
Long term	Short term	Fair values	Long term	Short term
£'000	£'000		£'000	£'000
		Investments		
2,858	0	Loans and receivables	2,411	0
19,268	0	Available-for-sale assets	18,941	0
0	7,337	Cash and Cash Equivalents	0	5,475
		Receivables		
0	5,534	Financial assets carried at contract amounts	0	6,169
		Borrowing		
(409,077)	(7,525)	Financial liabilities carried at amortised cost	(652,454)	(13,965)
		Payables		
0	(19,728)	Financial liabilities carried at contract amounts	0	(1,260)

- Available-For-Sale assets are carried in the Balance Sheet at fair value. These fair values are based on public price quotations where there is an active market for the instrument.
- Short term receivables and payables are carried at cost as this is a fair approximation of their value.

Fair Value of Financial Assets

Some of the Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation technique used to measure them.

Recurring fair value measurements	Input level in fair value hierarchy	Valuation techniques used to measure fair value	Fair Value as at 31st March 2018 £'000
Available for sale: Pooled Investment Funds	Level 1	Unadjusted quoted prices in active markets for identical shares	£18,952

Financial Instruments – Risks

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with the Prudential Code for Capital Financing in Local Authorities (revised December 2017).

Nature and Extent of Risks Arising From Financial Instruments

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 might not have the funds available to meet its financial commitments.
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in interest rates and equity prices.

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 approved by the Council. These policies cover principles 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 financial institutions, as well as credit exposure to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. 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 held by the Council are as detailed below:

- The Council uses the creditworthiness service provided by its treasury advisors, Arlingclose, to assist its selection of suitable counter-parties. This service aims to assess the credit quality of counter-parties and investment instruments by reference to major rating agencies including Fitch, Moody's and Standard and Poor's. This information is also supplemented by credit default swaps data which provides a market indication of the perceived credit risk for individual institutions. This information may give investors advance warning of credit rating downgrades.
- All credit ratings are generally monitored monthly although the Council is alerted to changes in credit ratings by its treasury advisors, as they are released to the market. Downgraded counter-parties are immediately withdrawn from future use. Investments that no longer meet the Council's minimum criteria are reported to the Deputy Chief Executive (CFO) although where these investments are fixed term deposits, no effective action can be taken until the deposits mature.
- The Council will not solely rely on the service provided by their treasury advisors but it will also make use of other sources of generally available information when considering counter-party credit risk. These may include the use of the quality financial press, market data (including credit default swaps, share price, annual reports, statements to the market etc), information on government support for banks and the credit ratings of that government support.
- The Council will only invest in approved counterparties within the UK or approved counter-parties from countries with a minimum sovereign rating of A- from Fitch Ratings or the equivalent Moody's or Standard and Poor's rating.

The Council's maximum exposure to credit risk in relation to investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's investments and deposits, but there was no evidence as at 31 March 2018 that this was likely to happen.

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

The Council does not generally allow criteria for customers but the following table shows an analysis of balances that are due past their payment date.

2016/17 £'000	Credit for customers	2017/18 £'000
971	Less than three months	2,085
61	Three to six months	392
820	Six months to one year	141
189	More than six months	594
2,041	Total	3,212

In addition, the Council made a provision for impairment of debt of £555K for the year 2017/18 (£596K 2016/17).

Liquidity Risk

The Council has comprehensive cash flow management procedures in place to ensure that cash is available when required. If unexpected movements happen, the Council has ready access to borrowing from the money markets and there is no significant risk that it will be unable to raise finance to meet its commitments. 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 due to be paid in less than one year.

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

An external treasury advisor has been retained 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 and during the year the maturity profile of the Council's portfolio shortened considerably due to the adverse conditions in global financial markets.

The Council currently has no variable rate investments.

Price Risk
The Council's currently invests in pooled investment funds including three equity funds, two corporate bond funds and one property fund. There is an element of price risk because there is an active market for these instruments so the Council could be exposed to losses arising from movements in the share prices.

Details of the Council's investments in these funds including the purchase price and market value as at 31st March 2018, are set out below. The date of purchase is shown after the name of the fund:

Pooled Investment Fund held	Date of purchase	Purchase cost	Market value at 31 Mar 18
		£'000	*£'000*
Threadneedle Investment Services	8 Sep 16	2,000	1,964
Schroders Income Maximiser Fund	26 Aug 16	1,000	1,025
Investec Diversified Income	25 Aug 16	3,000	2,908
M&G Extra Income Fund Sterling	15 Aug 16	2,000	1,947
Schroders Income Maximiser Fund	24 Jul 15	1,000	965
M&G Optimal Income Sterling	13 Apr 15	1,691	1,761
CCLA Property Fund	30 Apr 14	1,000	1,140
CCLA Property Fund	31 Mar 13	1,500	1,996
Schroders Income Maximiser Fund	6 Jul 12	1,000	1,187
M&G Global Dividend Fund	27 Jun 12	1,000	1,574
Charteris Elite Income Fund	11 May 12	800	783
Schroders UK Corporate Bond Fund	11 May 12	1,500	1,703
		17,491	18,952

Foreign Exchange Risk
The Council has no financial assets or liabilities denominated in foreign currencies and thus have no exposure to loss arising from movements in exchange rates.

16. Receivables

2016/17 £'000	Short Term Receivables	2017/18 £'000
765	Central Government bodies	8,141
0	Other local authorities	745
6,601	Other entities and individuals	4,890
(1,918)	*less* provision for bad debts	(2,132)
5,448	Balance at 31st March	11,644

17. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up as follows:

2016/17 £'000	Cash & Cash Equivalents	*Notes*	2017/18 £'000
5	Cash held	23	5
333	Bank Current Accounts		2,770
7,207	Cash Equivalents		2,700
7,545	Balance at 31st March		5,475

18. Assets Held For Sale

There are currently no properties classified as held for sale.

19. Payables

2016/17 £'000	Short Term Payables	*Notes*	2017/18 £'000
(73)	Central Government bodies	23	(706)
(2,768)	Other local authorities		(8,021)
(18,744)	Other entities and individuals		(26,336)
(21,585)	Balance at 31st March	17	(35,063)

20. Provisions

Business Rates Appeals

Following the introduction of the Business Rates Retention system from 1st April 2013 the Council has taken on 40% of the liability relating to Business Rates Appeals. Business Rate payers have the right to appeal against the rateable value that has been assigned to their premises by the Central Government Valuation Office Agency (VOA). The VOA then assesses the case and if the appeal is reasonable reviews the rateable value. This provision allows for the Council's potential liability in relation to refunds that could be made following successful appeals. The total provision raised at 31st March 2018 is £5.178m (£3.882m 2016/17) (included in the Collection Fund) and the Council's share of this liability is £2.089m (£1.552m 2016/17) (included in the Council's Accounts). This has been calculated based on appeals outstanding at the 31st March adjusted for historical trends and success rates.

2016/17 £'000	Short Term Provisions	2017/18 £'000
(150)	Municipal Mutual Insurance	(150)
(1,552)	Business Rates Appeals	(2,089)
(1,702)	Balance at 31st March	(2,239)

The insurance provision includes amounts in relation to Municipal Mutual Insurance. In January 1994, the Council's then insurer, Municipal Mutual Insurance (MMI) made a Scheme of Arrangement with its creditors. Under this scheme, claims are initially paid out in full, but if the eventual winding up of the company results in insufficient assets to meet all liabilities, a clawback clause will be triggered, which can affect claims already paid.
The rate of Levy may be adjusted by the Scheme Administrator if, following a review of the financial position MMI, he determines that the rate requires to be increased or decreased. Any such adjustment would be applied to the carried forward gross payments at the time.

21. Unusable Reserves

31 Mar 17 £'000	Unusable Reserves	Notes	31 Mar 18 £'000
(20,666)	Revaluation Reserve		(25,054)
(1,968)	Available for Sale Reserve		(1,652)
(1,517)	Capital Adjustment Account		12,617
(14,544)	Deferred Capital Receipts Reserve		(14,544)
44,129	Pension Reserve		44,860
(963)	Collection Fund Adjustment Account		2,115
190	Accummulated Absences Account		224
4,661	Balance at 31st March		18,566

Revaluation Reserve
The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its property, plant and equipment assets. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost.
- Used in the provision of services and the gains are consumed through depreciation.
- Disposed of and the gains are realised.

The reserve contains only the revaluation gains accumulated since 1st April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2016/17 £'000	Revaluation Reserve	Notes	2017/18 £'000
(20,094)	Balance at 1st April		(20,666)
(203)	Changes in valuations	23	(5,214)
(1,398)	Depreciation written down on revaluation	23	(464)
1,029	Difference between fair value depreciation and historic cost depreciation	24	1,290
(20,666)	Balance at 31st March	17	(25,054)

Available-For-Sale Financial Instruments Reserve
The Available-For-Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted prices. The balance is reduced when investments with accumulated gains are:

- Revalued upwards/downwards or impaired and the gains are lost.
- Disposed of and the gains are realised.

2016/17 £'000	Available for Sale Financial Instruments Reserve	2017/18 £'000
(897)	Balance at 1st April	(1,968)
(1,071)	Upward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	316
(1,968)	Balance at 31st March	(1,652)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling posting from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains the accumulated gains and losses on investment properties and also contains revaluation gains accumulated on property, plant and equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 (Adjustments between Accounting Basis and Funding Basis under Regulations) provides details of the source of all transactions posted to the account, apart from those involving the Revaluation Reserve.

2016/17 *£'000*	Capital Adjustment Account		2017/18 *£'000*
(26,897)	Balance at 1st April		(1,517)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
2,392	Charges for depreciation		2,458
192	Charges for amortisation		187
432	Changes in the valuation of Property, Plant and Equipment		4,465
25,570	Changes in the valuation of Investment Properties		14,629
550	Revenue Expenditure Funded from Capital under Statute		1,241
3,436	Amounts of non-current assets written off on disposal, derecognition or sale as part of the Gain or Loss on disposal to the Comprehensive Income and Expenditure Statement		70
(1,029)	Adjusting amounts written off to the Revaluation Reserve		(1,290)
31,543	*Total amount of items reversed*		21,760
	Capital financing applied in the year		
(2,718)	Use of Capital Receipts Reserve to finance new capital expenditure		(1,250)
(624)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing		(1,021)
(2,821)	Capital expenditure charged against the General Fund Balance		(838)
0	Minimum revenue provision		(4,517)
(6,163)	*Total amount of capital financing*		(7,626)
(1,517)	Balance at 31st March	17	12,617

Deferred Capital Receipts Reserve

The Deferred capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. This reserve relates to the Elmsleigh Centre finance lease

2016/17 £'000	Deferred Capital Receipts Reserve	Notes	2017/18 £'000
(14,544)	Balance at 1st April		(14,544)
(14,544)	Balance at 31st March	17	(14,544)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pension for which it is directly responsible. The balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2016/17 £'000	Pension Reserve	2017/18 £'000
34,768	Balance at 1st April	44,129
8,553	Remeasurement of net defined benefits liabilities/(assets)	(1,491)
3,277	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,016
(2,469)	Employer's pension contributions and direct payments to pensioners payable in the year	(2,794)
44,129	Balance at 31st March	44,860

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

The Collection Fund is accounted for on an agency basis, the Council being the agent in relation to the collection of Council tax and Business rates. The balance showing below reflects the Council's share of the Collection Fund balance at the end of the financial year.

2016/17 *£'000*	Collection Fund Adjustment Account	*Notes*	2017/18 *£'000*
2,295	Balance at 1st April		(963)
(3,258)	Amount by which Council Tax/Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	23	3,078
(963)	Balance at 31st March	17	2,115

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2016/17 *£'000*	Accummulated Absence	2017/18 *£'000*
185	Balance at 1st April	190
5	Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	34
190	Balance at 31st March	224

22. Statement of Cash Flows – Operating Activities

The cash flows for operating activities include the following items:

2016/17 *£'000*	Interest paid or received	2017/18 *£'000*
(948)	Interest received	(1,064)
4,091	Interest paid	8,940

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2016/17 £'000	Non-cash movements	2017/18 £'000
(2,366)	Depreciation	(2,458)
(432)	Impairment and downward valuations	(4,465)
(2)	Heritage Assets	(1)
(193)	Amortisation	(187)
182	Increase/(decrease) in provisions	(536)
0	Increase/(decrease) in impairments for bad debts	(214)
(808)	Movement in pension liability	(2,222)
17	Increase/(decrease) in Inventories	(6)
(25,570)	Changes in the valuation of Investment Properties	(14,629)
(14,455)	Increase/(decrease) in Payables	(20,225)
(1,552)	Increase/(decrease) in Receivables	6,410
0	Recognising Cash received in prior years	0
(3,461)	Carrying amount of Non-current assets and Non-current assets held for sale, sold or de-recognised	(70)
2	Other non-cash items charged to the Net (Surplus)/Deficit on the Provision of Services	0
(48,638)		(38,603)

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2016/17 £'000	Items that are investing or financing activities	2017/18 £'000
757	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	2,167
757		2,167

23. Statement of Cash Flows – Investing Activities

2016/17 £'000	Investing Activities	2017/18 £'000
421,864	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	272,072
295,660	Purchase of Long-term and Short-term Investments	0
(757)	Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(1,250)
(287,649)	Proceeds from Long-term and Short-term Investments	0
(286)	Other receipts for Investing Activities	(917)
428,832		269,905

24. Statement of Cash Flows – Financing Activities

2016/17 £'000	Financing Activities	2017/18 £'000
(570,264)	Cash receipts from long-term and short-term borrowing	(476,837)
(172)	Other receipts for financing activities	(52)
160,945	Repayments of long-term and short-term borrowing	226,937
0	Other payments for financing activities	5,645
(409,491)		(244,307)

25. Members Allowances

The Council paid £330K to members of the Council during the year.

26. Senior Officers' Remuneration

The Council paid to its senior officers £423,904 (including pensions contributions) during the year:

2017/18

Senior Employees Title	Pay, fees and allowances £	Pension contributions £	2017/18 Total £
Chief Executive (note A)	61,456	10,308	71,764
Chief Executive (note A)	57,872	9,271	67,143
Deputy Chief Executive & Chief Financial Officer	85,876	14,093	99,969
Deputy Chief Executive	85,749	14,093	99,842
Head of Corporate Governance	73,701	11,485	85,187

Note A: following the departure of the previous incumbent, a new Chief Executive was appointed in September 2017

2016/17

Senior Employees Title	Pay, fees and allowances £	Pension contributions £	2016/17 Total £
Chief Executive	115,421	19,310	134,731
Deputy Chief Executive & Chief Financial Officer	82,958	13,491	96,449
Deputy Chief Executive	82,957	13,491	96,448
Head of Corporate Governance	75,615	12,007	87,622

Taxable pay is a net figure reflecting additional voluntary contributions, the figures do not therefore in all cases reflect underlying salaries.

The Council's other employees receiving more than the £50,000 remuneration for the year (excluding pension contributions) were paid the following amounts:

2016/17	Remuneration banding		2017/18
no	£	£	*no*
0	75,000	79,999	1
1	70,000	74,999	2
2	65,000	69,999	2
3	60,000	64,999	3
1	55,000	59,999	1
4	50,000	54,999	5
11			14

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit packages per cost band (including special paymnts		Number of compulsory redundancies		Number of other departures agreed		Number of exit packages by cost band		Total cost of exit packages in each band	
		2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£	£	*no*	*no*	*no*	*no*	*no*	*no*	£	£
80,001	100,000			1		1		99,652	
40,001	60,000			2		2		91,829	
20,001	40,000			1		1	1	12,762	38,166
		0	0	4	0	4	1	204,243	38,166

The Council terminated the contract of one employee in 2017/18 incurring liabilities of £38,166 (£204,243 in 2016/17) as set out above.

27. External Audit Costs

The Council has incurred the following cost in relation to the audit of the Statement of Accounts, Certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditor:

2016/17	External Audit Costs	2017/18
£'000		*£'000*
48	Fees payable to KPMG with regard to external audit services carried out by the appointed auditor for the year	48
8	Fees payable to KPMG for the certification of grant claims and returns for the year	8
56	Total for the year	56

28. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2017/18:

2016/17 £'000	Grant income	2017/18 £'000
	Credited to Services	
(130)	Grants and contributions	(378)
(32,352)	Benefit Subsidy	(31,221)
(32,482)	Total Credited to Services	(31,599)
	Taxation and Non-specific grant income	
(2,946)	Non-ringfenced grants and contributions	(3,343)
(624)	Capital grants and contributions	(1,121)

29. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government has significant influence 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 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 balances with government departments are set out in notes 16 and 19 above and details of cash received from government grants is set out in note 28 above.

Members of the Council have direct control over the Council's financial and operating policies. During 2017/18 there were no material related party transactions between the Council and Council members. Any declarations of interest are properly recorded in the Register of member's Interests, which is open to public inspection. Senior officers also have the ability to influence the Council and during 2017/18 there were no related party transactions between the Council and senior officers.

Applied Resilience
Applied Resilience is a new Public Service Mutual Company set up in 2015/16 to provide risk and resilience services. The Council invested £10,000 in the company at launch equating to a 10% holding. The Council entered into a 3 year agreement with the company for the provision of emergency planning and resilience services at a cost of £55,000 a year. (£55,000 in 2016/17, £27,500 2015/16)

Knowle Green Estates Ltd
Knowle Green Estates Ltd was set up as a subsidiary company of the Spelthorne Borough Council in May 2016 to provide Housing accommodation services to the Council. The company is 100% owned by Spelthorne Borough Council. Note 36 provides more detailed disclosure on Knowle Green Estates Limited. The following Council representatives hold office in the Company:

- Terry Collier, Deputy Chief Executive - Director
- Councillor Howard Williams, Councillor - Director

30. Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed below:

2016/17 £'000	Capital Expenditure and Financing	Notes	2017/18 £'000
0	Opening Capital Financing Requirement		413,264
	Capital Investment		
1,140	Property, Plant and Equipment	11	13,520
417,500	Investment Properties	13	258,229
238	Intangible Assets	14	370
3,536	Revenue Expenditure funded from Capital under Statute		1,241
422,414	*Total Capital Investment*		273,360
	Sources of Finance		
(2,718)	Capital Receipts		(1,250)
(625)	Capital Grants and contributions		(1,021)
(5,807)	Revenue contributions		(838)
	Repayment of debt		(4,517)
(9,150)	*Total Sources of Finance*		(7,626)
413,264	Closing Capital Financing Requirement		678,998

31. Leases

Council as lessee
Operating Leases

The future minimum lease payments due under non-cancellable leases in future years are:

31 Mar 17 £'000	Council as Lessee	31 Mar 18 £'000
147	Not later than one year	762
87	Later than one year and not later than five years	2,076
234	Balance at 31st March	2,838

Council as Lessor

Operating Leases
The Council leases out property and equipment under operating leases for the following purposes:

- For the provision of the community services, such as sports facilities, tourism services and community centres.
- For economic development purposes to provide to suitable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are;

31 Mar 17 £'000	Council as Lessor	31 Mar 18 £'000
18,048	Not later than one year	31,665
72,192	Later than one year and not later than five years	125,945
243,350	Later than five years	338,745
333,590	Balance at 31st March	496,355

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rents reviews.

Finance Leases
In 2006, the Council granted a lease of 250 years in respect of the Elmsleigh Centre where the Council receives a share of net income.

31 Mar 17 £'000	Finance leases	31 Mar 18 £'000
14,544	Finance lease debtor (net present value of minimum lease payments)	14,544
119,856	Unearned finance income	119,296
3,830	Unguaranteed residual value of property	3,830
138,230	Balance at 31st March	137,670

Gross investment in the lease 31 Mar 17 £'000	Gross investment in the lease 31 Mar 18 £'000		Minimum lease payments 31 Mar 17 £'000	Minimum lease payments 31 Mar 18 £'000
560	560	Not later than one year	560	560
2,240	2,240	Later than one year and not later than five years	2,240	2,240
135,430	134,870	Later than five years	131,600	131,040
138,230	137,670	Balance at 31st March	134,400	133,840

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

32. Impairment Losses

Paragraph 4.7.4.2(1) of the Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in note 11 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances.

33. Defined Benefit Pension Schemes

Participation in Pension Schemes
As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time the employees earn their future entitlement.

The Council 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 Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Arrangements for the award of discretionary post- retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognise when awards are made. However, there are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

Transactions Relating to Post-employment Benefits
The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, 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 post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

2016/17 £'000	IAS19 CI&ES & MiRS	2017/18 £'000
	Comprehensive Income & Expenditure Statement	
	Cost of Services:	
2,102	Current service cost	3,892
0	Past service cost	8
	Financing & Investment Income & Expenditure:	
1,175	Net interest expense	1,116
3,277	Total post-employment benefits charged to the (Surplus)/Deficit on the provision of services	5,016
	Other Comprehensive Income & Expenditure	
(8,019)	Return of plan assets	601
18,399	Acturial gains & losses arising on changes in assumptions	(2,044)
(1,505)	Changes in demograohic assumptions	(48)
(322)	Other remeasurement of defined liability	
11,830	***Total post-employment benefits charged to CI&ES***	3,525
	Movement in Reserves Statement	
(3,277)	Reversal of new charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benfits in accordance with the code	(5,016)
	Actual amount charged against the General Fund Balance for pensions in-year	
2,469	Employer's contribution to the scheme	2,794

Pensions Assets and Liabilities Recognised in the Balance Sheet
The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

31 Mar 17 £'000	Net liability	31 Mar 18 £'000
77,497	Fair value of plan assets	78,106
(121,626)	Present value of the defined benefit obligation	(122,966)
(44,129)	Net liability arising from defined benefit obligation	(44,860)

Reconciliation of the Movements in the fair value of the scheme plan assets

2016/17	Scheme assets	2017/18
£'000		*£'000*
68,462	***Opening fair value of scheme assets***	77,497
2,304	Interest income	1,927
	Remeasurement gain/loss:	
8,019	Return on plan assets, excluding the amount included in net interest expense	(601)
2,270	Contribution from employer	2,601
564	Contribution from employees into the scheme	618
(4,122)	Benefits paid	(3,936)
77,497	***Closing fair value of scheme assets***	78,106

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

2016/17	Scheme liabilities	2017/18
£'000		*£'000*
(103,230)	***Opening value of scheme liabilities***	(121,626)
(2,102)	Current service cost	(3,892)
0	Past Service cost	(8)
(3,479)	Interest cost	(3,043)
4,122	Benefits paid	3,936
(564)	Contributions from scheme participants	(618)
(18,399)	Acturial gains & losses arising on changes in assumptions	2,044
199	Liabilities assumed on entity combinations	193
1,505	Changes in demographic assumptions	48
322	Other changes in liablities	
(121,626)	***Closing value of scheme liabilities***	(122,966)

Local Government Pension Scheme assets comprised:

31 Mar 17 £'000	Asset category	31 Mar 18 £'000
	Equity securities	
6,287	Consumer	6,337
5,699	Manufacturing	5,744
3,124	Energy and utlilities	3,149
5,482	Financial institutions	5,525
2,071	Health and care	2,087
4,365	Information technology	4,399
158	Other	159
	Debt securities	
2,690	Corporate bonds (investment grade)	2,711
170	Corporate bonds (non-investment grade)	171
158	Government	159
355	Other	358
	Private equity	
3,253	All	3,278
	Real estate	
4,406	UK property	4,441
29	Overseas property	29
	Investment Funds and Unit Trusts	
21,490	Equities	21,659
8,471	Bonds	8,538
0	Other	0
	Derivatives	
(2)	Interest rate	(2)
110	Foreign exchange	111
	Cash & cash equivakents	
9,181	All	9,253
77,497	***Total assets***	78,106

Basis for Estimating Assets and Liabilities
Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that are payable in future years dependant on assumptions about mortality rates, salary levels etc.
Hymans Robertson LLP is the appointed actuary for the Surrey Superannuation Fund which the Council is a member of. For estimating liabilities, the actuary has selected iBOXX Sterling Non-Gilt Index, one of the five main sterling corporate indices, to determine the discount rate to place a value on the fund’s liabilities.

The principal assumptions used by the actuary have been:

2016/17	Principal assumptions	2017/18
%		%
	Long-term expected rate of return on assets in the scheme	
4.5	Equity investments	4.5
4.5	Bonds	4.5
4.5	Property	4.5
	Cash	
years	***Mortality assumptions***	*years*
	Longevity at 65 for current pensioners	
22.5	- Men	22.5
24.6	- Women	24.6
	Longevity at 65 for future pensioners	
24.1	- Men	24.1
26.4	- Women	26.4
%	***Other assumptions***	%
2.4	Rate of inflation (Consumer Price Index)	2.5
2.7	Rate of increase in salaries	2.7
2.4	Rate of increase in pensions	2.4
2.5	Rate of discounting scheme liabilities	2.6
25.0	Rate of discounting scheme liabilities	25.0
0.0	Take-up of option to convert annual pension to retirement lump sum	0.0

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decrease for men and woman. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	%	Increase in assumption *£'000*	Decrease in assumption *£'000*
Rate of increases in salaries	0.5	1,221	
Rate of increases in pensions	0.5	9,268	
Decrease in rate for discounting scheme liabilities	0.5		10,609

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Funding levels are monitored on an annual basis. The last triennial revaluation was valued as at 31st March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government Pension Scheme in England and Wales and the other main existing public services schemes may not provide benefits in relation to service after 31st March 2016 (or service after 31st March 2017 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipated to pay £2.517m expected contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 15.7 years for 2017/18 (15.7 years 2016/17).

34. Contingent Liabilities

Mortgage guarantees on shared ownership properties which will only occur if the mortgagees default on payment and any charge to the Council will be accounted for at that time. No specific provision has been made in the accounts for this.

35. Contingent Assets

The Council may be able to recover compound interest from HMRC for VAT repayments already received for sports and leisure activities in respect of the Fleming case. No specific provision has been made for this in the accounts.

36. Knowle Green Estates Limited

INCORPORATION AND ACCOUNTING PERIOD

Knowle Green Estates Limited is a 100% owned subsidiary of Spelthorne Borough Council. The company was incorporated on 9 May 2016.

DIRECTORS

T M Collier was appointed as a director on 9 May 2016 and held office during the whole of the period from then to the date of this report.

H R D Williams was appointed as a director on 14 June 2016 and held office during the whole of the period from then to the date of this report.

FINANCIAL PERFORMANCE

For the financial year to 31 March 2018, the company's major asset, the property Harper House, was valued at £2,720,000 after depreciation. Accounts are being finalised, and amounts quoted below are provisional outturn figures.

Income

Income of £282,000 for the year was received by the Company from the Council.

Expenditure

Expenditure of £422,000 was incurred during the year, including £37,000 for work relating to the Company carried out by Council staff.

37. Post Balance Sheet Events

Since the Balance Sheet date of these Statement of Accounts of 31/3/18, both the external environment and the financial position of the Council has changed. Total external debt as a result of these acquisitions as at 31 March 2018 was £665m with associated total annual net investment income was £7.5m (after debt financing, supervision costs and setting aside into sinking funds to build up provision for future liabilities on these assets such as refurbishments and rent free periods). In the period since 31 March 2018 the Council acquired in August 2018 a portfolio of three further office assets in Reading, Uxbridge and Slough. Total annual net investment income is now approximately £10m and external debt rose to £1,033m.The latest valuation for these assets is £981m.

Group Accounts

Introduction
For a variety of legal, regulatory and other reasons, a local authority chooses (or is required) to conduct their activities not through a single legal entity but through two or more legal entities which fall under its ultimate control. For this reason the financial statements of the local authority do not necessarily, in themselves, present a full picture of its economic activities or financial position. Because of this, The Code of Practice requires a local authority to prepare group accounts if it has a control over one or more other legal entities. The aim of the group accounts is to give an overall picture of the extended services and economic activity that is under the control of the local authority.

Spelthorne Borough Council (the reporting authority) has one subsidiary company:
Knowle Green Estates Limited (KGE)
The Council owns 100% of the shares in KGE which was formed in May 2016. The purpose of the company is to hold investments in residential property around the borough.

Basis of consolidation
The Group Movement in Reserves Statement, the Group Comprehensive Income & Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement have been prepared by consolidating the accounts of the Council and its subsidiary on a line by line basis. The accounts of the subsidiary have been prepared using similar accounting policies and practices to that of the Council. However, some accounting policies and practices do differ in some respects from the Council's due to legislative requirements. The accounts of the subsidiary have been prepared in accordance with the provisions of Section 1A "Small Entities" of Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Any material differences are highlighted within the accounts themselves.
The financial statements of the subsidiary have been prepared under the historical cost convention modified by revaluation of non-current assets.

Accounting policies
There are no material differences between the accounting policies that have been adopted by the subsidiary and those adopted by the Council as set out from page 17. Where there are differences the impact of applying a consistent policy would not lead to a material change in the group accounts.

Group Movement in Reserves Statement

2017/18	General Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Reserves	Council's share of Associate's reserves	Total Group Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance brought forward 1 April	(11,053)	0	(116)	(11,169)	4,661	(6,508)	(3,051)	(9,559)
Movements in-year								
Total Comprehensive Income & Expenditure	12,908			12,908	(6,852)	6,056	1,168	7,224
Adjustments between KGE & SBC				0			(30)	(30)
Net (Increase)/before adjustments	12,908			12,908	(6,852)	6,056	1,138	7,194
Adjustments between accounting & funding basis under regulations	(20,657)	0	(100)	(20,757)	20,757	0		0
(Increase)/decrease in-year	(7,749)	0	(100)	(7,849)	13,905	6,056	1,138	7,194
Balance carried forward 31 March	(18,802)	0	(216)	(19,018)	18,566	(452)	(1,913)	(2,365)

Group Comprehensive Income & Expenditure Statement

2016/17 Expenditure	2016/17 Income	2016/17 Net		2017/18 Expenditure	2017/18 Income	2017/18 Net
£'000	£'000	£'000		£'000	£'000	£'000
859	(77)	782	Leader	1,448	(279)	1,169
675	(67)	608	Deputy Leader	786		786
2,138	(44)	2,094	Corporate Management	2,206	(1,124)	1,082
34,975	(33,448)	1,527	Housing	33,928	(32,685)	1,243
3,751	(503)	3,248	Finance	2,688	(15)	2,673
Amounts included in Finance Portfolio			Customer Service, Estates & Transport	3,018	(404)	2,614
11,106	(10,634)	472	Planning & Economic Development	8,052	(1,147)	6,905
10,320	(4,591)	5,729	Environment & Compliance	10,285	(4,047)	6,238
4,027	(2,645)	1,382	Community & Wellbeing	4,241	(2,297)	1,944
67,851	(52,009)	15,842	**Cost of Services**	66,652	(41,998)	24,654
3,460	(757)	2,703	Other Operating Expenditure	70	(1,250)	(1,180)
33,163	(9,760)	23,403	Financing & Investment Income & Expenditure	25,890	(22,442)	3,448
6	(14,632)	(14,626)	Taxation & Non-specific Grant Income	21	(14,065)	(14,044)
104,480	(77,158)	27,322	**(Surplus)/Deficit on the Provision of Services**	92,633	(79,755)	12,878
		(1,601)	(Surplus)/Deficit on the revaluation of Property, Plant & Equipment			(4,510)
		(1,071)	(Surplus)/Deficit on the revaluation of Available-for-Sale Assets			317
		8,553	Remeasurement of the Net Defined Benefit Liability			(1,491)
			Short Term Capital Grant Receipts in advance			
		5,881	**Other Comprehensive Income & Expenditure**			(5,684)
		33,203	**Total Comprehensive Income & Expenditure**			**7,194**

Group Balance Sheet

31 Mar 17 £'000	Balance Sheet	31 Mar 18 £'000
48,654	Property, Plant & Equipment	59,699
154	Heritage Assets	147
392,145	Investment Properties	635,745
455	Intangible Assets	638
21,599	Long Term Investments	20,951
14,752	Long Term Receivables	14,700
477,759	**Long Term Assets**	731,880
58	Inventories	52
5,511	Short Term Receivables	11,714
7,567	Cash & Cash Equivalents	5,539
13,136	**Current Assets**	17,305
(7,752)	Short Term Borrowing	(13,965)
(21,659)	Short Term Payables	(35,156)
(1,703)	Short Term Provisions	(2,239)
(31,114)	**Current Liabilities**	(51,360)
(44,129)	Other Long Term Liabilities	(44,860)
(405,764)	Long Term Borrowing	(650,600)
(329)	Long Term Capital Grant Receipts in advance	0
(450,222)	**Long Term Liabilities**	(695,460)
9,559	**Net Assets**	**2,365**
(11,194)	Usable Reserves	(19,059)
1,635	Unusable Reserves	16,694
(9,559)	**Total Reserves**	**(2,365)**

Group Cash Flow Statement

2016/17 £'000	Statement of Group Cash Flows	2017/18 £'000
27,322	Net (Surplus)/Deficit on the Provision of Services	12,878
(48,635)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements	(38,615)
757	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities	2,167
(20,556)	Net cash flows from Operating Activities	(23,570)
428,832	Investing Activities	269,905
(409,491)	Financing Activities	(244,307)
(1,215)	Net increase or decrease in Cash & Cash Equivalents	2,028
6,352	Cash & Cash Equivalents at the beginning of the reporting period	7,567
1,215	Net increase or decrease in Cash & Cash Equivalents	(2,028)
7,567	Cash & Cash Equivalents at the end of the reporting period	5,539

Collection Fund

The Collection Fund reflects the statutory obligation for billing Councils to maintain a separate Collection Fund. The statement shows the transactions of the billing Council in relation to the collection from taxpayers and distribution to local Councils and the Government of council tax and non-domestic rates.

Total 2016/17 £'000	Collection Fund	Business rates 2017/18 £'000	Council tax 2017/18 £'000	Total 2017/18 £'000
	Income			
(65,744)	Council tax receivable		(68,849)	(68,849)
(44,876)	Business rates receivable	(45,476)		(45,476)
0	Transitional protection	(617)		(617)
	Contribution received based on Deficit			
(3,525)	Spelthorne Borough Council			
(881)	Surrey County Council			
0	Surrey Police & Crime Commisioner			
(4,406)	Central Government			
	Demand, precepts and shares			
25,396	Spelthorne Borough Council	19,511	7,487	26,998
53,140	Surrey County Council	4,877	51,809	56,686
8,435	Surrey Police & Crime Commisioner		8,737	8,737
22,768	Central Government	24,388		24,388
	Contribution paid based on Surplus			
148	Spelthorne Borough Council	904	167	1,071
990	Surrey County Council	226	1,133	1,359
175	Surrey Police & Crime Commisioner		197	197
	Central Government	1,129		1,129
	Charges to the Collection Fund			
234	Write-offs	0	0	0
587	Increase/(decrease in Bad Debt Provision	303	213	516
(657)	Increase/(decrease) in Provision for Appeals	2,065		2,065
129	Cost of Collection	129		129
(8,087)	(Surplus)/Deficit arising during the year	7,439	894	8,333
	Movement on the Collection Fund			
4,703	(Surplus)/Deficit brought forward	(2,023)	(1,360)	(3,383)
(8,087)	(Surplus)/Deficit arising during the year	7,439	894	8,333
(3,384)	(Surplus)/Deficit carried forward	5,416	(466)	4,950

Council Tax

The Tax Base is the number of banded properties that the Council uses to set the Council Tax. It is the total number of properties in the borough weighted by reference to the Council Tax bands, which range from A to H. The Tax Base is calculated using the equivalent number of Band D dwellings. The tax base as at 31 March 2018 was:

Valuation band	Number of dwellings on Valuation List	Number of chargeable dwellings	Ratio to band D	Band D equivalents
A-		3	5/9	2
A	440	315	6/9	210
B	1,621	1,052	7/9	818
C	8,776	6,460	8/9	5,742
D	14,490	12,202	9/9	12,202
E	9,962	8,930	11/9	10,914
F	4,560	4,204	13/9	6,072
G	2,102	1,985	15/9	3,308
H	109	96	18/9	192
Total	42,060	35,247		39,460
	Number of band D equivalents in lieu			41
	Allowance for losses on collection and appeals		1.50%	(592)
	Council Taxbase for 2017/18			38,909

Non-Domestic Rates

Non-domestic rates receivable are based on local rateable values multiplied by a national non-domestic rate multiplier. The total non-domestic rateable value as at 31 March 2018 was £117,179,354 and the national non-domestic rate multiplier for 2017/18 was £0.479 and £0.466 for small business.

ANNUAL GOVERNANCE STATEMENT 2017-18

1. INTRODUCTION

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, this 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 *Delivering Good Governance in Local Government Framework 2016*. A copy of the code is on our website at 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 6(1) of the Accounts and Audit Regulations 2015 in relation to the publication of an annual governance statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled. It also identifies activities through which the Council accounts to, engages with and leads the community. It enables the Council 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 to the achievement of the Council'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 2017 and up to the date of approval of the statement of accounts.

2. THE KEY ELEMENTS OF GOVERNANCE

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

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

- The Council publishes on regular basis (normally every three years) its Corporate Plan.
- The Corporate Plan and priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year. In 2016 the Council published a Corporate Plan for 2016-19.
- The Council has a comprehensive system for the completion of Service Plans and performance reviews Service plans for all areas have been completed for 18/19.
- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective. The Council's Local

Plan preparation is actively underway with a broad ranging consultation process being undertaken.

The expansion of Heathrow Airport if the third runway is approved will have a major impact on the Borough. The Council is actively and robustly responding to the consultation process and seeking to protect the interests of its residents.

Reviewing our vision and its implications for our governance arrangements

- The Council regularly reviews the overall vision for the Council and the Borough and its implications for the Council's governance arrangements. Progress towards the achievement of the corporate priority objectives will be monitored through the performance management system and reported to Cabinet or to the Overview and Scrutiny Committee as appropriate.
- The Council engages with the public through multiple channels depending on the circumstances.

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

Communication and Consultation strategies are in place,

- The Council undertakes to consult on new policies, strategies and plans which will have an effect on the Spelthorne community. The Council uses a wide variety of methods to obtain feedback from the community.
- The Council has completed the early stages of the Local Plan preparation process and is undertaking extensive local consultation in 2018-19 through a wide range of channels.
- The Council continues to develop its use of social media to provide additional opportunities to engage with its residents.

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 (since 2011-12 it has operated the Strong Leader model whilst retaining a 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 Cabinet is made up of the Leader and eight other cabinet members, who are all appointed by the Leader. 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 is one scrutiny committee i.e. the Overview and Scrutiny Committee which reviews decisions and actions taken by the Cabinet and other Council functions. 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 committee also reviews, monitors and scrutinises 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 Council. The Local Code was reviewed in March 2018 at the Overview and Scrutiny Committee.

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. The Members' Code of Conduct was revised in 2012 reflecting the changes required by the Localism Act 2011. It has subsequently been kept under review by the Members' Code of Conduct Committee along with the supporting arrangements for residents to make a complaint. The Staff Code of Conduct was also reviewed around the same time. The protocols include:

- Member Code of Conduct Committee
- A policy on Gifts, Hospitality and Sponsorship
- A Conflicts of Interest policy
- A performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- An Anti-Fraud, Bribery and Corruption policy
- The Member / Officer protocol

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 Confidential Reporting Code is reviewed annually and an awareness raising poster was updated in March 2018, placed on staff noticeboards.

- The Council handles complaints effectively, the corporate complaints process was reviewed and revised in 2017-18

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 recent years both Financial Regulations and Contract Standing Orders have been revised in light of changing circumstances. Refresher training on procurement and the application of the Contract Standing Orders has been provided to officers. A Procurement Officer is now in place and an updated Procurement Strategy produced.

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

- Spelthorne Borough 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. 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 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 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 Council's objectives and for ensuring that they represent the best use of resources.

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. The Section 151 officer sits on the corporate management team in line with best practice.

- 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 2017/18 included:

- The setting of the Outline Budget framework and the detailed annual Budget
- Monitoring of actual income (including investment returns) and expenditure against the annual Budget
- Monitoring business rates retention performance and levels of appeals
- 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 Overview and Scrutiny Committee
- Clearly defined capital expenditure guidelines
- The monitoring of finances against a Medium Term Financial Plan

- The Council has invested resource in both its key asset income generation projects designed to generate future income to help offset the impact of reducing revenue support grant and in its Staines-upon-Thames development programme designed both to support the Council's economic development priority and to generate income for the Council
- Following the acquisition of the BP Campus site in 2016-17 the Council made further investment asset acquisitions during 2017-18. In recognition of the need to ensure appropriate governance and processes were underpinning a growing and significant property portfolio, the Council reviewed processes and made the following improvements:
  - Applied some of the rental returns to fund an enlarged property and development unit with staff with significant commercial property and development experience
  - Procured the S&P reporting system to enable access to ongoing financial credit rating data on tenants and potential tenants
  - Undertaken presentations for both councillors and residents associations explaining the Council's due diligence process and approach to mitigating risk with respect to property acquisitions
  - Published a Strategic Parameters document on investment acquisitions
  - Set up an officer Development and Investment Group – to monitor progress on developments and strategic acquisitions
  - Set up an Investment Property and Development working group consisting of senior officers and senior councillors to provide overall strategic direction to the property portfolio
  - Both of the above group provide initial evaluation of opportunities prior to Cabinet formally approving investment opportunities
  - Reviewed systems in place to record, recover and monitor significant rental income
- Managing risk in key financial service areas.
  The Council continues to participate in a cross Surrey initiative to detect and prevent fraud.

Sustainability

- The Council recognises the importance of good governance in supporting the delivery of broader sustainability objectives; During 2017-18 the Council:

- Consulted on and updated its Economic Assessment and Strategy for the Borough and implemented a new action plan for implementation
- Updated its sustainability plan

Effectiveness of Internal Audit

- The Council maintains an internal audit section, which operates to the standards set out in the "Public Sector Internal Audit Standards"
- 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. An external quality assessment of internal audit is also being arranged during 2018-19.

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*

Compliance

The Council's financial management arrangements conform with the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) with the Chief Financial Officer being a member of the corporate management team.

Performance and Risk Management

- The Council has 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. Following on from the LGA Peer Review in 2014 the Council refreshed its approach to performance management to include regular reporting on a suite of indicators. The Council has further reviewed this and annual performance reviews have been produced for 16/17 following on from this a performance management strategy is being developed together with reporting on corporate plan implementation
- The Corporate Risk Management Group meet periodically. The Council's Corporate Risk Register is owned by the corporate Management Team which review it three times a year, as well as Cabinet and Audit Committee. During 2017-18 the Council continued to improve how information on progress on addressing risks is identified on the Corporate Risk Register. Audit Services support the risk management process through the risk based audit approach and are assisting Managers in populating risk and control assurance templates. Risk management is built into the Council's corporate project management methodology.

The development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

- .There is budget provision for training of both officers and councillors. The Council on an annual basis informed by the annual appraisal and review of key challenges facing the Council prioritises how to allocate its corporate training budget provision.
- For significant new statutory requirements or service requirements appropriate training is identified and provided for staff. An example in 2017-18 is the training on Homelessness Reduction Act provided for Housing Options and other relevant staff

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 Council's overall governance arrangements. The Council works closely with partner commissioning authorities, e.g. Surrey County Council and the Clinical Commissioning Group.

The ethical conduct of members and officers of this Council

The Council has established a Members Code of Conduct Committee and the Members Code of Conduct was revised, and continues to operate, in accordance with the national framework.

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 Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit Managers' annual report, and also by comments made by the external auditor and other review agencies and inspectorates.

Officer's reviewed the Council's governance arrangements and assessed them against the seven CIPFA/SOLACE core principles underpinning the Code of Corporate Governance framework issued by CIPFA/SOLACE. The seven principles are:

Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

Principle B - Ensuring openness and comprehensive stakeholder engagement.

Principle C - Defining outcomes in terms of sustainable economic, social, and environmental benefits.

Principle D - Determining the interventions necessary to optimise the achievement of the intended outcomes.

Principle E - Developing the Authorities' capacity, including the capability of its leadership and the individuals within it.

Principle F - Managing risks and performance through robust internal control and strong public financial management.

Principle G - Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

This review was conducted for the March 2018 Overview and Scrutiny Committee.
Details of the review can be found on the Council's website.

3. OPINION

This is an [evidence based] opinion on the level of assurance of the Council's governance arrangements and their effectiveness to be fit for purpose.

The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below and include assurance from Internal and External Audit. One of the key assurance statements the Council receives is the annual report and opinion of the Internal Audit Manager. Informed by the work of the Internal Audit Manager, the overall opinion is that the Council's internal control environment is generally adequate. However, some improvements need to be highlighted as set out in the table below. This opinion on the Council's control environment is based on the work undertaken by Audit services during 2017/18 which is summarised in the Annual Audit report. During 2017/18 the Internal Audit Manager reported on 22 planned audit areas of which 1 (4%) was deemed effective and 12 were assessed as requiring some improvement including 5 key financial systems reviewed. including all key financial systems reviewed. Of the remaining 9 areas reviewed, a total of 7 areas were identified as high risk or requiring major improvement, two of which related to core financial systems. *The key themes and issues arising from these high risk areas are highlighted in the table below.* (Audit status reports have been issued for 2 out of the 9 areas for which no assurance opinion is provided although control improvements are highlighted as necessary).

Issue identified for 17/18	Planned Action
Whilst the Council allocated dedicated resource towards ensuring that the Council was ready for implementation of the new General Data Protection Regulations taking effect in May 2018, there are some important lessons around planning more effectively for significant legislation, including resource planning and application of corporate project processes. An Information Governance Officer was appointed in 2017 and represents the subject matter expert in leading progress. Additional resource was put into the Corporate Project Team to assist with the project. However, the Authority could be much closer to being fully compliant with this significant legislation than it is. It is, therefore, vital that efforts to implement new regulations are increased immediately and the necessary resources to enable this to happen are made available.	The Council has a fit for purpose and proportionate project governance framework, however this requires consistency in its application and delivery. Application of project governance arrangements are required to contribute to the likely success of projects whilst reducing potential risks of delays and overspend. Effective governance should incorporate the necessary structures and processes to support key decisions and approvals, promote the need for robust project plans, monitor progress of the project against pre-determined plans and milestones, and include regular effective reporting to the appropriate monitoring board/committee
Due to resourcing pressures in Accountancy and other departments some reconciliation processes were not maintained as up to date during 2017-18 as should have been	Effective reconciliation exercises between key financial systems represent a fundamental financial control and need to be carried out regularly to enable prompt identification and investigation of discrepancies, errors and potential fraud. Adequate staff contingency arrangements need to be built into the process. This has been acknowledged by the Accountancy team with additional resource now in place to support such tasks
As System Administrators also have operational and processing roles within the associated service area, this lack of segregation of duties (between operations and administration) increases associated risks of fraud or error. This is a longstanding issue and will be considered further as part of the review of the ICT function	The role of system administrators and where they should sit is to be reviewed as part of a “root and branch” review in early 2018-19 of ICT arrangements
A recurring theme across some service areas is resourcing (constraints) often combined with weak resilience arrangements. These are often highlighted as reasons for controls and governance processes being compromised.	Additional growth to provide additional resources in HR, Accountancy, Legal and Property was built into the 2018-19 and recruitment processes are underway. Resilience will be one of the issues considered as part of the root and branch service reviews being undertaken in 2018/19

The Council’s external auditor, KPMG, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money.

Self-assessment and review of key performance indicators Staff from the Council's Finance Team have undertaken a review to confirm that the arrangements described above have been in place throughout the year. Management Assurance Statements, signed by senior officers, have also been obtained to provide confirmation that Codes of Conduct, Financial Regulations, and other corporate governance processes, have been operating as intended throughout the year so far as they are aware. The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2017/18 is set below:

Issues Identified	**Performance in 2017/18**
Formal reports by s151 or Monitoring Officer	None issued
Outcomes from Standards Committee or Monitoring Officer investigations	No breaches of Member or Officer Codes of Conduct have occurred
Proven frauds carried out councillors or members of staff	None identified in 2017/18
Objections received from local electors	None in 2017/18
Local Government Ombudsman referrals	0 cases upheld out of 4 complaints
Major improvement opinions from Internal Audit reports	There were 7 audits with major improvement opinions in 2017/18 and key issues and/or common themes arising have been noted in the 'Issues identified for 2017/18' section

4 SIGNIFICANT GOVERNANCE ISSUES

- As stated above the most significant governance challenge for the Council in 2017-18 was reviewing and refreshing governance arrangement to ensure appropriate in the context of the Council accumulating an investment portfolio of almost £700m. As stated in the report above, In recognition of the need to ensure appropriate governance and processes were underpinning a growing and significant property portfolio, the Council reviewed processes and made the following improvements:
    - Applied some of the rental returns to fund an enlarged property and development unit with staff with significant commercial property and development experience
    - Procured the S&P reporting system to enable access to ongoing financial credit rating data on tenants and potential tenants
    - Undertaken presentations for both councillors and residents associations explaining the Council's due diligence process and approach to mitigating risk with respect to property acquisitions
    - Published a Strategic Parameters document on investment acquisitions
    - Set up an officer Development and Investment Group – to monitor progress on developments and strategic acquisitions
    - Set up an Investment Property and Development working group consisting of senior officers and senior councillors to provide overall strategic direction to the property portfolio
- Both of the above groups provide initial evaluation of opportunities prior to Cabinet formally approving investment opportunities
- Reviewed systems in place to record, recover and monitor significant rental income

Cllr Ian Harvey	Daniel Mouawad
....	....
Cllr Ian Harvey	Daniel Mouawad
Leader of the Council	Chief Executive

AUDITORS REPORT TO FOLLOW (PAGE 1)

AUDITORS REPORT TO FOLLOW (PAGE 2)

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.

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 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 1st April 2007.

CAPITAL RECEIPTS

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

CIPFA

The 'Chartered Institute of Public Finance and Accountancy' is the professional body for people in public finance. CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

CODE

The *'Code of Practice on Local Authority Accounting in the United Kingdom'* (the Code) is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. It constitutes a 'proper accounting practice' under the terms of Section 21(2) of the Local Government Act 2003.

COLLECTION FUND

A separate account maintained by the Council recording the amounts collected and distributed in relation to council tax and non-domestic rates.

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.

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 Councils engage in specifically because they are elected, multi-purpose Councils. 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 Councils on its residents.

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.

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 a 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 Council'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 Council 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 Council 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 Council.

HERITAGE ASSETS

Heritage asset are assets with historic, artistic, scientific, technological, geophysical or environmental qualities held and maintained principally for its contribution to knowledge and culture.

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Accounting practices recommended by the major accounting bodies and applied internationally.

INVESTMENTS

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

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.

LASAAC

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) is an independent committee that develops and promotes proper accounting practice for local government in Scotland.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Council 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 RECEIVABLE

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 (NNDR)

Business rate levied on companies and other businesses 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 Council 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 Council in the direct delivery of those services for which it has either a statutory or discretional 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.

PAYABLE

An individual or body to which the Council owes money at the Balance Sheet date.

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.

RECEIVABLE

An individual or body that owes money to the Council at the Balance Sheet date.

REDUCING BALANCE DEPRECIATION

Depreciation on an asset is charged at a higher percentage rate in the earlier years of an asset and the amount of depreciation reduces as the life of the asset progresses.

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 EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE (REFCUS)

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.

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.

SERVICE REPORTING ACCOUNTING CODE OF PRACTICE (SeRCOP)

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

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.

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 Council 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.

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SPELTHORNE
MEANS BUSINESS

Spelthorne Borough Council Procurement Policy 2019 – 2020

Purpose and Scope

Spelthorne Borough Council is committed to the continuous delivery of value for money for our residents and good procurement has a key part to play in delivering the Council's Corporate Plan.

The continued reduction in central government funding, together with ongoing financial challenges, means it is more important than ever to achieve the best value possible from our procurement of works, goods and services. Best value means the highest quality achievable for the right price.

This Policy sets out the principles underpinning our use of external markets, and takes in account the requirements of Spelthorne's Contract Standing Orders.

Key Principles

- We will involve our stakeholders in the development of a Procurement Plan. The Plan will be used to effectively allocate resources to key projects and to identify opportunities for innovation, and will be shared on our website.
- We will develop practical processes and procedures that make it easier to deliver procurement projects.
- Where the value for money and efficiency benefits can be demonstrated, we will promote the use of frameworks and collaborative procurement.
- We will build our knowledge of our key commercial markets, and use this to procure more economically, more efficiently and more effectively.
- Our market knowledge will help us to shape our approach to the markets, and to develop innovative and alternative solutions to the provision of our services.
- Our procurement approach will be competitive and compliant, effectively managing risk and adhering to all applicable legislation. This will include the publication of our plans and our spend on Spelthorne's website.
- We will provide opportunities for our residents by specifying social value in our key contracts.
- We will strive to make Spelthorne a good council to do business with for small and local businesses.

February 2019

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Procurement Service Vision & Strategy

Michael Graham and Victoria Statham

February 2019

Procurement Vision

A Procurement approach which hits the 'triple bottom line':

People → Societal → local economic development and more social value embedded into our contracts

Profit → Financial → efficiency savings and improved whole life value for money

Planet → Environmental → improved sustainability

We will achieve optimal whole life value for money by taking a balanced approach to risk, reward and innovation in all of our third party spend

SPELTHORNE MEANS BUSINESS

Strategic Context of the Procurement Service

Economy, Efficiency, Effectiveness

- **Economy** – prioritising scarce resources to deliver corporate choices

- **Efficiency** – buying the goods , works and services we need in the quickest and simplest way to deliver best value outcomes

- **Effectiveness** – procuring the optimal goods, works and services to deliver best value services to residents and to achieve our social aspirations

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Current position

- Strong, valued support from Legal to help deliver projects pragmatically and compliantly
- Spend data is available
  - Can be categorised to identify opportunities
- Contracts information currently in Excel
  - Contract Management module available in In-tend system (would allow for active contract management)
- Off-contract / maverick spend
  - Requires stronger procurement project discipline
- There is an appetite for change
  - Needs corporate buy-in and top-down leadership & support

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Procurement Service

We will:

- Measure what is important to Spelthorne, e.g.
  - Regular analysis of spend to identify where and how we spend our budgets
  - Review contracts to identify level of compliance (spend under contract)
  - Measure contract effectiveness (performance against KPIs)
  - Set improvement targets
- Establish and agree our Procurement Policy and consider options, for example:
  - Larger contracts with economies of scale, *or* SMEs and Local Providers *or* a Mixed Economy (e.g. construction contractors)
  - Investment in further assets *or* continued Spot Purchases (Temp. Accomm.)
  - Develop in-house capability *or* buy-in services when needed (construction professional services)
- Adopt a phased approach

Developing the Procurement Service Phased Approach

Discovery Phase	Design Phase	Implementation Phase
We Will:	We Will:	We will:
Analyse and Categorise Spend	Develop Procurement Plan (projects and resources)	Engage with stakeholders, getting their buy in to the Plan and the Strategy
Review Contracts Register	Identify savings and benefits opportunities	Regularly review our processes, plans and performance on a 'Plan, Do, Check, Act (PDCA)' cycle
Stakeholder meetings to gather commissioning and procurement intentions	Design benefits tracking systems and methodologies Develop Procurement Strategy	
Stakeholder meetings to gather views on service design	Design RACI chart with stakeholder responsibilities	

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Discovery Phase

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Procurement Service – progress to date

- ✓ Indicative Spend analysis completed (basic, non-automated…)
  - ✓ Initial opportunities identified

- ✓ Contracts register review underway
  - ✓ In-tend Contract Module module up and running – needs populating with live contracts

- ✓ Discussions underway with service leads to establish intentions to build the Procurement Plan

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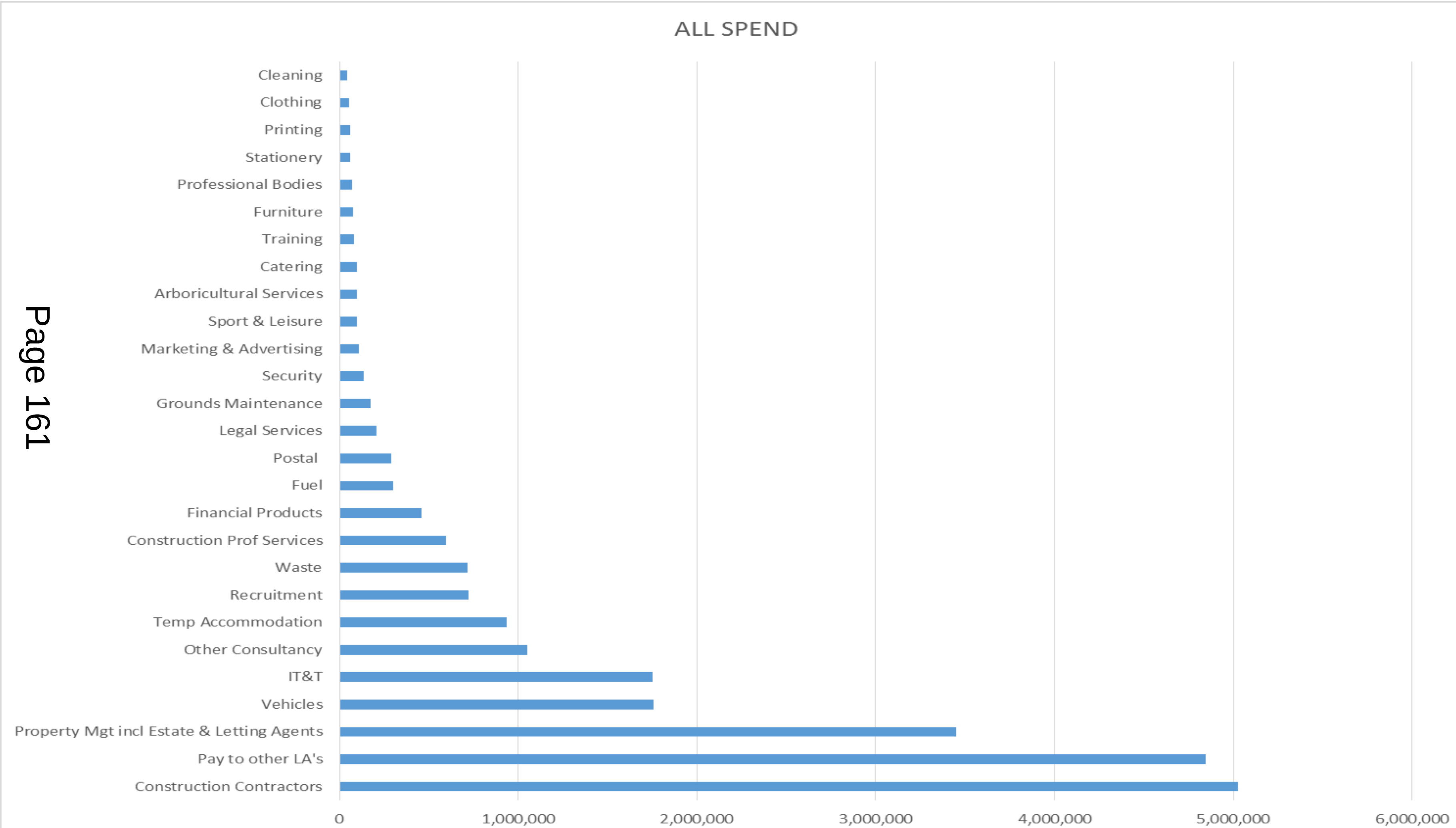
Spend Analysis (indicative)
Categories of Spend*



*Spend Analysis has been undertaken manually and categorisation is fairly crude!

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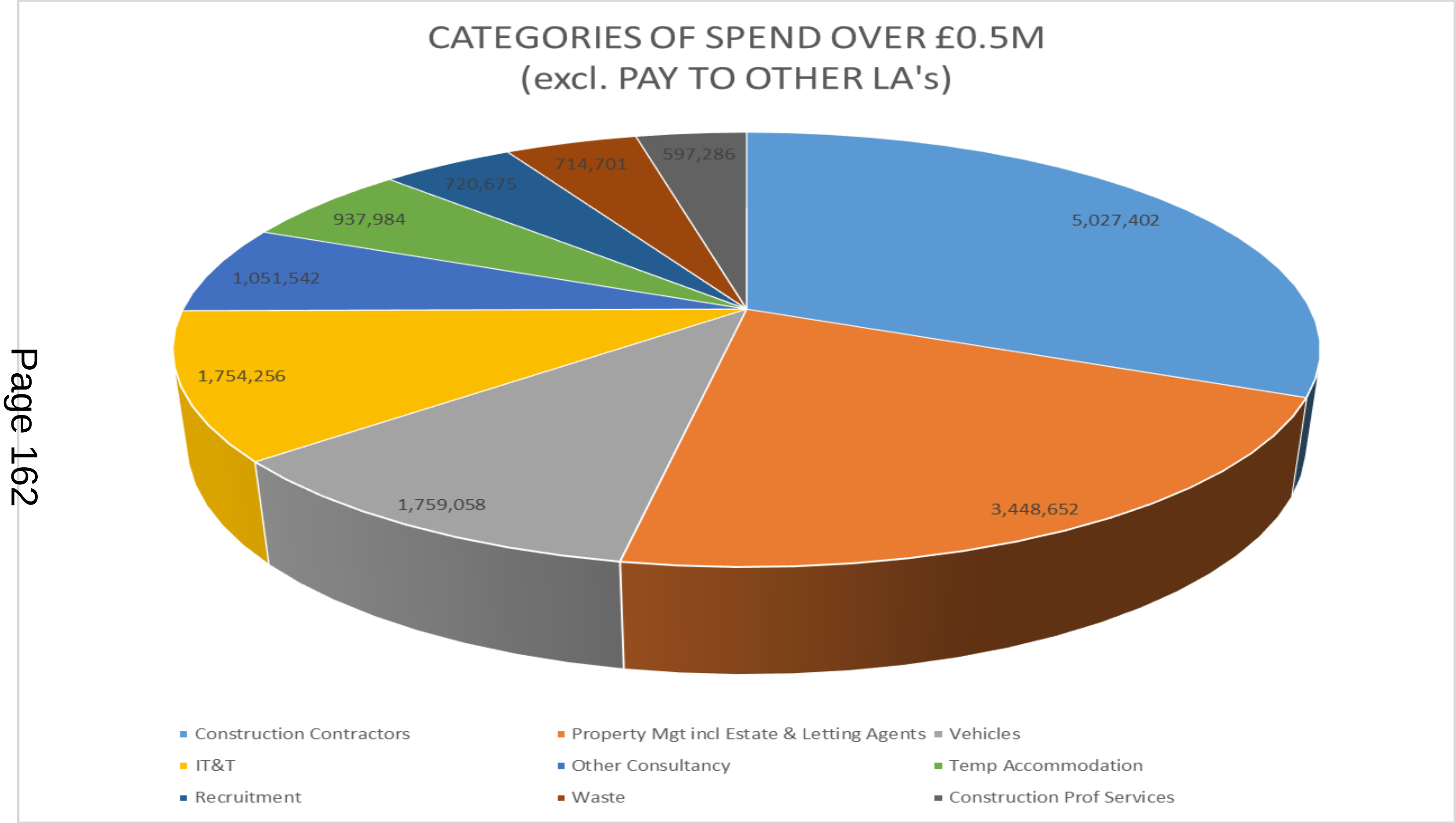
Key Categories of Spend



Key Categories
Examples of Opportunities

- Construction-related consultants (professional services)
  - 17/18 spend shows 48 different consultants
    - Reduced number → improved rates; better relationships; reduced transactional cost; minimised supplier management

- Recruitment agents
  - 17/18 spend shows 17 providers
    - Different model (e.g. neutral vendor) → much improved rates; reduced transactional cost; less officer time to manage

- IT & T
  - 17/18 spend shows 74 hardware, software and telecoms providers
  - Transparency data also indicates additional credit card spend
    - Strategic relationship → volume related rates; reduced transactional costs;

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What you’ve told us so far …you want:

- Focus on the Service as a customer
- No added bureaucracy or red tape
- No new compliance burdens on Services
- Quick and pragmatic solutions
- Better engagement with procurement staff
- To remove the hassle from procurement
- Better knowledge of the opportunities out there
- Help for local businesses
- Better visibility of future projects and track current ones
- Help to engage the market
- Better knowledge of where the money goes
- Help to get better VFM
- Support on Contract Management

SPELTHORNE MEANS BUSINESS

Developing our Service Strategy

- **Our Vision** – to undertake procurement delivery that hits the triple bottom line

- **Mission** – to deliver an excellent procurement service which helps the Council achieve its financial, environmental and social objectives and takes the hassle out of procurement for Services

- **Phased approach – Discover, Design, Implement**

- **Monitor & measure -** work through a phased approach of improvement we will monitor our progress to bring the Council from its current low state of performance to sector leading outcomes

SPELTHORNE
MEANS BUSINESS

How to raise visibility and buy-in:

- Work through a monthly Procurement Projects Group
  - Focus on delivery
  - Links with good Project Management
  - No compulsory attendance!
- Quarterly monitoring of progress at MAT and O&S?
- Categorisation in E-series?
- Monthly reporting on status of current initiatives
- Initially - 3 simple metrics:
  - Better - Improved compliance with more spend under control
  - Faster - Improving procurement cycle time
  - Cheaper - Better whole life value for money

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MEANS BUSINESS

Outputs

Procurement Policy	Procurement Plan	Procurement Strategy
The principles of our engagement with external markets Acknowledges all applicable rules and legislation Sets out our value for money principle	Records and tracks all projects which have a requirement to procure Plans and allocates the necessary support services, Procurement, Legal, ICT, Finance etc	Details our procurement approach Takes into account our Corporate Strategy and our Values Supports our approach to innovation and to the management of cost and risk

SPELTHORNE
MEANS BUSINESS

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Audit Committee

28 March 2019

Title	Brexit		
Purpose of the report	To note		
Report Author	Sandy Muirhead		
Cabinet Member	Councillor John Boughtflower	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	The Committee is invited to comment on the potential risks set out in this report and the arrangements for monitoring and managing the potential impact of the UK leaving the EU on 29 March 2019.		
Reason for Recommendation	**To enable the Committee to consider the potential risks arising from Brexit and the scope of the project plan to mitigate or address the risks**		

1. Key issues

1.1 Following the EU referendum in 2016, the UK is/was due to leave the EU on 29 March 2019. If there was no agreement with the EU then the default position was for the UK to leave in March2019 unless the Government seeks to extend the Article 50 negotiating process or Parliament intervenes to prevent it happening.

1.2 Planning for the future outside the EU is difficult as we do not know the final outcome of negotiations. Despite recent Parliamentary votes there is still a possibility of a “No Deal” and as a result we are continuing to look at the possible impacts on the Council of a “No Deal” scenario. The lack of certainty over what is going to happen has made planning for post-Brexit very difficult.

1.3 Although it is still unknown how the UK will leave the EU, it is appropriate that we consider the potential risks and opportunities facing the Council, and the wider community, based on our exit from the EU with “No Deal”. Brexit, as an issue, has been added to the Corporate Register.

1.4 The main areas to cover in terms of addressing risk are:-

- Establishing the Council’s exposure to the different corporate, project and financial risks of Brexit

- Engagement with local partners to understand how Brexit affects their risks and any shared risks
- Reviewing significant policies relevant to the management of these risks (e.g. investment policy) to ensure they are fit for purpose in the new environment
- Assessing any impact of the risk assessment on the assumptions used to generate the medium term financial plan
- Continuing to report on and update members on emerging issues/risks and likely impacts on the Council.
- Monitoring staffing issues in services which could be most affected.
- Monitoring the impact and implications of any future agreement between the UK and EU
- Identifying the opportunities.

1.5 However, the risks are complex and impact on regulatory services as well, so leaving the EU is not a straightforward process. The impacts could take some time to evolve. Additionally as we do not have a full picture of the impacts it is difficult to be definitive. However, it is generally considered that there will be legal, economic, social and political implications whatever form departure from the EU takes.

1.6 The Government has circulated to local authorities a checklist of issues to address in terms of risk. Together with the general risks identified above this forms the basis below of a summary of key issues for the Council.

1.7 **Statutory Services** including environmental, leisure and community (others such as social care are of importance to County but could have knock on effects to districts depending on outcomes).

- The impacts on these services relate primarily to staffing issues. Neighbourhood Services potentially could be most affected as the biggest key issue will be movement of people. Neighbourhood Services are already struggling with regards to recruitment of key operational staff. There is information available which is being given to relevant staff on the EU settlement scheme. This allows those EU residents that have been here longer than 5 years the right to apply for settlement and those under 5 years the right to apply for a temporary 5 year residency which they should be able to make permanent in 5 years.
- Staff potentially may need assistance/support to enter into the scheme but the settlement scheme will also continue in a “No Deal” scenario.
- Indirectly Council construction projects could be impacted by staff shortages within construction companies if there is a significant exodus of skilled EU workers.

1.8 **Regulatory Services** including environmental health. Without knowing the potential outcomes of leaving on 29 March it is very difficult to predict impacts. Concerns raised include:-

- Importation/exportation of food (Environmental Health are waiting to hear from Hillingdon on their intentions as they currently do this work on our behalf at Heathrow)
- Certification of food associated with approved food premises will change – there is a considerable amount of EU legislation which has to be translated into UK legistlation.
- The availability and employment of EU citizens within food businesses could impact on food premises (both positive and negative)

1.9 **The impact (direct or indirect) of any Border areas**:-

- Through the Surrey Local Resilience Forum (SLRF) there are discussions on the impacts of a “No Deal” on ports and Heathrow. The latter consider they could be quite self-contained if there were any delays in freight consignments but the SLRF are considering any transport impacts in Surrey if there were issues at Dover or Folkestone causing traffic to “back up” to the M25 and on into Surrey.
- For the Council and communities concerns have been raised in relation to food shortages in the early months if ports are affected and lorry movements are stalled due to border checks. Such delays could then impact on the use of food products beyond their sell by dates, illegal slaughter of animals, and increase the vulnerability of people. This could affect our Community centres and Meals on Wheels services depending on supplier’s access to foodstuffs and medicines.
- Fuel shortages could cause difficulties for staff getting into work though this could be mitigated through enacting business continuity plans and staff working from home where feasible.
- Shortages could occur for other essential items such as prescription medication, which may impact on staff ability to work, or items such as toilet rolls.
- Shortages may lead to stock piling. This could have consequences if items such as chemicals are stockpiled in large quantities leading to possible storage safety issues.

1.10 **Impact on supply chains** and the possible risks to them and rising costs if tariffs are imposed.

Difficult to assess at this stage but an issue the Council needs to be aware of. As we have relatively few outsourced services key areas to address are around supplies for services such as Meals on Wheels and the Community Centres. Many food based companies are already stockpiling supplies of non-perishable goods.

1.11 **Data Handling and ICT**

The Government has confirmed that GDPR will be absorbed into UK law at the point of Brexit, meaning (given the nature of SBC’s processing) it is unlikely that there will be significant impacts, with the potential exception of personal data being received into the UK from (current) EEA countries. Officers are assessing the volume and sensitivities of personal data that SBC will receive, post Brexit, from (current) EEA countries and appropriate action will be taken if required. Spelthorne has little data held in EEA countries as most is held on our own servers and our major suppliers state they host the information in the UK. There may be some contractors with whom we need to update contracts with an appropriate clause if they hold data in EEA countries so as to ensure a smooth transfer of that data back into Spelthorne in the event of a "No Deal". Guidance has been provided by the Information Commissioner's office on this topic.

1.12 **Local Partnership Working**

Spelthorne BC will ensure it works with relevant bodies to effectively plan and consider issues for the EU exit. Spelthorne will work with community safety bodies to address potential tensions in relation to hate crime and management of community tensions, and with other community bodies to ensure the most vulnerable are protected.

1.13 **Communications**

The UK exit from the EU could result in significant tensions as well as misinformation and/or expectations on communities. It is difficult to predict the likely impact in Spelthorne and we have not yet seen heightened community tensions. We have been, and are, communicating information to promote the UK Settled status scheme. We are also providing information to local businesses as well as obtaining feedback from them on impacts to their businesses.

Through Applied Resilience, our emergency planners, we have weekly attendance at the Tactical Local Resilience Forum's (SLRF) teleconferences on Brexit and fortnightly attendance at the strategic teleconferences. We file weekly reports on current issues in relation to Brexit to the SLRF which are then absorbed into a Surrey wide report which goes back to central Government.

1.14 **Inward Investment and economic downturn**

Given the current status of Brexit it is difficult to assess how Brexit may impact on inward investment in the Borough. The lack of uncertainty over the future may prevent multi-nationals/local companies investing further in the Borough. We are aware of one company who are moving their European operations to Europe although keeping a presence in the UK to continue to do business here.

The Bank of England has published the potential economic scenarios over the next five years. These include the possibility of recession, rising unemployment, a rise in inflation, currency fluctuation and a fall in commercial property and house prices. The figures are speculative due to the level of uncertainty over the final terms of the Brexit negotiations.

From mid-March it was hoped we may be in a better position to look at the potential impact of the most likely scenarios but with the current situation this is unlikely.

Any economic downturn and uncertainty will cause budgetary pressures, which we will have to manage. There could be a knock-on effect on investment and growth and increased pressure on public finances resulting in possible further squeezing of public sector budgets. We also need to be aware of the implications on currency and interest rates, which could affect the financial markets and our investments strategies. This might not only have a potential impact on our financial status but could also affect pension funds.

1.15 **Council financial implications**

SBC always discuss Brexit risks with Arlingclose our investment managers at the quarterly meeting officers and Cllr Williams have with them. SBC has sought to minimise the correlation of our different pooled investment to increase resilience in the face of any economic impacts including Brexit. Our investment property strategy is to hold properties on a long term basis, so we can withstand short term down turns in property value, the majority of our tenants are on relatively long leases (BP which account still for 40% of the rental income of our portfolio still have 18 years with no breaks to run). We recently commissioned Deloitte to review our overall investment portfolio and they seem reasonably comfortable with it. One of the purposes of the sinking funds we are setting aside each year is to enable us to withstand short term tenant voids and other potential risks such as Brexit. These aspects are also built into our medium term financial planning.

We are currently not expecting any significant changes in relation to our borrowing via the Public Works Board. More significant impacts on investment income are likely to result if the country enters a recession.

1.16 **Business rate income** – with the future and current local retention of business rates, the Council will increasingly depend on its ability to retain and grow rate-paying businesses. If there is a recession or reduced inward investment this could impact on the Council's future finances.

1.17 **Housing/Homelessness -** an economic downturn as a result of Brexit would have a significant impact on housing, employment and incomes. This may result in in a need to provide more support for households struggling with sudden changes in circumstances as well as the risk of potential increases in voids, arrears and bad debt. Homelessness may also increase because of the pressure on housing. In the event of a recession there will be a rise in the number of housing and council tax benefit applications due to the downturn in the economy.

2. Conclusion

2.1 This reports sets out the potential risks and challenges of Brexit for the Council if we do not reach an agreement with the EU. The current situation is in a state of flux although there may be more clarity if there is an agreement by 29th March 2019. Once we know the outcome of the negotiations and associated Parliamentary decisions we will be in better position to fully identify the key risks and new opportunities as and when they arise. We will continue to monitor the situation and take appropriate actions.

3. Financial implications

3.1 There are no financial implications arising directly from this report. However, any resource implications will be evaluated and a project plan implemented to deal with any issues. The Government has allocated to district and boroughs

£35k in total to deal with the consequences of Brexit. This money will be provided over the financial years 18/19 and 19/20.

4. Other considerations

4.1 There may be legal issues to address particularly around regulation but an economic downturn or civil unrest could have implications for sustainability and equality and diversity issues.

5. Timetable for implementation

5.1 Depends on outcomes achieved on Brexit by 29 March 2019.

Background papers: There are none

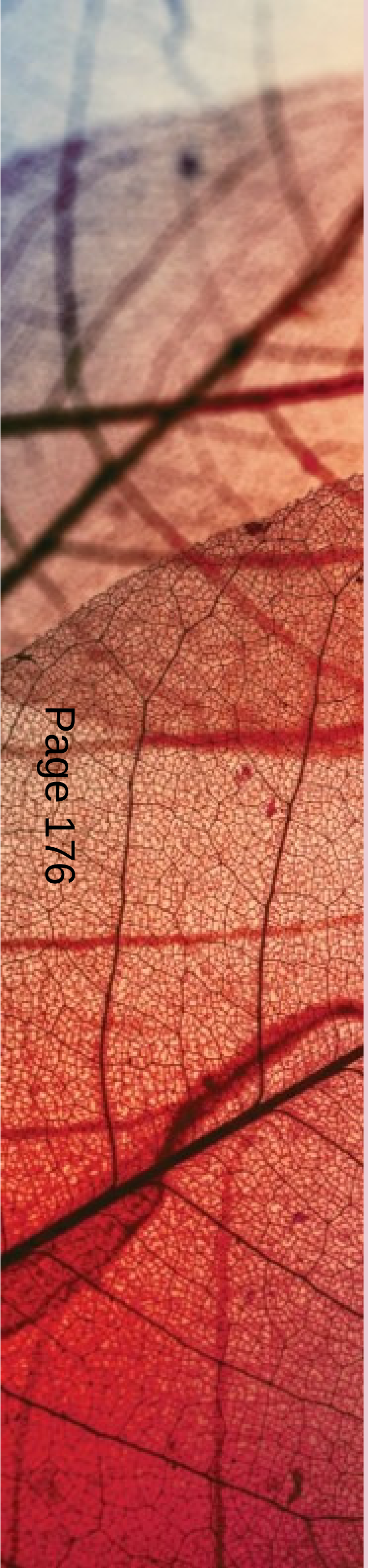
Appendices:

Report to the Audit Committee

SPELTHORNE BOROUGH COUNCIL

Audit Planning: year ending 31 March 2019

IDEAS | PEOPLE | TRUST



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WELCOME

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We have pleasure in presenting our Audit Planning Report to the Audit Committee of Spelthorne Borough Council (the 'Council'). This report forms a key part of our communication strategy with you, a strategy which is designed to promote effective two way communication throughout the audit process with those charged with governance.

It summarises the planned audit strategy for the year ending 31 March 2019 in respect of our audit of the financial statements of the Council and consolidated entity (together the 'Group') and use of resources; comprising materiality, key audit risks and the planned approach to these, together with timetable and the BDO team.

The planned audit strategy has been discussed with management to ensure that it incorporates developments in the business during the year under review, the results for the year to date and other required scope changes.

We look forward to discussing this plan with you at the Audit Committee meeting on 28 March 2019 and to receiving your input on the scope and approach.

In the meantime if you would like to discuss any aspects in advance of the meeting please contact one of the team.

Leigh Lloyd-Thomas

14 March 2019

Leigh Lloyd-Thomas

Engagement Partner

t: 020 7983 2616
e: leigh.lloyd-thomas@bdo.co.uk

Janine Combrinck

Director

t: 020 7893 2631
e: janine.combrinck@bdo.co.uk

Tawanda Mutenga

Audit senior

t: 020 3219 420
e: **tawanda.mutenga@bdo.co.uk**

SCOPE AND MATERIALITY

Executive summary

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This summary provides an overview of the key audit matters that we believe are important to the Audit Committee in reviewing the planned audit strategy for the Council and the Group for the year ending 31 March 2019.

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

Audit scope

The scope of the audit is determined by the National Audit Office (NAO)'s Code of Audit Practice that sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. This includes: auditing the financial statements; reviewing the arrangements to secure value for money through the economic, efficient and effective use of its resources; and, where appropriate, exercising the auditor's wider reporting powers and duties.

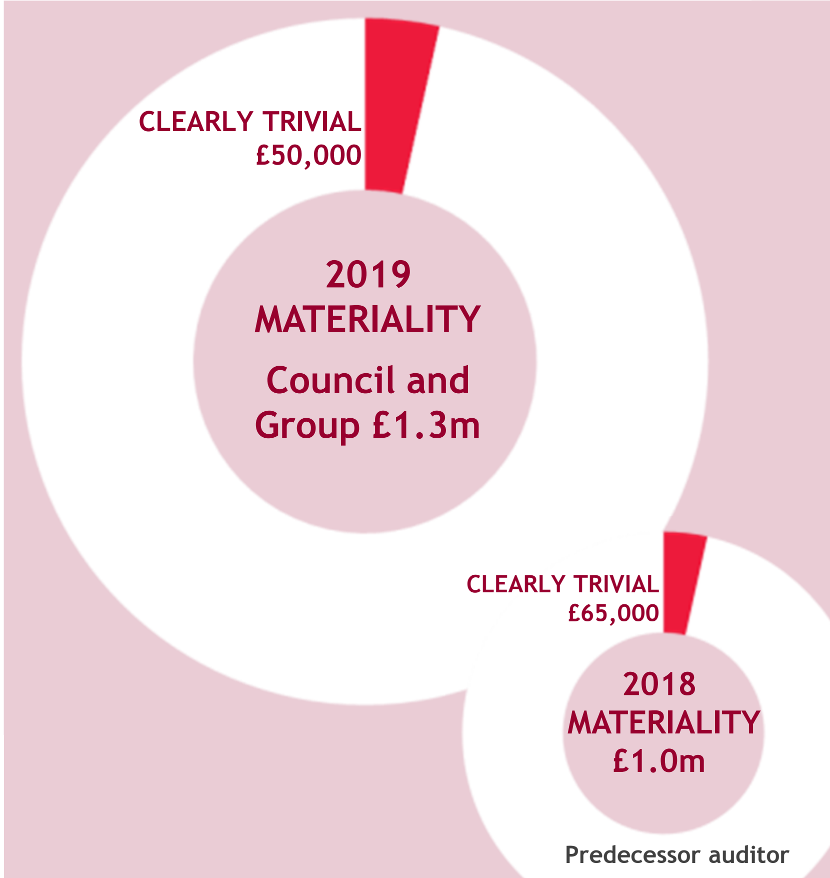
Our approach is designed to ensure we obtain the requisite level of assurance in accordance with applicable laws, appropriate standards and guidance issued by the NAO.

Materiality

Planning materiality for the Council and the Group will be set at 1.5% of gross expenditure for the year (prior year 1.45% by predecessor auditor) using the prior year gross expenditure figure. This will be revisited when the draft financial statements are received for audit.

Although materiality is the judgement of the engagement lead, the Audit Committee is obliged to satisfy themselves that the materiality chosen is appropriate for the scope of the audit.

We usually set our trivial level for reporting misstatements at 2% of materiality (£26,000) although we can set a trivial level up to an upper range at 5% of materiality. We note that your previous auditor set this at 6.5%. We propose capping the trivial level at £50,000 (3.8% of materiality) but will revert to 5% with the approval of the Audit Committee.



AUDIT STRATEGY
Executive summary

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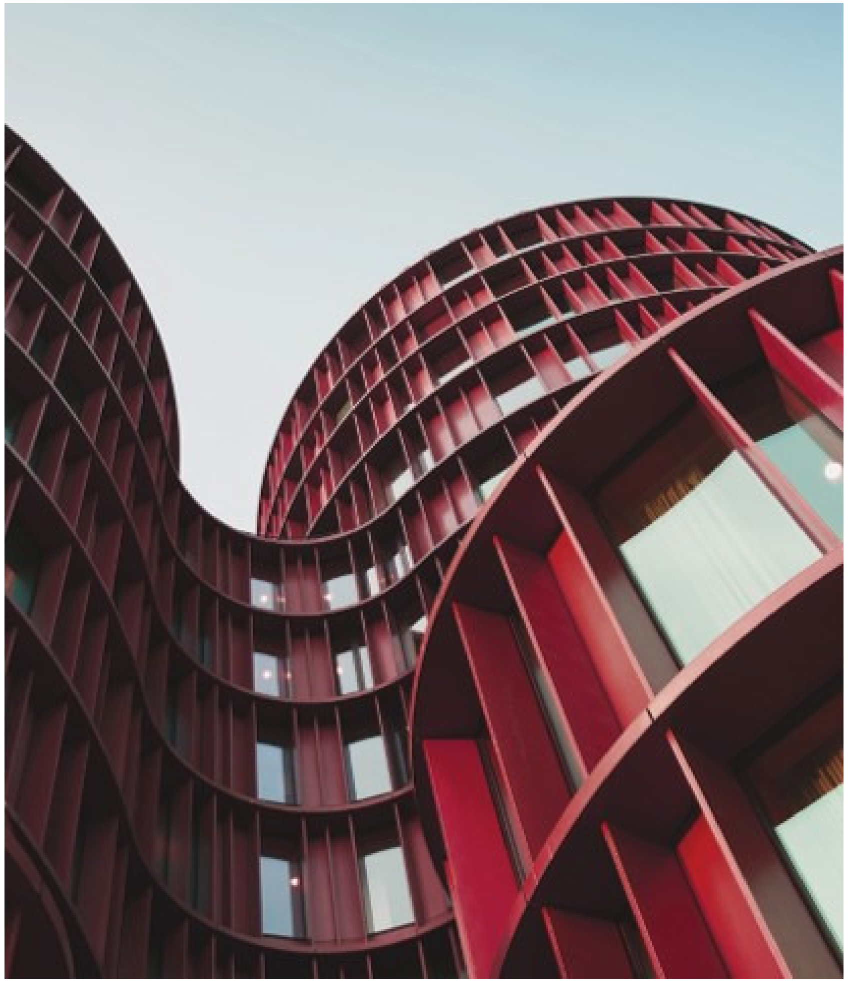

Our Audit Strategy is predicated on a risk based approach, so that audit work is focused on the areas of the financial statements where the risk of material misstatement is assessed to be higher, or where there is a risk that the organisation has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We have discussed the changes to the organisation, systems and controls in the year with management and obtained their own view of potential audit risk in order to update our understanding of the Council and the Group's activities and to determine which risks impact on the numbers and disclosures in the financial statements, or on its arrangements for securing economy, efficiency and effectiveness in its use of resources.

A lower level of materiality is applied to the areas of the financial statements that are considered to be sensitive, such as senior management remuneration disclosures, auditor's remuneration disclosures and related party disclosures.

We will continue to update this assessment throughout the audit.

The table on the next page summarises our planned approach to audit risks identified.

AUDIT RISK OVERVIEW
Executive summary

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Risk identified - Financial statements	Risk rating	Fraud risk present	Testing approach	Impact of significant judgements and estimates
1. Management override of controls	Significant	Yes	Substantive	Medium
2. Revenue and expenditure recognition	Significant	Yes	Substantive	Medium
3. Property, plant & equipment and investment properties valuations	Significant	No	Substantive	High
4. Pension liability valuation	Significant	No	Substantive	High
5. Revenue from contracts with customers (IFRS 15)	Significant	No	Substantive	Medium
6. Classification and measurement of financial instruments (IFRS 9)	Significant	No	Substantive	Medium
7. Allowance for non-collection of receivables and debt	Normal	No	Substantive	Medium
8. Related party transactions	Normal	No	Substantive	Low

Risk identified - Use of resources	Risk rating	Testing approach
9. Sustainable finances	Significant	Detailed review
10. Decision making for investment property acquisitions	Significant	Detailed review

INDEPENDENCE AND FEES

Executive summary

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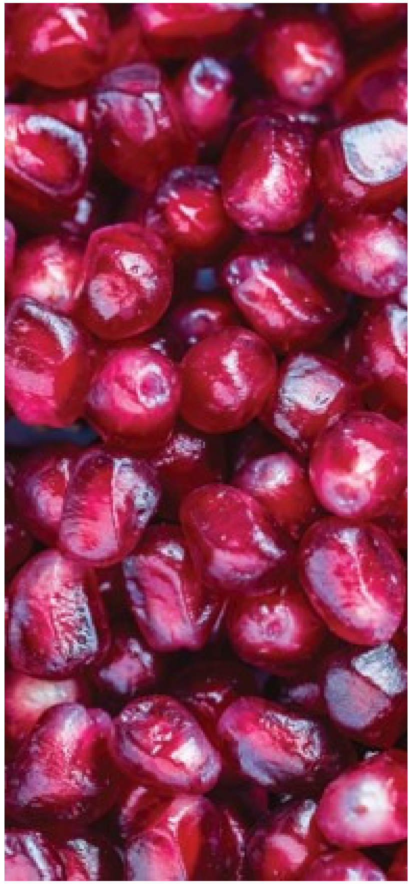

Independence

We confirm that the firm complies with the Financial Reporting Council's Ethical Standard for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards. We previously drew the Audit Committee's attention to the fact the Council has acquired the freehold interest in a property in Reading in which we currently hold a lease under the terms arranged with the previous owner. We are satisfied that this does not present a threat to our independence and objectivity as your auditor.

Fees

	2018/19 £	2017/18 £
Code audit fees	(1) 41,059	(2) 48,128
Total audit fees	**41,059**	**48,128**
Non audit fees		
Housing benefit subsidy certification	7,102	(2) 7,102
Non audit fees	**7,102**	**7,102**
Total fees	**48,161**	**55,230**

(1) Public Sector Audit Appointments Limited (PSAA) has set the 2018/19 fee scale at £37,059, on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the applicable scale fee for 2017/18. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs. We have estimated an additional fee of £4,000 for the audit of the Group Accounts, as the consolidated entity is not separately audited. We will re-visit this estimate when we receive the draft accounts and supporting working papers of the subsidiary.

(2) KPMG was the appointed auditor for these audits in 2017/18 and we have reported their planned fees above.

OVERVIEW

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Key components of our audit objectives and strategy are highlighted and explained on the following pages.

Audit planning is a collaborative and continuous process and our audit strategy, as reflected here, will be reviewed and updated as our audit progresses.

We will communicate any significant changes to our audit strategy, should the need for such change arise.

Reporting	Objectives
Auditing standards	We will perform our audit in accordance with International Standards on Auditing UK (ISAs (UK)) and relevant guidance published by the NAO.
Financial statements	We will express an opinion on the Council and Group financial statements, prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2018/19 and other directions.
Statement of Accounts	In addition to our objectives regarding the financial statements, we will also read and consider the other information contained in the Statement of Accounts to consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.
Use of resources	We will report whether we consider that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
WGA	We will review the Whole of Government Accounts (WGA) return, if above the thresholds set by DWP, and express an opinion on whether the return is consistent with the audited financial statements.
Additional powers and duties	Where necessary we may be required to: issue of a report in the public interest; make a written recommendation to the Council; allow local electors to raise questions and objections on the accounts; or exercise legal powers to apply to the courts for a declaration that an item of account is contrary to law, issue an advisory notice or an application for a judicial review.
Report to the Audit Committee	Prior to the approval of the financial statements, we will discuss our significant findings with the Audit Committee. We will highlight key accounting and audit issues as well as internal control findings and any other significant matters arising from the audit.

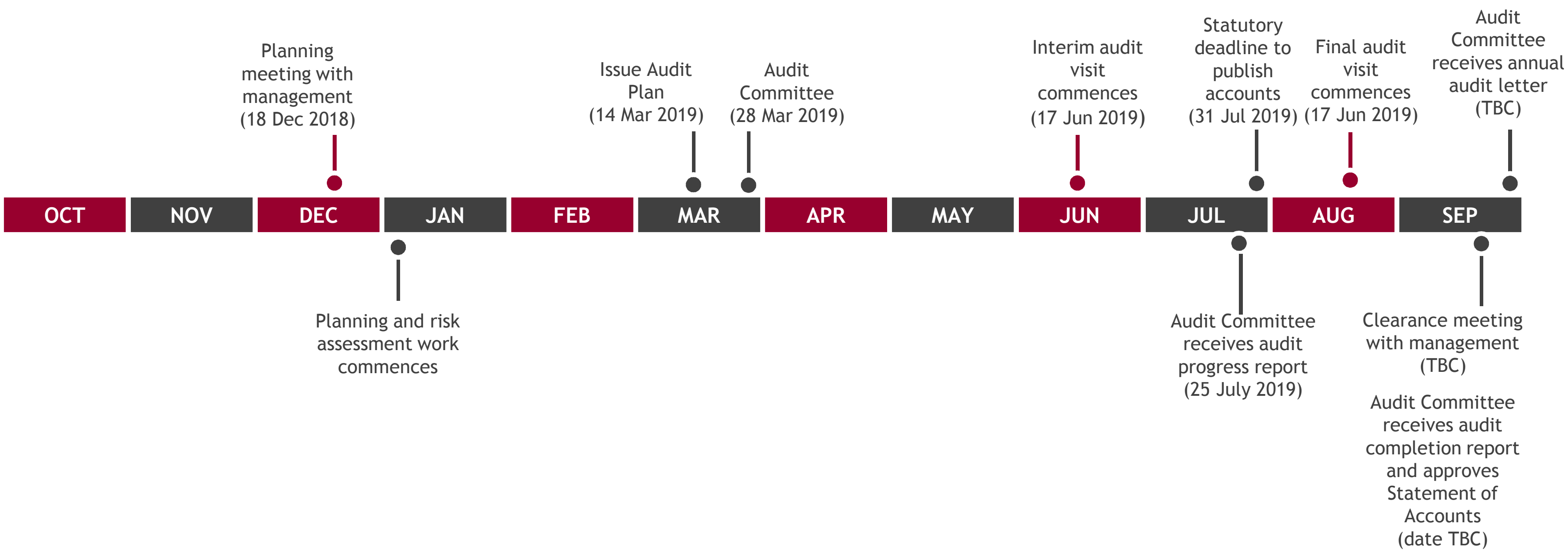
AUDIT SCOPE ENTITIES, COMPONENTS AND AUDIT RISKS

A high-level overview of how we have designed the Group audit strategy is summarised below to ensure you have clear oversight of the scope of the work we intend to perform.

Entity	Nature of Operations	Audit classification	Reason for classification	Audit Risks	Component Materiality	Audit strategy
Spelthorne Borough Council	Provides local authority services	Significant	Size and Risk	Risks 1-10	£1.3m	Statutory audit performed by BDO LLP
Knowle Green Estates Limited	Holding investments in residential property around the borough (100% owned by the Council)	Non significant component Income £282,000 Assets £2.017m (31/3/18 draft accounts)	Size	Risks 3, 5, 6, 7	£1.3m	The company makes use of the exemption from audit under Section 476 of the Companies Act 2006. We will audit the company's material balances. Total income and expenditure in the entity is less than £100,000 after elimination of intra-group transactions, therefore the net impact on the Group financial statements is below our group audit materiality. However, the net assets of the subsidiary are material as the subsidiary holds properties with a material value.

AUDIT TIMELINE

An overview of the key dates



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BDO TEAM
Team responsibilities

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Leigh Lloyd-Thomas
Engagement Lead

t: 020 7893 2616
e: leigh.lloyd-thomas@bdo.co.uk

As audit engagement lead I have primary responsibility to ensure that the appropriate audit opinions are given.

In meeting this responsibility I ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error, and to report on the financial statements and communicate as required by the ISAs (UK), in accordance with our findings.

I will ensure that we have undertaken sufficient work to assess the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources against the guidance published by the NAO.

I am responsible for the overall quality of the engagement and am supported by the rest of the team as set out here.

Janine Combrinck

t: 020 7893 2631
e: janine.combrinck@bdo.co.uk

I will manage the audit of the Council.

I work closely with Leigh to develop and execute the audit strategy. I will be a key point of contact on a day to day basis for the Council and will ensure that timelines are carefully managed to ensure that deadlines are met and matters to be communicated to management and the Audit Committee are highlighted on a timely basis.

Tawanda Mutenga
Audit Senior

t: 020 3219 420
e: tawanda.mutenga@bdo.co.uk

I will lead the on-site audit visits at the Council.

I work closely with Janine to execute the audit strategy. I will provide management support for the audit.

OVERVIEW

We have assessed the following as risks for our audit. These are matters assessed as most likely to cause a material misstatement in the financial statements or impact on our use of resources conclusion. These include those risks that will have the greatest effect on audit strategy, the allocation of audit resources and the amount of audit focus by the engagement team.

Description of risk	Significant risk	Normal risk	Overview of risk
1. Management override of controls			ISA (UK) 240 presumes that management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
2. Revenue and expenditure recognition			There is risk in respect of the existence (recognition) of commercial rents and revenue grants that are subject to performance conditions before these may be recognised as revenue. There is also a risk of manipulation of expenditure recognition including expenditure in the following year.
3. Property, plant & equipment and investment properties valuations			There is a risk over the valuation of land, buildings, dwellings and investment properties where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.
4. Pension liability valuation			There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.
5. Revenue from contracts with customers (IFRS 15)			There is a risk that relevant revenue streams are not recognised in accordance with the '5-step model' of the new accounting standard. There is also the risk that Knowle Green Estates Limited, that report under UK GAAP, may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the new standard.
6. Classification and measurement of financial instruments (IFRS 9)			There is a risk that relevant financial assets and liabilities are not classified and measured in accordance with the new accounting standard. There is also the risk that Knowle Green Estates Limited, that report under UK GAAP, may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the new standard.
7. Allowance for non-collection of receivables and debt			There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or if inappropriate methodology is applied. The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes into account assumptions about future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax and business rates that CIPFA has stated will continue to be accounted for on an incurred loss model.
8. Related party transactions			There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

CONTENTS

OVERVIEW

Description of risk	Significant risk	Normal risk	Overview of risk
9. Sustainable finances			There is a risk that the Council may not deliver sufficient savings or generate sufficient additional income to maintain financial sustainability in the medium term.
10. Decision making for commercial property acquisitions			There is a risk that the Council may not have appropriate arrangements in place to support informed decision making in respect of its commercial property acquisitions.

CONTENTS

MANAGEMENT OVERRIDE OF CONTROLS

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

Significant risk	■
Normal risk	
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements requires us to presume that the risk of management override of controls is present and significant in all entities.

Planned audit approach

Our audit procedures will include the following:

- Review and verification of large and unusual journal entries made in the year and agreeing the journals to supporting documentation. We will determine key risk characteristics to filter the population of journals. We will use our IT team to assist with the journal extraction;
- Review of estimates and judgements applied by management in the financial statements to assess their appropriateness and the existence of any systematic bias; and
- Review of unadjusted audit differences for indications of bias or deliberate misstatement.

REVENUE AND EXPENDITURE RECOGNITION

Page 189

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

Significant risk	■
Normal risk	
Fraud risk	■
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

Under auditing standards there is a presumption that there is a risk of fraud in revenue recognition. In particular, we consider there to be a significant risk in respect of the existence (recognition) of commercial rents income and revenue grants that are subject to performance conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES).

In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 issued by the Financial Reporting Council. This states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.

Planned audit approach

Our audit procedures will include the following:

- Testing a sample of commercial rents income to signed lease agreements or other correspondence with the tenant;
- Testing a sample of revenue grants included in income to documentation from grant paying bodies and check whether recognition criteria have been met; and
- Testing a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period and that all expenditure that should have been recorded at year end has been.

PROPERTY, PLANT & EQUIPMENT AND INVESTMENT PROPERTIES VALUATIONS

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

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

Local authorities are required to ensure that the carrying value of land, buildings and investment properties is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.

Revaluation of non-current assets is carried out on a rolling programme with the exception of investment properties which are valued annually. Valuations are carried out by external RICS qualified valuers.

Due to the significant value of the Council's land, buildings and investment properties and the high degree of estimation uncertainty, there is a risk over the valuation of these assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.

Planned audit approach

Our audit procedures will include the following:

- Review of the instructions provided to the valuer and assessing the valuer's skills and expertise in order to determine if we can rely on the management expert;
- Confirmation that the basis of valuation for assets valued in year is appropriate;
- Review of the accuracy and completeness of asset information provided to the valuer, such as rental agreements and property sizes;
- Discuss with our Real Estate Team the reasonableness of assumptions on benchmark and yields range for investment properties; and
- Review of assumptions used by the valuer and movements against relevant indices for similar classes of assets and follow up on valuation movements that appear unusual.

PENSION LIABILITY VALUATION

CONTENTS

Page 191

There is a risk the membership data and cash flows used by the actuary in the roll-forward valuation may not be correct, or the valuation uses inappropriate assumptions to value the liability.

- Significant risk
- Normal risk
- Fraud risk
- Assess design & implementation of controls to mitigate
- Significant Management estimates & judgements
- Controls testing approach
- Substantive testing approach
- Risk highlighted by Council

Risk detail

The net pension liability comprises the Council's share of the market value of assets held in the pension fund and the estimated future liability to pay pensions administered by Surrey County Council.

An actuarial estimate of the liability is calculated by an independent firm of actuaries. The estimate is based on the roll forward of membership data from the 2016 triennial valuation exercise, updated at 31 March 2019 for factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on appropriate membership data where there are significant changes or uses inappropriate assumptions to value the liability.

Planned audit approach

Our audit procedures will include the following:

- Assess the qualifications and competence of the actuary through the use of PwC consulting actuary (auditor's expert);
- Review of the reasonableness of the assumptions used by the actuary in the calculation against other local government actuaries and other observable data using the benchmark range of acceptable assumptions provided by PwC consulting actuary (auditor's expert);
- Review of the controls for providing accurate membership data to the actuary (we will be required to seek assurances from the pension fund auditor); and
- Checking whether any significant changes in membership data have been communicated to the actuary.

REVENUE FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

CONTENTS

Page 192

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

Significant risk	
Normal risk	■
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

IFRS 15 revenue from contracts with customers has been implemented for 2018/19 and requires all relevant revenue streams to be reviewed under a new '5-step model' to determine the appropriate point at which revenue can be recognised.

CIPFA has published guidance to assist with the required review including what revenue falls within IFRS 15 or IPSAS 23 revenue from non-exchange transactions, and the process for determining the correct recognition points and amounts for revenue. Our initial review of revenue streams for local authorities suggests that there are unlikely to be material restatements required for the Council.

However, the Council will need to undertake a review of all relevant revenue streams to determine the appropriate recognition date and amounts in the financial statements.

This will need to include both the Council and Knowle Green Estates Limited in the Group financial statements, that report under UK GAAP, rather than IFRS, as this new accounting standard has not yet been adopted into UK GAAP.

There is a risk that relevant revenue streams are not recognised in the financial statements in accordance with the new standard. There is also the risk that Knowle Green Estates Limited may be consolidated into the Group financial statements without the required adjustments to ensure the Group financial statements comply with the requirements of the new standard.

Planned audit approach

Our audit procedures will include the following:

- Review of the work performed by the Council, once undertaken, to assess the impact of the new '5-step model' on revenue streams on both the Council and the Group; and
- Review of the disclosures required relating to the adoption of the new accounting standard.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS (IFRS 9)

CONTENTS

Page 193

There is a risk that financial instruments are not classified and measured in accordance with IFRS9.

Significant risk	
Normal risk	■
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

IFRS 9 financial instruments has been implemented for 2018/19 and requires all relevant financial instrument assets (principally investments and loans provided to others) and liabilities (principally borrowing) to be categorised under new criteria based on their business model and contractual cash flows that will determine their classification and basis of valuation.

CIPFA has published guidance to assist with the required review and any restatement required where the classification needs to be amended.

The Council will need to undertake a review of all relevant assets and liabilities to determine the appropriate classification in the financial statements.

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

Planned audit approach

Our audit procedures will include the following:

- Review of the work performed by the Council, once undertaken, to assess the new classification of financial instruments in accordance with the guidance on both the Council and the Group; and
- Review of the disclosures required relating to the adoption of the new accounting standard.

ALLOWANCE FOR NON-COLLECTION OF RECEIVABLES AND DEBT

CONTENTS

Page 194

There is a risk over the valuation of the allowance for the non-collection of arrears and debt.

Significant risk	
Normal risk	■
Fraud risk	
Assess design & implementation of controls to mitigate	
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

The Council recognises an allowance for the non-collection of receivables (arrears and debt), primarily in respect of council tax, business rates and housing benefit overpayments. The Council assesses each type of receivable separately in determining how much to allow for non-collection.

There is a risk over the valuation of this allowance if incorrect assumptions or source data are used, or an inappropriate methodology is applied.

The implementation of IFRS 9 financial instruments has also changed the basis for estimating losses for non-collection of receivables and debt from an incurred loss model to an expected credit loss model that takes into account assumptions about future credit losses. However, this includes only receivables and debt deemed to be financial instruments and excludes receivables under statute such as council tax and business rates that CIPFA has stated will continue to be accounted for on an incurred loss model.

Planned audit approach

Our audit procedures will include the following:

- Review of the provision model for significant income streams and receivables and debt balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears;
- Check that information has been accurately extracted from systems to support the modelling of collection rates by age; and
- For receivables classified as financial instruments, includes appropriate assumptions for expected credit losses.

RELATED PARTY TRANSACTIONS

CONTENTS

Page 195

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting 2018/19 requirements.

Significant risk	
Normal risk	■
Fraud risk	
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Substantive testing approach	■
Risk highlighted by Council	

Risk detail

Whilst you are responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment of fraud. Our audit approach includes the consideration of related party transactions throughout the audit including making enquiries of management and the Audit Committee.

There is a risk that related party disclosures are not complete and in accordance with the Code of Practice on Local Authority Accounting requirements.

Planned audit approach

Our audit procedures will include the following:

- Review of management processes and controls to identify and disclose related party transactions;
- Review of relevant information concerning any such identified transactions;
- Discussing with management and reviewing councillors' and management declarations to ensure that there are no potential related party transactions which have not been disclosed; and
- Undertaking Companies House searches for potential undisclosed interests.

SUSTAINABLE FINANCES

CONTENTS

There is a risk that the Council may not deliver sufficient savings or generate sufficient additional income to maintain financial sustainability in the medium term.

Significant risk

Normal risk

Fraud risk

Assess design & implementation of controls to mitigate

Significant Management estimates & judgements

Controls testing approach

Detailed review

Risk highlighted by Council

Risk detail

The Council has set a Medium Term Financial Strategy (MTFS) covering the period 2019/20 to 2022/23. Due to reducing grant funding and ongoing cost pressures, the current MTFS indicates the following budget gaps if no mitigating actions are put in place: £3.506 million in 2020/21, £4.209 million in 2021/22 and £1.971 million in 2022/23.

The Council has identified efficiency savings and the delivery of additional income, through investment property acquisitions and its housing delivery programme, as a means to address the budget gaps in the MTFS. The achievement of these targets are inherently challenging and there is a risk that the MTFS may not fully take account of the investment costs associated with major capital and development projects.

Planned audit approach

Our audit procedures will include the following:

- Assessment of the reasonableness of assumptions underpinning the MTFS, including the cost pressures and the amount of Government grant reductions applied;
- Monitoring the delivery of the budgeted savings in 2018/19 and the plans to reduce services costs and increase income from 2019/20; and
- Determining whether the MTFS adequately takes account of investment costs associated with major capital and development projects.

DECISION MAKING FOR COMMERCIAL PROPERTY ACQUISITIONS

There is a risk that the Council may not have appropriate arrangements in place to support informed decision making in respect of its commercial property acquisitions.

Significant risk	■
Normal risk	
Fraud risk	
Assess design & implementation of controls to mitigate	■
Significant Management estimates & judgements	
Controls testing approach	
Detailed review	■
Risk highlighted by Council	

Risk detail

The Council has embarked on a sizeable programme of commercial property acquisitions, with the aim of generating significant investment income to reduce the budget gaps in its MTFS. In 2018/19 to date, the Council has spent £314 million in purchasing five commercial properties.

Due to the large scale of the acquisitions, there is an inherent risk that there may not be appropriate arrangements in place to support fully informed decision making in respect of these acquisitions.

Planned audit approach

Our audit procedures will include the following:

- Review of the audit trails underpinning each major commercial property acquisition in 2018/19, and making enquiries of officers where necessary, to assess whether decisions have been adequately informed by appropriate arrangements such as options appraisal, risk assessment, sensitivity analysis and treasury management considerations.

OTHER MATTERS REQUIRING FURTHER DISCUSSION

CONTENTS

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Fraud

Whilst the Audit Committee, as those charged with governance, has ultimate responsibility for prevention and detection of fraud, and councillors have a duty to ensure there are adequate controls to reduce losses to fraud and corruption, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit and includes making enquiries of management and those charged with governance.

We have been made aware of a number of low value actual, alleged or suspected incidences of fraud committed by users of the Council's services (such as housing benefits fraud). We request confirmation from the Audit Committee on fraud and a discussion on the controls and processes in place to ensure timely identification and action.

Significant estimates

We will report to you on significant estimates. We will seek to understand and perform audit testing procedures on accounting estimates and judgements including consideration of the outcome of historic judgements and estimates. We will report to you our consideration of whether management estimates and judgements are within an acceptable range.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will review relevant reports as part of our audit and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Laws and regulations

We will consider compliance with laws and regulations. The most significant of these for your business includes VAT legislation and employment taxes. We will make enquiries of management and review correspondence with the relevant authorities.

Accounting policies

We will report to you on significant qualitative aspects of your chosen accounting policies. We will consider the consistency and application of the policies and we will report to you where accounting policies are inconsistent with CIPFA's Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

Financial statement disclosures

We will report to you on the sufficiency and content of your financial statement disclosures.

Contingencies

We request input from management on any recent claims.

Any other matters

We will report to you on any other matters relevant to the overseeing of the financial reporting process. Where applicable this includes why we consider a significant accounting practice that is acceptable under the financial reporting framework not to be the most appropriate.

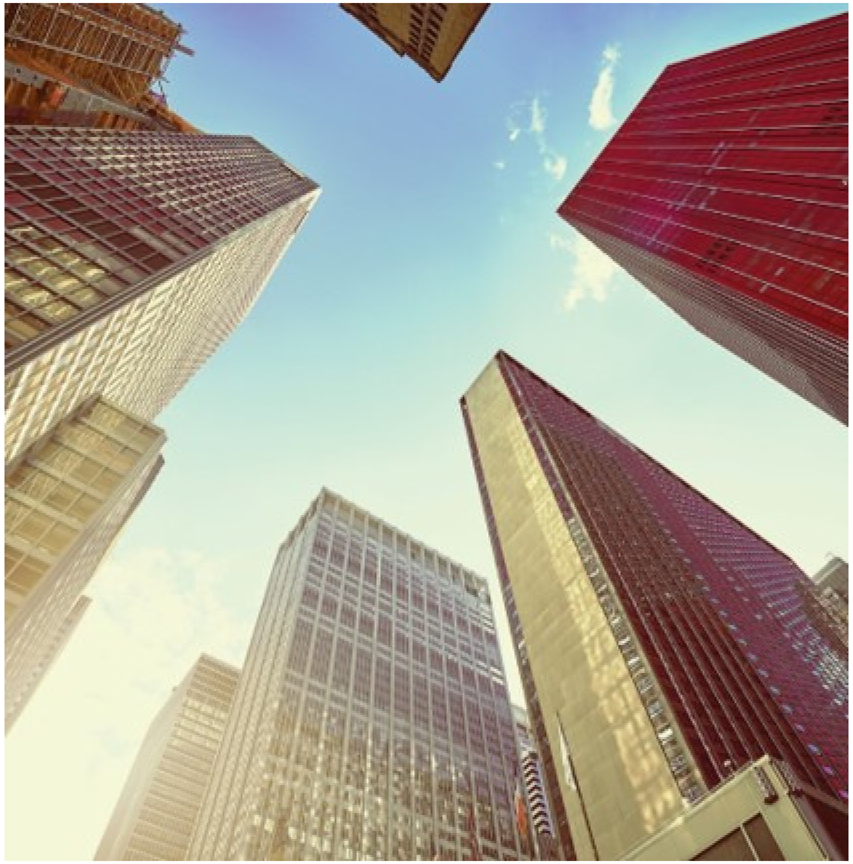
IT GENERAL CONTROLS

CONTENTS

IT General Controls (ITGCs) are the policies and procedures that relate to many IT applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. They commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

ITGCs are an important component in systems of internal control, and sometimes have a direct impact on the reliability of other controls.

IT assurance is embedded in our audit strategy to ensure the IT systems provide a suitable platform for the control environment and is undertaken in conjunction with our IT Assurance team. Our testing strategy includes a tailored range of data analytics, system configuration and IT environment testing.



INDEPENDENCE

CONTENTS

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

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ending 31 March 2019.

Non-audit services

Details of services and fees other than audit, provided by us to the Council during the period and up to the date of this report are set out in the appendices.

Long association and rotation of staff

Details of rotation arrangements for key members of the audit team and others involved in the engagement are set out in the appendices.

Commercial relationships

We previously drew the Audit Committee's attention to the fact the Council has acquired the freehold interest in a property in Reading in which we currently hold a lease under the terms arranged with the previous owner.

We are satisfied that this does not present a threat to our independence and objectivity as your auditor as this commercial relationship is at arms length, the audit team are not party to the lease negotiations and the amounts are not material to either party.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

We also confirm that external audit experts involved in the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

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

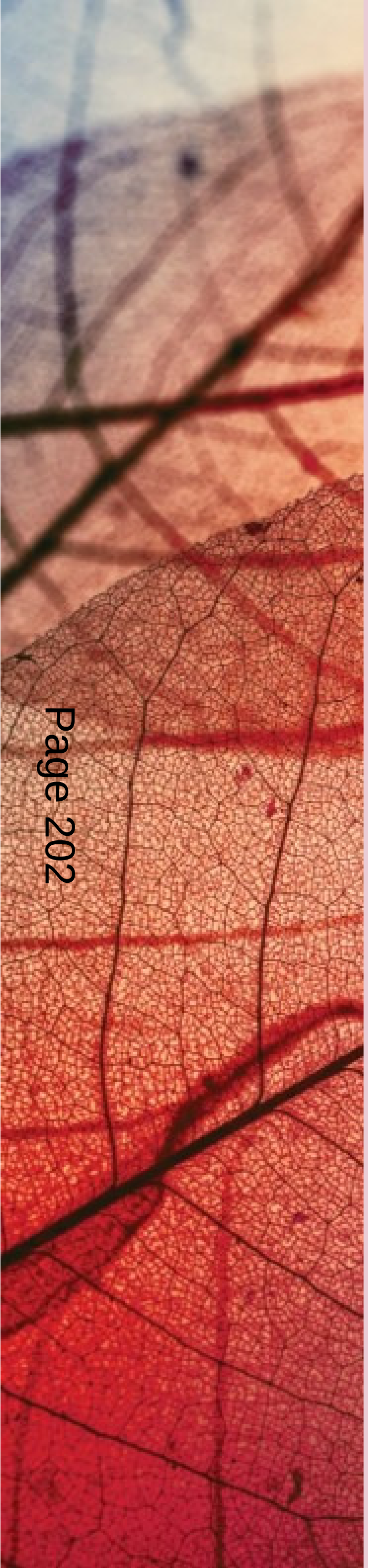
SUMMARY

Fees summary for year ending 31 March 2019

	2018/19 £	2017/18 £
Code audit fees	(1) 41,059	(2) 48,128
Total audit fees	**41,059**	**48,128**
Non audit fees		
Housing benefit subsidy certification	7,102	(2) 7,102
Non audit fees	**7,102**	**7,102**
Total fees	**48,161**	**55,230**

(1) Public Sector Audit Appointments Limited (PSAA) has set the 2018/19 fee scale at £37,059, on the basis that individual fees for all opted-in bodies have been reduced by 23 per cent from the applicable scale fee for 2017/18. This gives opted-in bodies the benefit of the cost savings achieved in the recent audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA is making in its own operating costs. We have estimated an additional fee of £4,000 for the audit of the Group Accounts, as the consolidated entity is not separately audited. We will re-visit this estimate when we receive the draft accounts and supporting working papers of the subsidiary.

(2) KPMG was the appointed auditor for these audits in 2017/18 and we have reported their planned fees in the table.



APPENDICES CONTENTS

Responsibilities

COUNCIL'S RESPONSIBILITIES

The Council's Responsibilities and Reporting

CONTENTS

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Financial reporting

The Council is expected to have effective governance arrangements to deliver its objectives. To this end, the publication of the financial statements is an essential means by which the Council accounts for its stewardship and use of the public money at its disposal.

The form and content of the Council's financial statements, and any additional schedules or returns for consolidation purposes, should reflect the requirements of the relevant accounting and reporting framework in place and any applicable accounting standards or other direction under the circumstances.

The Council is also required to prepare schedules or returns to facilitate the preparation of consolidated accounts such as HM Treasury's Whole of Government Accounts.

The Section 151 Officer is responsible for preparing and filing a Statement of Accounts and financial statements which show a true and fair view in accordance with CIPFA's Code of Practice on Local Authority Accounting 2018/19, applicable accounting standards or other direction under the circumstances.

Our audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

Use of resources

Councils are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement.

In preparing its governance statement, the Council will tailor the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on their arrangements for securing value for money from their use of resources.

OUR RESPONSIBILITIES

Responsibilities and reporting

CONTENTS

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Our responsibilities and reporting - financial statements

We are responsible for performing our audit under International Standards on Auditing (UK) to form and express an opinion on your single-entity and consolidated financial statements. We report our opinion on the financial statements to the members of the Council.

We read and consider the ‘other information’ contained in the Annual Report such as the additional narrative report. We will consider whether there is a material inconsistency between the other information and the financial statements or other information and our knowledge obtained during the audit.

Our responsibilities and reporting - use of resources

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

This means that we have regard to relevant guidance issued by the NAO and undertake sufficient work to be able to satisfy ourselves as to whether the Council has put arrangements in place that support the achievement of value for money.

What we don’t report

Our audit is not designed to identify all matters that may be relevant to the Council and the Audit Committee and cannot be expected to identify all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

COMMUNICATION WITH YOU

CONTENTS

Those charged with governance

References in this report to 'those charged with governance' are to the Council as a whole. For the purposes of our communication with those charged with governance you have agreed we will communicate primarily with the Audit Committee.

Communication, meetings and feedback

We request feedback from you on our planning and completion report to promote two way communication throughout the audit process and to ensure that all risks are identified and considered; and at completion that the results of the audit are appropriately considered. We will meet with management throughout the audit process. We will issue regular updates and drive the audit process with clear and timely communication, bringing in the right resource and experience to ensure efficient and timely resolution of issues.

Planning report

The planning report sets out all planning matters which we want to draw to your attention including audit scope, our assessment of audit risks and materiality.

Internal controls

We will consider internal controls relevant to the preparation of financial statements in order to design our audit procedures and complete our work. This is not for the purpose of expressing an opinion on the effectiveness of internal control.

Audit completion report

At the conclusion of the audit, we will issue an audit completion report to communicate to you key audit findings before concluding our audit opinion. We will include any significant deficiencies in internal controls which we identify as a result of performing audit procedures. We will meet with you to discuss the findings and in particular to receive your input on areas of the financial statements involving significant estimates and judgements and critical accounting policies.

Once we have discussed the contents of the audit completion report with you and having resolved all outstanding matters we will issue a final version of the report.

TEAM MEMBER ROTATION

CONTENTS

These tables indicate the latest rotation periods normally permitted under the independence rules for the terms of appointment by PSAA.

In order to safeguard audit quality we will employ a policy of gradual rotation covering the team members below as well as other senior members of the engagement team to ensure a certain level of continuity from year to year.

Independence - engagement team rotation

Senior team members	Number of years involved	Rotation to take place before
Leigh Lloyd-Thomas Engagement lead	1	5 years
Janine Combrinck Project manager	1	10 years

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS

Concept and definition

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):

- Narrative disclosure e.g. accounting policies, going concern
- Instances when greater precision is required (e.g. senior managers remuneration and related party transactions).

International Standards on Auditing (UK) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Calculation and determination

We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as industry developments, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests;
- Calculate sample sizes; and
- Assist in evaluating the effect of known and likely misstatements on the financial statements.

Reassessment of materiality

We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.

Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope.

MATERIALITY: DEFINITION AND APPLICATION

CONTENTS

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If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.

You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

Unadjusted errors

We will communicate to you all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.

Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.

We will obtain written representations from the Audit Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.

We will request that you correct all uncorrected misstatements. In particular we would strongly recommend correction of errors whose correction would affect compliance with contractual obligations or governmental regulations. Where you choose not to correct all identified misstatements we will request a written representation from you setting out your reasons for not doing so and confirming that in your view the effects of any uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as whole.

AUDIT QUALITY

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BDO's audit quality cornerstones underpin the firm's definition of audit quality.

BDO is committed to audit quality. It is a standing item on the agenda of the Leadership Team, who in conjunction with the Audit Stream Executive, monitors the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. We welcome feedback from external bodies and are committed to implementing necessary actions to address their findings.

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- Scepticism
- Independent
- Focus on the shareholder as user
- Robustness and moral courage.

KNOWLEDGEABLE, SKILLED PEOPLE

- Knowledge of the business
- Intelligent application of auditing standards
- Intelligent application of accounting standards
- Understanding of the control environment.

AUDIT QUALITY CORNERSTONES

- How to assess - benchmarking
- Where to focus - risk-based approach
- How to test - audit strategy
- What to test - materiality and scope.

DILIGENT PROFESSIONAL JUDGEMENTS

- Audit reports
- Management letter
- Audit Committee Reports
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HIGH QUALITY AUDIT OUTPUTS

FOR MORE INFORMATION:

Leigh Lloyd-Thomas

t: 020 7983 2616
e: leigh.lloyd-thomas@bdo.co.uk

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Audit Committee

28 March 2019

Title	Anti- Fraud, Bribery and Corruption Strategy		
Purpose of the report	To make a decision		
Report Author	Internal Audit Manager, Punita Talwar		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	**The Audit Committee is asked to:** **1. Endorse the Council's Anti-Fraud, Bribery and Corruption Strategy** **2. Recommend the proposed changes to the Anti-Fraud, Bribery and Corruption Strategy to Cabinet.**		
Reason for Recommendation	**The Audit Committee is required to make any recommendations for change to the Cabinet.**		

1. Key issues

1.1 *"All organisations face attack from those who would undertake corruption or commit fraud creating a loss to the taxpayer, reputational risk to the organisation and undermining trust in the government. In an increasingly globalised digitalised world, fraud transcends international borders"*. (A guide to Managing Fraud for Public Bodies, February 2019).

1.2 "*Fraud is a significant risk to the UK public sector and has far-reaching financial and reputational consequences. The government estimates that fraud costs the public sector £31 - £49 bn per year and much of this goes undetected. In addition serious and organised economic crime is a national security issue*". (HM Government, October 2018)

1.3 The government have over the years increased the number of initiatives in response to the growing level of estimated fraud. Some examples include :

- Government Counter Fraud Profession established (estimated 4000 members)
- International Public Sector Fraud Forum
- Collaborative working such as the National Fraud Initiative - £301 mn prevented fraud identified from data matching exercises
- Government functional standards to set the expectations for the management of fraud, bribery and corruption risks

1.4 Given the above and that Fraud is now considered to be the most prevalent crime in the UK, the continued importance of having a defined approach for how Spelthorne will counter fraud, bribery and corruption in the form of a strategy (which is periodically reviewed) is recognised.

1.5 The Audit Committee is required to review the Council's Anti-Fraud, Bribery and Corruption Strategy annually and to make any recommendations for change to the Cabinet. The Strategy at Appendix 1 forms part of the Council's Constitution and is in line with best practice. The Strategy continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption, demonstrating the important role it plays in the overall corporate governance framework.

1.6 As part of this review, some changes are proposed under each main section of the strategy and have been highlighted in yellow at Appendix 1. These relate to the following sections/references :

- **Introduction** –reference to Ministry of Housing, Communities and Local Government;
- **Culture** – suggested clarification regarding who concerns should be reported to. The importance of Managers and officers at all levels not becoming complacent about the risk of fraud has been highlighted. There is also reference to the Confidential Reporting Code and 'Protect', formerly known as 'Public Concern at Work'. Protect are a registered Charity and provide a confidential advice line for staff and members to raise concerns about possible misconduct;
- **Codes/Procedures** - reference to the planned review of the Council's Constitution in 2019 as well as self- assessment of the authority's Whistleblowing arrangements ;
- **Systems** –reference to maintaining internal controls to minimise the risk of errors, fraud, bribery and corruption;
- **Detection and Investigation** – reference to who concerns should be reported to. The Head of Corporate Governance holds responsibility for responding to allegations of bribery and corruption. Any lessons learnt from Investigations undertaken relating to systematic weaknesses will be highlighted and should feed back into improving fraud prevention/detection measures. A new section has been added setting out the counter fraud measures underway through Spelthorne's collaborative working with Partners;
- **Awareness** – this section has been expanded to reflect developments.

1.2 Various best practice principles promoted in publications such as CIPFA's 'Code of practice on managing the risks of fraud and corruption', 'Fighting Fraud and Corruption Locally' (2016) and HM Government functional standard on Counter Fraud (GovS 013 October 2018) have been considered as part of the strategy review, and current activity is deemed as proportionate relative to the perceived risk and size of the authority. Spelthorne's position is set out below:

1. *Governance*

- Acknowledge the responsibility of the governing body for countering fraud, bribery and corruption and mechanisms for regular engagement
- Strategy setting out how the organisation will develop its arrangements to counter fraud, bribery and corruption which is approved by the relevant body.
- Roles and Responsibilities - Officers and teams responsible for responding to/investigating allegations relating to fraud, bribery and corruption are defined.
- Accountabilities and responsibilities for identifying and managing fraud, bribery and corruption risks are defined.
- Counter Fraud Champion(s) – whilst there is not currently a defined Counter Fraud Champion, Counter Fraud measures led by the Internal Audit Manager are set out in the strategy under 'Detection and Investigation'. These have contributed to promoting awareness of high risk public fraud and the associated threats, as well as best practice measures and collaborative counter fraud initiatives. This is referred to further below under resources.

Spelthorne's position on Governance: The above are met and covered by the Council's Anti-Fraud, Bribery and Corruption Strategy.

2. *Practices and Principles*

- Codes of Conduct - this is referred to in the Strategy.
- Fraud, Bribery and Corruption Risk Assessment –Managers are responsible for identifying fraud, bribery and corruption risks in their services, and for operating systems of control to prevent and detect fraud. Internal Audit provides independent assurance that effective controls are in place to mitigate the risk of fraud, bribery and corruption and issues advice/recommendations for consideration by Management i.e. where it is considered that fraud risks should be more effectively managed. Over the course of time a high level fraud, bribery and corruption risk assessment may be developed which may help inform further proactive counter fraud measures required.
- Reporting routes regarding suspicions are published – this is referred to in the Strategy.
- Evidence based fraud reporting system and quantifiable reporting of estimated financial savings - this is already in place for public fraud identified through quarterly monitoring.
- Reporting of estimated financial losses from internal fraud identified – this will be reported to the Audit Committee periodically to enhance visibility.
- Access to trained Fraud Investigators – this is in place through collaborative working arrangements with Partners.
- Awareness raising and training- The need for delivery of refresher awareness training to help protect the organisation against Fraud, bribery and corruption (for all staff and Members) has been recognised and a proposed agenda has been compiled. Suitable trainers are being explored. Such measures should also contribute to enhancing an anti-fraud culture and encourage people to speak out if they have concerns.
- Awareness raising - In accordance with the Government's Serious and Organised Crime Strategy, local Police representatives have provided two

awareness raising sessions for staff and Members during 2018 to identify areas where Spelthorne is at most risk of being targeted by serious and organised crime, highlighting known vulnerabilities within the borough. During these sessions the importance of sharing intelligence with law enforcement partners has been encouraged. Serious and organised crime groups with terrorist links commit fraud against government bodies and use this to fund such activity. High-value fraud and cybercrime are both examples of organised criminal activity.

- Gifts and Hospitality Policy and Register – this has been recently reviewed and revised processes established (see separate policy reported to the Members Code of Conduct Committee)

Spelthorne's position on Practices: The above are met or underway and are referred to in the Council's Anti-Fraud, Bribery and Corruption Strategy.

3. *Resources to implement the strategy*

Within the organisation's assurance framework, Group Heads and unit managers represent the first line of defence to prevent and minimise the risk of fraud/detect fraud and it is their responsibility to operate appropriate control systems. The Council has a small resource within Internal Audit to advise Managers on the adequacy of control systems in place in relation to fraud prevention/detection, which would generally form part of an audit review. Internal Audit resource also supports internal investigations of suspected fraud or irregularity. The Head of Corporate Governance holds responsibility for responding to allegations of bribery and corruption.

Members have approved in February 2019 continued funding for corporate counter fraud support. Collaborative working with Reigate and Banstead's Counter Fraud team has focussed on high risk areas of public fraud such as Housing and Business Rates and incorporates both proactive and reactive fraud work. This work has generated positive fraud returns particularly in Housing with the introduction of enhanced verification checks for new claims. A joint report prepared by the Deputy Group Head for Customer Relations and Internal Audit Manager was issued to Overview and Scrutiny Committee in 2018 highlighting measures being taken by Spelthorne to address business rates tax avoidance and evasion, along with further initiatives to explore such as use of Financial Investigator resources to recover financial losses arising from fraud identified. Quarterly reporting takes place of cumulative counter fraud returns achieved by Spelthorne in the areas of Housing (non-benefit), Business Rates, and Council Tax. Cumulative fraud returns for Spelthorne up to 31.12.18 exceed £2.4m of which £481k are cashable savings.

Spelthorne's position on Resources: The above position/approach is referred to in the Council's Anti-Fraud, Bribery and Corruption Strategy.

2. Options analysis and proposal

Either:

i. To note the current position and accept the amendments proposed to the Anti-Fraud, Bribery and Corruption Strategy. **(Preferred option)**

Or:

ii. To make no changes to the strategy, thereby not reflecting current practices or requirements.

3. Financial implications

3.1 Resources required (staff time) to implement actions to prevent and detect Fraud, bribery and corruption risks should be contained within existing budgets. There is approved funding for additional corporate counter fraud resource until March 2022 to support Housing, Business Rates and Council Tax. Costs associated with Corporate Fraud awareness training (for all staff) are being explored with a view to being funded from the corporate training budget.

3.2 There may be a requirement from time to time to bring in subject matter experts and Investigators to undertake or assist Special investigations (relating to suspected internal fraud or irregularity) as there is insufficient capacity within the Internal Audit team to undertake the whole process, particularly given that investigations are often by their nature very resource intensive. Day rates could be in the region of £400 per day. There is currently no specific budget assigned for this purpose.

4. Other considerations

4.1 Associated risks and consequences of fraud, bribery and corruption include financial losses (potentially high value), reputational damage to the authority, corporate offences (a failure to prevent bribery is now regarded as a corporate offence), significant harm to staff or the local community, and reduced public services for the borough's residents (if resources are exploited by fraudsters).

5. Timetable for implementation

5.1 There are none.

Background papers: None

Appendices:
Appendix 1 – Anti-Fraud, Bribery and Corruption Strategy

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APPENDIX 1 - ANTI FRAUD, BRIBERY AND CORRUPTION STRATEGY

Introduction

1. This strategy is applicable to Members and staff. The Borough of Spelthorne is committed to providing a high standard of service and accountability. An important aspect of this is a strategy which protects against fraud, bribery and corruption within the Council itself and from external sources.

   In this context

   Fraud means - the illicit gaining of cash or other benefit by deception;

   Corruption means - the dishonest influencing of actions and decisions.

   Bribery means – the offering, giving or soliciting of an inducement or reward which may influence a person to perform a function or activity improperly.

2. The Council recognises that it is already subject to a high degree of external scrutiny of its affairs by a variety of parties. This includes the general public, Council Tax / Business Rates payers, service users, The European Institute for combatting corruption and fraud (TEICCAF), the Local Government Ombudsman, Central Government, in particular, HM Revenue and Customs, the Ministry of Housing, Communities and Local Government and the Department for Work and Pensions.

3. It also has external auditors who advise whether the Council has in place adequate arrangements for the prevention and detection of fraud, bribery and corruption.

4. While this external scrutiny assists in protecting against fraud, bribery and corruption the Council believes a clear statement of its own strategy is needed.

5. The key elements of the Council's strategy to combat fraud, bribery and corruption are:

   - An open and honest culture
   - Adequate preventative measures
   - Systems for detection and investigation
   - Understanding and awareness within the Council and the adoption of a "whistleblowing" policy

Culture

6. The Council expects Members and staff at all levels to behave with integrity and propriety and to act within the law and the regulations, procedures and

practices laid down in relation to the conduct of the Council's business. The Council believes this is achieved best through the promotion of an atmosphere of honesty and openness.

7. The Council encourages Members and staff to raise any concerns they have about fraud, bribery and corruption immediately as they occur. It will treat all concerns raised, seriously and in confidence.

8. The Council has three senior officers who have particular responsibility for regulating the conduct of the Council and its activities. These are:

Chief Finance Officer (currently Terry Collier)	Responsible for the financial management, audit and financial probity of the Council and also for its proper personnel policies and practices.
Monitoring Officer (currently Michael Graham)	Responsible for the legal probity and avoidance of maladministration or injustice by the Council.
Chief Executive (currently Daniel Mouawad)	Responsible as Head of Paid Service for the overall management and direction of the Council and for ensuring adequate staff resources for services.

9. In addition each Group Head and senior manager have responsibility for the proper organisation and conduct of their service area.It is important that Managers and officers at all levels do not become complacent about the risk of fraud as this may have an impact in terms of the robustness of controls applied in practice. Please refer to the section on systems below.

10. Concerns should be raised with any of the above officers under section 8 or with the Council's Internal Audit Manager (Punita Talwar).

11. More detailed guidance and advice on how to raise any concerns is contained in the Council's Confidential Reporting Code (whistleblowing policy).

12.If anyone feels they are unable to raise their concerns through any of the above routes they may contact 'Protect' ((0203 1172520 – advice line), a registered charity whose services are free and strictly confidential.

Prevention

13. The adoption of proper and adequate measures to prevent fraud, bribery and corruption is the responsibility of Members, Chief Executive, Deputy Chief Executives, Group Heads and other managers. Preventative measures can be classified under two broad headings - Codes/Procedures and Systems.

1. Codes/Procedures

All Members and staff need to be aware of, and have ready access to, the Council's agreed policies and procedures eg. Financial Regulations, Standing Orders, Codes of Conduct, Code of Corporate Governance and any relevant practice and procedure documents. A planned review of the Council’s Constitution is scheduled for 2019, being led by the Head of Corporate Governance. The Governance Framework has been developed and enhanced to reflect the increasing commercial asset acquisitions and investments.

In particular staff must observe the Council's Code of Conduct for Staff (a copy of which is made available to all staff) and any relevant professional codes.

References will be taken up for all permanent and temporary staff to verify their suitability, honesty and integrity.

Members will in particular observe the Spelthorne code of conduct adopted on the 27 June 2012 and subsequently revised on 25 June 2013 any other local Spelthorne code. The Members Code of conduct is kept under review by the Members Code of Conduct Committee. Members will be supplied with a copy of any relevant code, policy and procedure and advised of their responsibilities.

Spelthorne have signed up to a Benchmark package with ‘Protect’ (December 2018) to assess the effectiveness of its whistleblowing arrangements against best practice. This is being led by the Head of Corporate Governance.

2. Systems

The Council has and will maintain in place systems and procedures which incorporate internal controls, including adequate separation of duties to ensure that, as far as possible, errors, fraud, bribery and corruption are prevented.

The Chief Finance Officer has a statutory responsibility under Section 151 of the Local Government Act 1972 to ensure the proper administration of the Council's financial affairs. Financial procedures detail key financial systems and provide guidance which underpins the Council's Financial Regulations.

Chief Executive, Deputy Chief Executives, Group Heads and managers are responsible for ensuring that appropriate internal controls are properly maintained to minimise the risk of errors, fraud, bribery and corruption.

A detailed analysis of the risks associated with any service should be carried out by managers (with assistance from Audit Services as necessary) to ensure that fraud, bribery and corruption is minimised.

<u>Detection and investigation</u>

14. Concerns should be reported to one of the individuals referred to in paragraphs 8 and 10 above or in accordance with the Council's whistleblowing policy.

A detailed investigation of any concerns raised will be undertaken with the assistance of the Council's Internal Audit Service. The Head of Corporate Governance holds responsibility for responding to allegations of bribery and corruption. The Council will deal with any instances of fraud, bribery or corruption swiftly. Disciplinary action will be taken if appropriate after the police have been informed/involved, and the relevant Cabinet Member informed where necessary. Where the Council has adopted a prosecution policy for any business area (eg Housing Benefit Fraud or Housing register) this will be followed. Any lessons learnt from Investigations undertaken relating to systematic weaknesses will be highlighted and should feed back into improving fraud prevention/detection measures.

In the event that fraud is suspected on the part of contractors' employees or internally, by staff involved in agency or contract work on behalf of other bodies, procedures and responsibilities for reporting and initial investigation are the same as for staff. The Council will inform and involve employing contractors or agencies when appropriate.

Counter Fraud measures - Given the significance of corporate fraud in national and local statistics and the cost to the taxpayer, the Council recognises the continued importance of collaborative working arrangements with other Councils/Partners to help deter, detect and investigate fraud, providing access to specialist skills and greater capacity to investigate fraud. The strategy to target areas which are likely to generate greater financial payback (Business Rates and Housing) will continue and is led by the Internal Audit Manager. Such initiatives have demonstrated positive financial fraud returns for Spelthorne (notional and cashable savings) in the areas of Housing, Business Rates and Council Tax and continue to do so. These savings could be enhanced further through the use of Financial Investigator Resource to recover losses/assets (where appropriate). Counter fraud measures also contribute to the delivery of wider social benefits, enabling more social housing to be available to those people who are genuninely in need of a home, leading to a reduction in housing applicant waiting times, reduced temporary accommodation costs and ultimately the need for fewer houses to be built. Positive results are publicised periodically to serve as a deterrent.

External groups are attended with Surrey Partners including the Surrey Counter Fraud Board (SCFB). This enables the sharing of best practice and approaches in tackling public fraud, and provides opportunities to pursue joint counter fraud initiatives such as data matching. The importance of engaging with members of the public to join the fight against fraud is recognised. Spelthorne's fraud returns are collated quarterly and reported to the Surrey Counter Fraud Board, which enables some benchmarking and comparison across Surrey Partners.

AwarenessThe Council recognises the continuing effectiveness of the Anti Fraud, Bribery and Corruption Strategy depends largely on the awareness and responsiveness of Members and staff. It is essential that both Members and staff are made aware of the strategy when they join the Council and receive a copy for inclusion in their personal records and, in addition, have ready access to all other relevant documents, policies and procedures which regulate the Council's activities. Action will be taken on a regular basis to remind both Members and staff of the importance the Council places on preventing fraud and corruption and investigating irregularities. Effective methods for mandatory training and raising awareness including face to face and online shall be periodically explored and delivered.

In accordance with the Government's Serious and Organised Crime Strategy, local Police representatives have provided two awareness raising sessions for staff and Members during 2018 to identify areas where Spelthorne is at most risk of being targeted by serious and organised crime and highlight known vulnerabilities. During these sessions the importance of sharing intelligence with Law Enforcement Partners has been encouraged. Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime. Further consultation with the local police is ongoing and red flags /known risks will continue to be be highlighted. Group Heads and Managers are responsible for assessing governance arrangements in place to combat risks in this area for their respective functions.

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WORK PROGRAMME 2019/20

AUDIT COMMITTEE – 28 MARCH 2019

Resolution Required

1. Work Programme

1.1 This report covers the Work Programme for the forthcoming municipal year 2019/20.

1.2 The Committee's terms of reference are set out at the front of the agenda.

2. Future Meetings

2.1 Meetings of this Committee have been scheduled in the Council's Diary on the following dates:-

- **25 July 2019**
- **7 November 2019**
- **19 March 2020**

2.2 Details of the Work Programme for future meetings are as follows:

July 2019		
Value for Money Statement 2017/18	External Auditors	Report
Annual Audit Letter 2017/18	External Auditors	Report
Annual Governance Statement 2018/19	Chief Finance Officer	Approval
Corporate Risk Management	Audit Manager	Review
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
Confidential Reporting Code	Internal Audit Manager / Head of Corporate Governance	Report
Audit Services Annual Report	Internal Audit Manager	Report
Committee's Work programme for 2019/2020	Internal Audit Manager / Chief Finance Officer/Audit Committee	Report

November 2019		
Corporate Risk Management	Internal Audit Manager	Review
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
External Audit Plan	External Audit	Report

Report on The Effectiveness of the System of Internal Audit	Internal Audit Manager	Report
External Audit Annual Audit Letter	External Audit	Report
Internal Audit Interim Report	Internal Audit Manager	Report
Committee's Work programme for 2019/20	Internal Audit Manager / Chief Finance Officer/Audit Committee	Report

March 2020		
Corporate Risk Management	Internal Audit Manager	Report
Corporate Risk Register	Head of Service - as appropriate	Updates on target dates missed
Anti-fraud, bribery and Corruption Strategy	Internal Audit Manager	Report
Internal Audit Annual Plan 2020/21	Internal Audit Manager	Report
Committee's Work programme for 2020/2021	Internal Audit Manager/Chief Finance Officer/Audit Committee	Work Programme

2.4 Any topics identified during consideration of the business at this meeting will need to be included in the above Work Programme.

2.5 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.

2.6 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.

2.7 Managers may be required to attend the Committee, similarly to that resolved in Minute No. 227/06, to explain why they have not implemented the recommendations of the Head of Audit Services. It is not possible to predict these circumstances but they will be dealt with as and when they arise either by incorporating into the Work Programme or appearing on the agenda as appropriate.

3. Resolution

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

Contact: Punita Talwar, Internal Audit Manager (01784) 446454.

Report Author: Chris Curtis, Committee Manager (01784) 446240