

*Please reply to:*

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Our ref: GH/AUD  
Date: 16 September 2009

## **NOTICE OF MEETING**

### **AUDIT COMMITTEE**

**DATE: THURSDAY 24 SEPTEMBER, 2009**

**TIME: 7.30 P.M.**

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

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

D.L. McShane (Chairman)  
M.L. Bouquet

H.R. Jaffer  
L.E. Nichols  
E. O'Hara

S.J. Rough  
H.A. Thomson

#### **EMERGENCY PROCEDURE**

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

**THE LIFT MUST NOT BE USED**

This Agenda and any Reports are available in Large Print on request. Contact: Gill Hobbs (01784) 446405

## **RESPONSIBILITIES OF THE AUDIT COMMITTEE**

### **Purpose**

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

### **Core Functions**

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

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

Use of mobile technology (mobiles, Blackberries, etc) in meetings can:

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

#### **PLEASE:**

Either switch off your mobile phone/Blackberry OR turn off its wireless/transmitter connection for the duration of the meeting.

*Thank you for your co-operation.*

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

### **1. APOLOGIES**

To receive any apologies for non-attendance.

### **2. DISCLOSURES OF INTEREST**

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

**3. MINUTES**

To consider the Minutes of the meeting held on 25 June 2009 (copy attached).

**4. MATTERS ARISING FROM THE MINUTES**

To consider any matter arising from the Minutes of the meeting held on 25 June 2009.

**a) Min 215/09 Corporate Risk Register**

The Chief Finance Officer will verbally update the Committee on the progress of the Health and Safety review of leased assets.

*If a Member wishes to raise an issue arising from the minutes of the meeting held on 25 June 2009, please notify the Chairman prior to the meeting.*

**5. EXTERNAL AUDIT REPORT ON 2008-09 STATEMENT OF ACCOUNTS, USE OF RESOURCES AND GOVERNANCE ISSUES**

To receive a report from KPMG, the Council's External Auditors (Reports of Chief Finance Officer and KPMG to follow).

**6. CORPORATE RISK MANAGEMENT**

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

**7. AUDIT SERVICES QUARTERLY REPORT**

To receive a report from the Head of Audit Services (copy attached).

**8. COMMITTEE WORK PROGRAMME 2009-10**

The Committee is requested to consider and approve its work programme for the remainder of the Municipal year 2009/10 (copy attached).

## **MINUTES OF THE AUDIT COMMITTEE**

**25 JUNE 2009**

### **Present:**

Councillor D.L. McShane (Chairman)  
Councillor S.J. Rough (Vice-Chairman)

Councillors:

H.R. Jaffer                      L.E. Nichols                      H.A. Thomson

**Apologies:** Councillors M.L. Bouquet and E. O'Hara

### **210/09    MINUTES**

The minutes of the meeting held on 21 May 2009 were approved as a correct record.

### **211/09    TERMS OF REFERENCE**

The Head of Audit Services, at the invitation of the Chairman, explained the scope of the terms of reference of the Audit Committee.

In response to a question from a member on the Committee's responsibility for the Statement of Accounts, the Chief Finance Officer clarified the Committee's role as being, to raise any issues of concern at the draft stage and monitor management action on issues raised by External Audit following their audit of the accounts.

He advised that it would be unreasonable to expect Members to have a detailed technical understanding of the Statement of Accounts but that training sessions to help Members review them in a meaningful and challenging way, would be available in the future. The Council's External Auditors would provide assurance to the Audit Committee on the accuracy of the accounts.

### **212/09    MATTERS ARISING FROM THE MINUTES DATED 26 MARCH 2009**

The Chief Finance Officer updated the Committee on Penetration Testing of IT systems raised in Minute 79/09. He confirmed that the Testing had been completed and a health check undertaken. A summary of the resulting feedback would be circulated to Members when available.

In response to a question about security updates on Councillor's laptops, he agreed to report back directly to Members.

### **213/09    ANNUAL GOVERNANCE STATEMENT 2008-09**

The Chief Finance Officer presented his report and outlined the content of the Annual Governance Statement (AGS) 2008-09. The Statement reviewed

arrangements for corporate governance and internal control as required by the Accounts and Audit Regulations 2006.

The AGS identified actions to remedy any significant governance issues.

Members suggested amendments to the wording of the AGS relating to:

- the Council's complaints procedure – refer to work of Code of Corporate Governance Task Group and its improvement recommendations;
- the work and recommendations of the Code of Corporate Governance Task Group – clarify the work was completed in 2007/08 and include progress made on its recommendations in 2008/09;
- the work undertaken by the officer group – clarify the detailed assessment was completed in 2007/08 and provide summary of work undertaken in 2008/09.

The Chief Finance Officer agreed to make the suggested changes and re-circulate the AGS to the Committee.

**RESOLVED** that

1. the draft Annual Governance Statement be approved, subject to the Chief Finance Officer including the amendments suggested at this meeting and re-circulating them to the Committee;
2. the improvement action identified in the Statement under the heading "significant governance issues" be endorsed.

**214/09 OUTTURN AND STATEMENT OF ACCOUNTS 2008-09**

The Chief Finance Officer presented the Statement of Accounts for 2008/2009 which was subject to review by the Council's External Auditors, and responded to questions from Members.

The Accounts and Audit Regulations required that the accounts for 2008/2009 be completed and approved by the Audit Committee by 30 June 2009, and be signed by the Leader of the Council and the Council's Chief Financial Officer.

Members asked for a breakdown of the "other" category under "Central Services to the Public" in Note 1. Analysis of major Service Areas Expenditure and that reference to the revaluation of Benwell Centre be included in Note 18. Fixed Assets.

**RESOLVED** that

1. the draft Statement of Accounts for 2008/2009 be approved subject to the Chief Finance Officer including the amendments suggested at this meeting and
2. the Leader of the Council and the Council's Chief Finance Officer be authorised to sign the Statement of Accounts.

**215/09 CORPORATE RISK MANAGEMENT**

The Senior Auditor reported that the Corporate Risk Register had undergone its quarterly review and update by the Corporate Risk Management Group to ensure actions were being taken on identified risks. The revised register was considered to be an accurate reflection of the high level risks affecting the authority.

She summarised the progress which had been made in a number of areas on actions proposed to address high risks. A member asked whether Environment Agency advice had been incorporated into the Council's major incident flood plan. The Senior Auditor stated she would consult the Emergency Plan officer on this matter and report back.

The Senior Auditor gave details of four areas where risks had not yet been fully addressed. Actions relating to: service plans for Environmental Health and Building Control; risk assessment for contaminated land and corporate training on contract management were being addressed but there was still scope for further progress. The Chief Finance Officer gave an update on progress with the remaining area of clarifying Health and Safety responsibilities on leased assets. He reported that health and safety questionnaires had already been trialled with a few organisations and would be sent to the remaining organisations within the next couple of weeks. The risk of each leased asset would be evaluated from the completed response and appropriate further action taken. If organisations did not respond to the questionnaire they would be classified as high risk and this would trigger a follow up visit. This process should be completed by the end of 2009.

A member asked which of the risks listed would eventually be removed from the Register and which were permanent. The Head of Audit Services agreed to consider this matter and report back to the Committee at its next meeting.

It was noted that some of the target dates had been missed but no reasons had been given to explain this. The Committee asked that in future an explanation be provided as to why target dates had not been achieved and the revised target date stated.

**RESOLVED**

1. that the contents of the Corporate Risk Register be noted and accepted;
2. that the Senior Auditor consult the Emergency Plan officer on whether Environment Agency advice was incorporated in the Council's major incident flood plan and report back to the Committee at its next meeting;
3. that the temporary or permanent status of risks be advised to the Committee at its next meeting;
4. that in future, where target dates are overdue, an explanation be provided in the Risk Register as to why the date has not been achieved and the revised target date stated.

**216/09     AUDIT SERVICES ANNUAL REPORT**

The Head of Audit Services presented her report which summarised the work undertaken by Audit Services during the period April 2008 – March 2009 and responded to questions from Members. Internal audit's overall opinion on the Council's internal control environment, based on the work undertaken in 2008/09 was that it was adequate and effective.

Councillors and Management Team would continue to review the Council's Corporate Risk Register and monitor ongoing/outstanding actions. The issues reported in last year's Opinion Statement with respect to project management, service planning, business continuity plans and partnership work had been addressed by management and would be kept under review.

**RESOLVED** that the Audit Services Annual report for the period April 2008-March 2009 be approved and the overall opinion on the Council's systems of internal control be noted.

**217/09     AUDIT SERVICES ANNUAL REVIEW**

The Head of Audit Services presented the Annual Review of Internal Audit which was required by the Accounts and Audit Regulations 2006 to provide assurance that the authority's risk management processes, control systems, accounting records and governance arrangements were in place and operating properly.

The Code of Practice defined the way in which the internal audit service should undertake its functions. During the year the Head of Audit Services had prepared a new audit manual which ensured all practices were aligned to the Code of Practice.

The Committee expressed its confidence in the Head of Audit Services and the Audit Team and requested that this be noted and conveyed to Management Team.

**RESOLVED** that

1. the Audit Services Annual Review 2008/09 be noted and
2. the Committee's confidence in the Head of Audit Services and the Audit Team be noted and conveyed to Management Team.

**218/09     COMMITTEE WORK PROGRAMME 2009/10**

The Committee considered its Work Programme for the 2009/10 Municipal year.

**RESOLVED** that the Work Programme as submitted be approved.

## **External Audit Report on 2008-09 Audit and Statement of Accounts**

**Audit Committee 24 September 2009**

**Resolution Required**

**Report of the Chief Finance Officer**

### **Executive Summary**

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

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

#### **Purpose of Report**

To inform Members of the outcome of the External Auditor's 2008-09 audit.

#### **Key Issues**

- KPMG anticipate issuing unqualified audit opinion on Statement of Accounts by 30<sup>th</sup> September
- KPMG has assessed the Council as a achieving level 2 under the new Use of Resources
- The Auditors conclude that the Council that it has appropriate arrangements in place to achieve effective use of resources
- The Auditors identify scope to improve quality review of draft statements of accounts
- No material misstatements to the Statement of Accounts identified
- No material weaknesses in internal controls identified
- Annual Governance Statement satisfactory
- Ten recommendations made 4 medium level priority and 6 best practice
- KPMG will provide a verbal update at the meeting on their conclusions.
- There have been some adjustments required by the auditors to entries in the accounts relating to provisions; valuations and impairments.

#### **Options**

There are none

#### **Financial Implications**

There are none

#### **Corporate Priority**

All Priorities

#### **Officer Recommendations**

**The Audit Committee is asked to note the External Auditor's 2008/09 audit report (Appendix A).**

**That the Chief Finance Officer sign the letter of representation (as attached to appendix 9 of the Auditors' report).**

**That the Audit Committee note the draft officer responses to the recommendations made in Appendix 6 of the Auditors report.**

**Contact: Terry Collier, Chief Finance Officer 01784 446296**

**Cabinet Member: Councillor Vivienne Leighton**



## MAIN REPORT

### 1. BACKGROUND

- 1.1 External auditors appointed by the Audit Commission, KPMG, are required, in accordance with international auditing standards, to annually report to the Council on:
- Their audit opinion of the Statement of Accounts;
  - Any uncorrected items in the Statement of Accounts;
  - Qualitative aspects of the Council's accounting practices and financial reporting
  - Use of Resources scores
  - 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.

- 1.2 Attached as Appendix A is the KPMG report on the 2008/09 audit.

### 2. KEY ISSUES

#### **Use of Resources (page 4 of the KPMG report)**

- 2.1 KPMG's report page 4 reports on the Council's Use of Resources assessment. The Audit Commission introduced a new assessment this year. This assesses how well organisations are delivering value for money and better and providing sustainable outcomes for local people. This new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes. As KPMG indicates, a consequence it is not possible to make direct comparisons with the previous year's assessment.
- 2.2 The use of resources assessment is based on three Key Lines of Enquiry (KLOEs) themes which cover:
- **Managing finances** -focusing on sound and strategic financial management;
  - **Governing the business** -focusing on strategic commissioning and good governance; and
  - **Managing resources** -focusing on the effective management of natural resources, assets and people.

The scoring of the themes ranges from one (performing inadequately) to four (performing exceptionally).

2.3 KPMG have assessed the Council's scores as:

Key Line of Enquiry	
Managing Finance	2
Governing the business	2
Managing Resources	3

This results in an overall score of 2.

2.4 Pages 4 and 5 of the KPMG report summarises their findings relating to Use of Resources and appendix 2 of their report lists their detailed findings. Officers will consider these findings and seek to address them.

**Use of Resources (Value for Money) conclusion (page 5)**

2.5 Based on the work undertaken as at the time KPMG conclude that the Council has appropriate arrangements in place to ensure effective use of resources (page 5).

**Statement of Accounts (page 6)**

2.6 The final version of the Statement of Accounts reflecting the amendments required by the Auditors is attached as appendix B. KPMG acknowledge that the quality of working papers were good and that queries were resolved within the agreed schedule. However, they do identify the scope for improving the level of internal review and quality control of the draft statement. Officers will address this for next year.

2.7 Page 7 of the KPMG report lists substantive audit issues considered by the auditors including the impairment of assets; use of reserves; accounting and bad debt provisions.

2.8 No material misstatements to the Accounts were identified by the Auditors. A number of corrections were identified and have been implemented which result in a £69k decrease in the general fund balance as a result of :

- Decrease in provision required for Orchard Meadow dispute of £49k; and
- Recognition of expenditure in relation to SLM energy dispute in 2007/08 of £40k
- Reduction in Council Tax benefit income of £74k

It should be noted that the first two of the above relate to post balance sheet clarifications relating to events occurring after the draft accounts were prepared.

Of the other audit adjustments KPMG identified, the most significant in monetary value were as follows:

- £1,031K adjustment to capitalise and then impair non enhancing capital expenditure. The impairment charge is included in the Income and Expenditure account and then the effect on revenue is neutralised by a transfer from the Capital Adjustment Account; and
- £712K adjustment to the revaluation of land and buildings as at 1 April 2009 due to errors in applying the independent valuer's valuations. KPMG have provided

a summary of significant audit differences in Appendix 5. These have been adjusted in the final version of the financial statements.

There are no uncorrected audit differences.

### **Annual Governance Statement (page 8)**

- 2.9 KPMG's confirm that the Statement is not misleading or inconsistent with other information they are aware of from their work.

### **Other Material Matters**

KPMG as external auditors are required to communicate "audit matters of governance interest that arise from the audit of the financial statements" to the Council which includes:

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

There are no others matters which KPMG wish to draw to the Committee's attention

### **Recommendations (Appendix 6)**

- 2.10 KPMG have issued 9 recommendations (Appendix 6) of which four are level two (medium priority- issues which have important effect on internal controls but do not require immediate action) and five level three (best practice improvements). Officers will have drafted responses by the time of the Audit Committee meeting.

### **3. PROPOSALS**

- 3.1 That the Assistant Chief Executive in his role as statutory chief financial officer, and the Chairman of the Audit Committee sign the draft letter of representation as appended to the auditors' report (Appendix 9).
- 3.2 That the Committee note the recommendations made in Appendix 6 and the draft responses made by Officers. Progress on implementation to be reported back to the next meeting of the Committee.

### **4. FINANCIAL IMPLICATIONS**

- 4.1 There are none.

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

- 5.1 There are none

### **6. RISK IMPLICATIONS**

- 6.1 There are none

**Report Author: Terry Collier Chief Finance Officer**

**Background Papers:  
There are none**



# **Spelthorne Borough Council**

## **AUDITED**

# **Annual Report & Statement of Accounts 2008-2009**



**INVESTOR IN PEOPLE**

T Collier  
Chief Finance Officer

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

In considering these accounts reader must bear in mind the dramatic events which occurred in 2008-09 in the global financial, property and economic markets. The reductions in property and equity values has impacted on the pension FRS17 values through reducing the value of the Pension fund assets and thereby increasing the pension deficit and are a major factor in reducing the Council net value on its Balance sheet and increasing the accounting deficit on the income and expenditure statement (before the effects are reversed out in the Statement on the Movement of the General Fund. Similarly falling property values required the Council to revalue those of its assets most likely to have reduced in value as a result of the general property market decline. This resulted in reductions in the Council's fixed asset value on the balance sheet and impairment charges on the income and expenditure statement increasing the accounting deficit.

The economic conditions meant that the Council was not able to realise the level of capital receipts it had anticipated in the original budget for 2008-09 and this in turn reduced the amount of investment income it was able to earn in 2008-09. Combined with this during 2008-09 base rates fell to the historically unprecedented low level of 0.5% and this combined with fewer financial counterparties being available for the Council to invest with because of falling credit worthiness of financial institutions meant that outturn investment income was approximately £0.374m lower than originally anticipated. However, readers can be reassured that the Council did not have any deposits with Icelandic financial institutions.

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

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

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

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

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

**The Income and Expenditure Account (page 15)** is the Council's main revenue account, covering income and expenditure on all services. The Income and Expenditure Account brings together all of the functions of the authority and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such it is intended to show the true financial position of the Council according to generally accepted accounting practice, before allowing for certain accounting treatments required by statute in the process of calculating council tax and for the ability to divert particular expenditure to be met from capital resources.

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

Any substantial deficit on the account (2008-09 deficit of £14.8 million) does not necessarily mean that immediate action is needed to cut expenditure or raise council tax. The large movement in the deficit relative to 2007-08 reflect the impact of accounting entries relating to the impairment or writing down of assets to reflect the impact of falling property prices (£10.3m). The Income and Expenditure Statement needs to be read in conjunction with the Statement of Movement on General Fund Balance, which explains what the underlying cash impact on the Council's reserves is.

The Council's Revenue expenditure is financed from Central Government grants and local taxpayers (through the Council Tax). The budget requirement for services before investment income and use of reserves for 2008/09 was £14,804,400. The net expenditure approved for services totalled £11,877,667, of which £1,048,000 was to be financed from reserves, thereby reducing the budget requirement and ultimately the call on Council Taxpayers.

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

Financial Reporting Standard (FRS) 17 requires authorities to provide clear information on the impact of the authority's obligation to fund the retirement benefits of its staff. Information has been received from the Actuary on the latest position as at March 2009, showing a deficit of £22.2 million for this Authority, which represents a doubling of the deficit for 2007-08. This largely reflects the impact of the economic recession and falling asset values reducing the fair value of the Council's share of assets in the Surrey Pension Fund. It must be emphasised that this calculation has been made for the specific requirements of FRS 17 and should not be used for any other purpose. There will be a separate Triennial Revaluation based on the Pension as at 31 March 2010, which is likely to feed through into increased employer pension contributions from 2011-12 although hopefully asset values may improve by 31 March 2010.

#### **Statement of Movement on General Fund Balance (page 16)**

The income and expenditure statement is based on generally accepted accounting principles and does not reflect statutory provisions that specify the net expenditure that authorities need to take into account when setting local taxes. In order to give a full presentation of the financial performance of an authority during the year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account needs to be reconciled to the balance established by the relevant statutory provisions. The Statement of Movement on the General Fund and Reconciliation Statement, shown on **pages 16-17**, provides the necessary reconciliation and summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance to show the underlying movement on the Council's General Fund Reserve (general contingency reserve).

The impact of reduced investment income contributed towards the Council using higher than anticipated level of reserves for 2008-09. Total transfer from reserves was £1.929 million of which £0.3m related to the use of the Interest Equalisation reserve to partially offset the impact of lower investment income. The total transfer from reserves was £0.88 million higher than originally planned for 2008-09 and reflects the impact of reduced investment income, increased pressure on revenue streams. The accounts have included a provision of £96k for the outcome of a legal process relating to a land transfer dating back eight years; the outcome is expected soon.

The outturn on the General Fund has resulted in a £215k net reduction in the balance carried forward of the General Fund Reserve.

**The Statement of Recognised Gains and Losses (page 18)** brings together all the recognised gains and losses of the Council during the financial year, identifies those which have and have not been recognised in the Income and Expenditure Account and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefit

**The Balance Sheet** summarises the assets and liabilities of all the Council's activities. It shows the balances and reserves at the Council's disposal and the fixed and net current assets employed in its operations. The Council does not have any long term debt. The Balance Sheet is summarised on **page 19**.

**The Cash Flow Statement** gives the cash position of the Council for the year and shows that there was a net cash outflow during the year of £219k (net cash outflow £682k in 2007-08). The Cash Flow Statement is on **page 20**.

**The Collection Fund:** The Local Government Finance Act 1988 requires each charging Authority to operate a Collection Fund to account for the Council Tax and Business Rate Income and its distribution to Precepting Authorities (Surrey County Council and Surrey Police Authority) and Central Government. The Collection Fund is summarised on **page 45**.

This Authority's levy on the Collection Fund was set at £159.80 per Band D property (an increase of 3.9%) after taking account of a transfer of £1.048m from reserves and a transfer of £141,750 into the Collection Fund following lower than expected collection rates for Council Tax during the previous year.

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

## **Capital Expenditure**

Details of the Council's capital spending and the resources used to finance this are shown on **page 41**. The cost of using capital assets is reflected in the revenue accounts by way of depreciation charged to services.

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

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

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

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

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

Total capital expenditure in 2008-09 was £2.792 million which was considerably less than the previous year as there were no large individual capital schemes. A breakdown of the schemes making up this spend can be found in note 39 (page 41).



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

	<b>£'000</b>
Total Capital Expenditure	<b>2,792</b>
Financed by:	
Capital Grant	252
Capital Receipts	2,381
Contributions from external organisations	53
Revenue Resources & Reserves	106
Total	<b>2,792</b>

## **Revenue Expenditure**

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

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

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

Interest receipts were £374,000 less than we had anticipated at the original budget, largely due to an anticipated capital receipt for the Bridge Street site not being realised and the dramatic fall interest rates.

<b>Comparison of Actual Expenditure 2008/09 to Budget</b>			
	<b>Original Budget 2008/09</b>	<b>Actual Expenditure 2008/09</b>	<b>Variance Actual to Original Budget</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Gross Expenditure	43,564	49,055	(5,491)
Income - Government Grants	(22,636)	(27,586)	4,950
Income - Other	(6,395)	(6,419)	24
<b>NET SERVICE EXPENDITURE</b>	<b>14,533</b>	<b>15,050</b>	<b>(517)</b>
Building Maintenance	273	263	10
<b>REVISED SERVICE EXPENDITURE</b>	<b>14,806</b>	<b>15,313</b>	<b>(507)</b>
Interest on Balances	(1,880)	(1,506)	(374)
Transfer from Earmarked Reserves	(810)	(948)	138
Contribution from other Reserves	(238)	(981)	743
<b>BUDGET REQUIREMENT</b>	<b>11,878</b>	<b>11,878</b>	<b>0</b>
<b>Financed by:</b>			
Revenue Support Grant and Non Domestic Rates	(687)	(687)	0
Precept on Collection Fund	(4,936)	(4,936)	0
<b>NET BUDGET REQUIREMENT</b>	<b>6,255</b>	<b>6,255</b>	<b>0</b>
Collection Fund Surplus	142	142	
<b>NET BUDGET REQUIREMENT</b>	<b>6,397</b>	<b>6,397</b>	<b>0</b>

### Financial Strategy Review

The Council reviewed its financial strategy in November 2003 and this has formed the basis of the preparation for the spending plans for the period April 2004 to March 2008. The strategy was reviewed and updated in November 2008.

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

- A continuing need to reduce dependence on reserves
- The importance of maximising investment income whilst balancing risk
- The increasing deficits identified over the Outline Budget period
- The risk of net adverse financial impact on the Council of the extension of concessionary fares from 1<sup>st</sup> April 2008 to enable over 60s travel free by bus across the Country.
- The increasing pressure to spend, particularly on the Council's priorities, as well as government initiatives such as recycling.
- The level of council tax required to support spending proposals and the government's focus on council tax levels means that there is a chance of capping

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

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

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

- To agree a maximum level of expenditure for 2008/09 of £14.8m
- To make a contribution from reserves of an amount not exceeding £1,047,000
- That Management Team working with the Executive review future years' deficits and consider the way forward
- That the council tax be increased by 3.9% for 2008-09

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

During 2006-07 the Council commenced a programme of Business Improvement reviews which will review all services over a 3 year period with a view to identifying how they can be delivered more efficiently by redesigning processes and looking at structures in order to deliver cashable savings. In 2008-09 reviews were undertaken of Street Scene, Environment, Community Services, Environmental Health, Human Resources. The Business Improvement Programme by end of 2008-09 had identified on-going annual revenue savings of £670,000.

Towards the end of 2008-09 the Council successfully recovered £144,000 in VAT income and statutory interest from HM Revenues and Customs arising from an opportunity given by Customs for local authorities to reclaim VAT paid in previous years which as result of a change in VAT interpretation as to the VAT status of parking penalty charge income was entitled to be recovered. The Council has submitted similar claims relating to leisure centre income and trade/bulky waste for periods going back to the 1970s. These claims total approximately £1 million and with statutory interest could be worth approaching £2 million. These later claims have not been included in the figures in the accounts, as whilst some other neighbouring authorities have already had their claims paid out, Customs have yet to process this Council's set of claims, and the amount that Customs may agree to pay out is too uncertain to accrue in the accounts.

The Council has received its Use of Resources assessment for 2008-09. This assesses how well organisations are delivering value for money and providing sustainable outcomes for local people. It forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than the previously embracing the use of natural, physical and human resources. It also places emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes and as a result it is not possible to directly compare with the previous year's assessment. For 2008-09 the Council's Use of Resources overall score was a 2 which means the Authority is performing adequately.

## **Summary**

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

Additional spending pressures are not being met by additional government grant, the Council knows that its general government grants support is only increasing by 0.5% for both 2008-09 and for 2009-10, and the controls that are now being exercised by the government on council tax increases mean that the opportunity to pass on additional charges to the council taxpayer is very limited. We know that in 2011-12 the public sector will be facing severe funding pressures which the Council is planning for.

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

The accounts were authorised for issue by Mr T Collier, Chief Finance Officer on xx September 2009 and post balance sheet events have been considered up to this date.

### **Further Information**

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

# Statement of Accounting Policies

## 1. General Principles

These accounts have been prepared in accordance with the Financial Reporting Standards (FRS) developed and issued by the Accounting Standards Board (ASB) and with the franked Code of Practice on Local Authority Accounting in the United Kingdom: Statement of Recommended Practice (SORP) 2008 covering the application of Statements of Standard Accounting Practice (SSAPs) to local authorities in England and Wales and comply with the Code of Accounting Practice and Best Value Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## 2. Changes in Accounting policies

The 2008 SORP has imposed further changes to the format and content of accounts as part of the continuing drive to make public sector accounts generally more compliant with "Generally Accepted Accounting Practices" (UK GAAP).

The main changes affecting the Authority are:-

- a) The revised basis for valuing pension fund assets for FRS17 disclosures (note 18)
- b) The renaming of "deferred charges" to "revenue expenditure funded from capital under statute"
- c) Statutory guidance for Minimum Revenue Provision (MRP) – this is currently not relevant to Spelthorne as we are a debt free authority.

## 3. Debtors and Creditors

The accounts are prepared on an income and expenditure basis in accordance with the SORP. This means that all amounts due to or from the authority are included in the accounts where they are significant, whether or not the cash has actually been received or paid in the year.

Debtors include accrued income for this and earlier years, including interest on investments. Creditors of a material nature are included for goods and services received at 31 March 2009, including interest on outstanding loans.

Where the precise amounts due to or from the Council is unknown on closing the accounts, provisions have been made on an estimated basis.

## 4. Accounting for Provisions, Contingent Liabilities and Contingent Assets (FRS 12)

All material gains and losses not accrued within the accounts themselves are recorded in the notes to the appropriate financial statement as required by this FRS. The notes describe the nature of the contingency and provided it is not prejudicial to the Council's interests, a prudent estimate of the financial effect.

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain.

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year.

In 2008/09 the Council charged the following provision charge to revenue under the provisions of the Local Government Act 1989:-

- a) Orchard Meadow – provision for costs relating to the payment of a compulsory purchase from 2001

## 5. Reserves

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits that do not represent usable resources for the Council – these reserves are explained separately.

## 6. Basis of Capital Accounting

- a) **Fixed Assets** - All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than year.

### **Intangible Fixed Assets**

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

### **Tangible Fixed Assets**

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

**Operational assets** have been included in the balance sheet at a lower of net current replacement cost or net realisable value in existing use. Non-operational assets have been included in the balance sheet at the lower of net replacement or net realisable value.

The current asset values used in the accounts are based upon a certificate issued by the District Valuer as at 1st April 2005. Additional valuations were undertaken in 2008/09 as a result of the economic climate and these have been incorporated into the accounts at their revised valuation (see note 21).

- b) **Depreciation** – All fixed assets, other than land, are being depreciated over their useful economic lives in accordance with the following policy:

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

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

- c) **Charges to Revenue** - The capital charges made to service revenue accounts equate to the sum of depreciation.

To ensure that depreciation does not impact on the level of council tax, the value of depreciation charged to services in the Income and Expenditure statement is reversed out in the Statement of Movement on the General Fund Balance by appropriations from the Capital Adjustment Account.

Amounts set aside, to finance capital expenditure or as transfers to earmarked reserves are disclosed separately as appropriations, in the Income and Expenditure below net operating expenditure.

- d) **Revenue expenditure funded from capital under statute** - Represent expenditure which may properly be capitalised, but which does not represent a tangible fixed asset. Revenue expenditure funded from capital under statute is written off as expenditure to the relevant service revenue account in the year incurred. Where the Council has determined to meet the cost of revenue expenditure funded from capital under statute from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged to the Income and Expenditure so there is no impact on the level of council tax.
- e) **Impairment** – Represents a reduction in the carrying value of an Asset caused either by a consumption of economic benefits or by a general fall in prices. The SORP requires that authorities undertake a review of the balance sheet value of each category of asset at the end of each reporting period. Where there is reason to believe that its value has changed materially in the period, the valuation should be adjusted accordingly.

Capital charges therefore have a neutral impact on the amounts required to be raised from local taxation.

## **7. Accounting for Capital**

The closing balance on the Revaluation Reserve at 31 March 2009 only shows revaluation gains since 1 April 2007 when the Revaluation Reserve came into effect.

## **8. Investments (FRS 25,26 and 29)**

Investments are shown at transaction cost except for “available for sale” asset which are at fair value representing the net present value of future cash flows.

## **9. Costs of Support Services**

Central administrative expenses are fully recharged within the financial year. Costs have been reallocated to operational services on the basis of charging policies agreed by Heads of Service. Balances on central support cost after allocation to services have been left as a charge to the General Fund within the year incurred.

The cost of Corporate Management is not reallocated to services, but contained within the General Fund as a separate cost centre.

## **10. Treatment of Government Grants (SSAP 4) Revised**

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants, to a government grants-deferred account. Amounts are released from the government grants-deferred account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate.

## **11. Accounting for Value Added Tax (SSAP 5)**

Income and expenditure are recorded net of VAT in accordance with this SSAP.

## **12. Exceptional Items (FRS 3)**

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

## **13. Profit and Loss on Sale of Fixed Assets (FRS 3)**

Income from the disposal of fixed assets is accounted for on an accruals basis. Such income is included in the Balance Sheet as Usable Capital Receipts. The FRS requires any profit or loss made on the sale of assets to be credited to revenue accounts and the Council complies with this FRS.

## **14. Accounting for Leases (SSAP21)**

Finance Leases – Leases are accounted for as finance leases when substantially all the risks and rewards relating to the leased asset transfer to the Council. Rentals payable are apportioned between a charge for the acquisition of the interest in the asset (recognised as a liability on the balance sheet) and a finance charge (debited to operating expenditure in the Income and Expenditure Account as the rent becomes payable). The Council does not currently hold any finance leases.

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

## **15. Stock and Work-in-Progress (SSAP 9) Revised**

During the year, stocks and stores are recorded in the accounts at the lower of cost and net realisable value.

## **16. Cash Flow Statements (FRS 1)**

Under the Code of Practice on Local Authority Accounting in Great Britain, a Cash Flow Statement has been produced to comply with this FRS.

## **17. Accounting for Post Balance Sheet Events (SSAP 17)**

Events which have occurred after the Balance Sheet date but have a material bearing on the fair presentation of the financial statements are disclosed in the notes to the Balance Sheet.

## **18. Accounting for Pensions (FRS 17)**

Under the 2008 SORP the authority has adopted the amendment to FRS17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid market value. The effect of this change is that the value of scheme assets have been restated. Current and prior year surplus have been unaffected by the change.

This policy better reflects our commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund. As this is financed from the Pensions Reserve, there is no impact on the Council Tax level.



This has had the following effects on the results of the prior and current periods:

- The overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are 3.7% higher after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 0.8% higher than it would otherwise have been.
- The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the Authority by 35%.

## **19. Group Accounts**

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

# Statement of Responsibilities for the Statement of Accounts

## The Authority's Responsibilities

The Authority is required:

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

## The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31st March 2009.

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

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

The Chief Financial Officer has also:

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

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

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

**Date: \*\* September 2009**

**Date: \*\* September 2009**



## Statement of Movement on the General Fund Balance

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

<b>2007/08</b>		<b>2008/09</b>
<b>£'000</b>		<b>£'000</b>
2,856	(Surplus)/Deficit for the year on the Income and Expenditure Account	14,837
(3,015)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(14,622)
(159)	(Increase) / decrease in General Fund Balance for the Year	215
(1,412)	General Fund Balance brought forward	(1,571)
(1,571)	General Fund Balance carried forward	(1,356)

## Reconciliation Statement

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

2007/08		2008/09
£'000		£'000
(2,259)	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	<b>(12,798)</b>
(2,195)	Depreciation and impairment of fixed assets	(12,290)
290	Government Grants Deferred amortisation	255
(1,259)	Revenue Expenditure Funded from Capital under statute	(671)
389	Net charges made for retirement benefits in accordance with FRS17	(174)
516	Other Income	82
17	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund balance for the year</b>	<b>65</b>
22	Capital expenditure charged in-year to the General Fund Balance	66
(5)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1)
(773)	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	<b>(1,889)</b>
(773)	Net transfer to or from ear marked reserves	(1,889)
(3,015)	<b>Net additional amount required to be credited to the General Fund Balance for the year</b>	<b>(14,622)</b>

## Statement of Total Recognised Gains and Losses

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

<b>2007/08</b>		<b>2008/09</b>
<b>£'000</b>		<b>£'000</b>
(2,856)	Deficit for the year on the Income and Expenditure Account	(14,837)
597	Surplus arising on revaluation of fixed assets	7,586
10	Surplus/(deficit) on revaluation of available for sale financial assets	136
(61)	Attributable movement on the Collection Fund	102
5,022	Actuarial gains/(losses) on pension fund assets and liabilities	(11,002)
<b>2,712</b>	<b>Total recognised gains / (losses) for the year</b>	<b>(18,015)</b>

## Balance Sheet as at 31 March 2009

2007/08 £'000		2008/09	
		£'000	£'000
	<b>FIXED ASSETS (Note 18)</b>		
	<b>Operational Assets</b>		
37,932	Other Land and Buildings	38,200	
2,080	Vehicles, Plant and Equipment	2,175	40,375
	<b>Non-Operational Assets</b>		
12,275	Investment Properties	9,749	
1,880	Surplus Assets held for disposal	1,459	11,208
<b>54,167</b>	<b>TOTAL FIXED ASSETS</b>		<b>51,583</b>
9,730	Long Term Investments (Note 26)		8,471
260	Long Term Debtors		199
<b>64,157</b>	<b>TOTAL LONG TERM ASSETS</b>		<b>60,253</b>
	<b>CURRENT ASSETS</b>		
78	Stocks and Work in Progress	38	
10,872	Short Term Investments (Note 26)	13,615	
7,178	Debtors (Note 27)	4,704	
58	Payments in Advance	193	
37	Cash in Hand	256	18,806
<b>82,380</b>	<b>TOTAL ASSETS</b>		<b>79,059</b>
	<b>CURRENT LIABILITIES</b>		
(2,554)	Temporary loans	(4,554)	
(2,269)	Receipts in Advance	(2,665)	
(3,169)	Creditors (Note 28)	(3,668)	(10,887)
<b>74,388</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>68,172</b>
	<b>LONG TERM LIABILITIES</b>		
(10,994)	Defined Benefit Pension Scheme Liability (Note 8)	(22,170)	
0	Provisions (Note 29)	(96)	
(182)	Deferred Credits	(709)	(22,975)
<b>63,212</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>45,197</b>
	<b>FINANCED BY:</b>		
597	Revaluation Reserve (Note 41)		7,795
9	Available-for-sale Financial Instruments Reserve		145
53,477	Capital Adjustment Account (Note 41)		43,647
15	Deferred Capital Receipts		12
4,665	Usable Capital Receipts (Note 41)		2,367
(10,994)	Pensions Reserve (Note 41)		(22,170)
14,022	Earmarked Reserves (Note 40)		12,093
1,571	General Fund Balance		1,356
(150)	Collection Fund Balance		(48)
<b>63,212</b>	<b>TOTAL NET WORTH (Note 22)</b>		<b>45,197</b>

## Cashflow Statement

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

2007/08	Revenue Activities	2008/09	
£'000		£'000	£'000
	Expenditure		
11,637	Employment Costs	12,137	
12,849	Other Operating Costs	9,729	
19,208	Housing Benefits	21,670	
35,012	NNDR Payments to Pool	40,192	
47,104	Precepts Paid	49,876	
5	Payments to Capital Receipts Pool	1	
125,815			133,605
	Income		
(723)	Rents (net of Rebates)	(624)	
(48,598)	Council Tax Income	(51,317)	
(4,822)	National non-domestic rate receipts from National Pool	(4,936)	
(34,765)	Non Domestic Rate Income	(41,569)	
(793)	Revenue Support Grant	(687)	
(22,876)	DWP Rebate Subsidy	(28,003)	
(498)	Other Government Grants	(1,067)	
(6,574)	Cash received for Goods and Services	(5,635)	
(119,649)			(133,838)
<b>6,166</b>	<b>Surplus from Revenue activities (see Note 38)</b>		<b>(233)</b>
	<b>Servicing of Finance</b>		
71	Interest Paid	42	
(1,027)	Interest Received	(1,482)	
(956)	<b>Total Servicing of Finance</b>		(1,440)
<b>5,210</b>			<b>(1,673)</b>
	<b>Capital Activities</b>		
	Expenditure		
3,560	Purchase of fixed assets	1,658	
0	Purchase of long term investments	8,134	
179	Other	1,369	
3,739			11,161
	Income		
(594)	Sale of fixed assets	(284)	
(274)	Capital Grants Received	(82)	
(215)	Other Capital Cash Income	(528)	
(1,083)			(894)
<b>7,866</b>	<b>Net Cash Outflow before Financing</b>		<b>8,594</b>
	<b>Management of Liquid Resources</b>		
(10,160)	Net decrease in short term deposits		(6,810)
	<b>Financing</b>		
54,134	Cash Outflows - Repayment of amounts borrowed	24,840	
(51,158)	Cash Inflows - New short term loans raised	(26,843)	
2,976			(2,003)
<b>682</b>	<b>Net (Increase)/Decrease in Cash (see Note 38)</b>		<b>(219)</b>



# Notes to the Core Financial Statements

## 1. Analysis of major Service Areas Expenditure

The analysis gives a breakdown of significant expenditure and income areas within the Authority with comparative figures for 2007/08.

2007/08	Service Area	2008/09 Expenditure £'000	2008/09 Income £'000	2008/09 Net £'000
<b>CENTRAL SERVICES TO THE PUBLIC</b>				
377	Elections and the Electoral registration	271	1	270
398	General grants	560	0	560
(11)	Local Land Charges	158	109	49
2	Council Tax Benefits	5,653	5,593	60
491	Local Tax collection	926	355	571
94	Communications	916	0	916
31	MAT	783	0	783
83	DS Management Team	39	0	39
83	Environment	901	59	842
(29)	Community Safety	125	0	125
945	Other	392	207	185
2,464		10,724	6,324	4,400
<b>CULTURAL ENVIROMENTAL AND PLANNING SERVICES</b>				
1,756	Open Spaces	2,088	208	1,880
568	Leisure and Culture	669	117	552
1,001	Planning and Building Control	2,173	1,026	1,147
2,782	Refuse and Recycling	4,064	691	3,373
814	Recreation and Sport	7,161	213	6,948
50	Day Centres	75	22	53
91	Environmental Initiatives	127	138	(11)
1,018	Environmental and Public Health	1,388	207	1,181
164	Cemeteries	410	159	251
329	Community Safety	423	122	301
(447)	Property Expenses	3,106	570	2,536
(20)	Other	250	192	58
8,106		21,934	3,665	18,269
<b>HIGHWAYS ROADS AND TRANSPORT SERVICES</b>				
(320)	Parking Services	2,476	1,808	668
640	Concessionary Fares	555	244	311
172	Other	152	0	152
492		3,183	2,052	1,131
<b>HOUSING SERVICES</b>				
(30)	Housing Benefits	21,051	21,119	(68)
509	Housing	731	19	712
265	Homelessness	336	114	222
(173)	Private Sector Housing	720	410	310
137	Housing Management	92	0	92
708		22,930	21,662	1,268

2007/08 Net £'000	Service Area	2008/09 Expenditure £'000	2008/09 Income £'000	2008/09 Net £'000
	<b>ADULT SOCIAL CARE SERVICES</b>			
261	Community Care Administration	275	18	257
1,479	Day Centres	804	198	606
33	Meals on wheels	235	171	64
169	Spelthorne Accessible Transport	210	88	122
(56)	Spelthorne Personal Alarm Network	185	177	8
1,886		1,709	652	1,057
	<b>CORPORATE AND DEMOCRATIC CORE</b>			
1,577	Corporate Management	592	2	590
(1)	Committee Services	264	10	254
10	Corporate Governance	111	0	111
837	Democratic Representation and Management	512	1	511
2,423		1,479	13	1,466
42	Non Distributed Costs	31	0	31
42		31	0	31
<b>16,121</b>	<b>REVENUE NET COST OF SERVICES</b>	<b>61,990</b>	<b>34,368</b>	<b>27,622</b>

## 2. Agency Services

The Council does not have any agency services.

## 3. Publicity

Expenditure on publicity as defined by Section 5(1) of the Local Government Act 1986 was:

	2007/08 £'000	2008/09 £'000
Recruiting Advertising	25	21
Other Advertising	20	24
Promotions	4	3
Other Publicity	133	46
<b>TOTAL</b>	<b>182</b>	<b>94</b>

## 4. S137 Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds and not for profit providers of public services.

The Council's actual expenditure under this power in 2008/09 was £439k (£423k in 2007/08).

## 5. Minimum Revenue Provision

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

## 6. Leases

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

The authority was committed at 31st March 2009 to making payments of £594,686 under operating leases in 2009/10, comprising the following elements

	Other Land and Buildings (2008/09) £'000	Vehicles, plant and Equipment (2008/09) £'000		
Leases Expiring in 2009/10	46	186		
Leases Expiring between 2010/11 and 2015/16	7	326		
Leases Expiring after 2015/16	0	29		
	<b>53</b>	<b>541</b>		

Expenditure on operating leases in 2008/09 was £976,981 (2007/08 £650,339). There was no finance lease expenditure in 2008/09.

With regard to the authority's activity as a lessor, the rentals receivable in the year 2008/09 amounted to £339,001. The value of assets held for use in operating leases amounted to £12,757,518 valued at 31.3.08 and subject to £341,601 depreciation to 31.3.09.

## 7. Contribution to (from) Reserves

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

Contribution to (from) Reserves	£'000	
<b>Contributions from Earmarked Reserves</b>		
New Schemes Fund	(332)	
Capital Fund	(948)	
Interest Equalisation Reserve	(300)	
Carry Forward Reserve	(50)	
Business Improvement Reserve	(166)	
Building Maintenance Fund	(34)	
Insurance Fund	(18)	
Investment Valuation Reserve	(47)	
Lottery and Good Causes Funds	(4)	(1,899)
Interest appropriated to reserves		11
<b>TOTAL</b>		<b>(1,888)</b>

## 8. Pension Costs

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

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

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

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2010 is £1.57m

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

<b>Movements in net pension assets / liabilities</b>	<b>Year to 31 March 2008 £'000</b>	<b>Year to 31 March 2009 £'000</b>
<b>Net Cost of Services</b>		
Current Service Cost	(1,432)	(903)
Curtailments & Settlements	(46)	(98)
Past service costs		(425)
<b>Net Operating Expenditure</b>		
Interest Cost	(3,878)	(4,321)
Expected Return on Assets in the Scheme	3,947	3,682
<b>Amounts to be met from Government Grants and Local Taxation</b>		
Movement on Pensions Reserve	(389)	174
<b>Actual amount charged against council tax for pensions in the year</b>		
Employers contributions payable to the scheme	(1,798)	(1,891)

	<b>31 March 2008 £'000</b>	<b>31 March 2009 £'000</b>
<b>Statement of Movement on the General Fund Balance</b>		
Reversal of charges made for Retirement Benefits in accordance with FRS17	(1,409)	(2,065)
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>		
Employers contributions payable to the scheme	1,798	1,891

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

<b>Net Pension Assets at</b>	<b>31 March 2008 £'000</b>	<b>31 March 2009 £'000</b>
Estimated Liabilities in the scheme	(63,186)	(61,359)
Estimated Assets in the scheme	52,192	39,189
<b>Net Asset / (Liability)</b>	<b>(10,994)</b>	<b>(22,170)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £22.170m has a significant impact on the net worth of the Authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit whereby it will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, mean that the financial position of the Authority remains healthy. The Pension fund liability in the year has increased by £11.002m.

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

Cumulative analysis of Actuarial Gains and Losses	2004/2005	2005/2006	2006/2007
	£'000	£'000	£'000
Actuarial gains and (losses)	(9,362)	(130)	4,095
Increase / (decrease) in recoverable surplus			
Actuarial gains / (losses) recognised in STRGL	(9,362)	(130)	4,095
<b>Cumulative Actuarial Gains and (Losses)</b>	<b>(9,362)</b>	<b>(9,492)</b>	<b>(5,397)</b>

Cumulative analysis of Actuarial Gains and Losses	2007/2008	2008/2009
	£'000	£'000
Actuarial gains and (losses)	5,022	(11,002)
Increase / (decrease) in recoverable surplus		
Actuarial gains / (losses) recognised in STRGL	5,022	(11,002)
<b>Cumulative Actuarial Gains and (Losses)</b>	<b>(375)</b>	<b>(11,377)</b>

In addition to the Recognised Gains and Losses included in the Income and Expenditure Account, Actuarial (Gains)/ Losses of £11,002m (£5,022m in 2007/08) were included in the Statement of Recognised Gains and Losses

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

The main assumptions used in their calculations have been:

Actuarial assumptions as at	31 March 2008 %	31 March 2009 %
Rate of inflation	3.60	3.10
Rate of increase in salaries	5.10	4.60
Rate of increase in pensions	3.60	3.10
Rate for discounting scheme liabilities (NB based on 3.5% real)	6.90	6.90

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

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

<b>Assets (Employer)</b>	<b>Long Term Return at 31 March 2008 % p.a.</b>	<b>Assets at 31 March 2008 £'000</b>	<b>Long Term Return at 31 March 2009 % p.a.</b>	<b>Assets at 31 March 2009 £'000</b>
Equities	7.70	37,075	7.00	28,608
Bonds	5.70	9,993	5.40	7,054
Property	5.70	3,810	4.90	2,351
Cash	4.80	1,314	4.00	1,176
<b>Total</b>		<b>52,192</b>		<b>39,189</b>

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2007 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficient reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently the valuation of the Spelthorne Borough Council's retirement benefit liabilities as at 31 March 2009 does not include any allowance for this change to the pension scheme

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

<b>Assets and Liabilities in relation to Retirement Benefits</b>		
<b>Funded liabilities: £000s</b>	<b>2007/2008</b>	<b>2008/2009</b>
01 April	72,218	63,186
Current Service Cost	1,432	903
Interest Cost	3,878	4,321
Contributions by Scheme Participants	451	464
Actuarial Gains and Losses	(12,088)	(5,018)
Benefits Paid	(2,751)	(3,020)
Past Service Costs	-	425
Losses / Gains on curtailments	46	98
31 March		
	<b>63,186</b>	<b>61,359</b>
<b>Reconciliation of fair value of the Scheme Assets</b>		
<b>£000s</b>	<b>2007/2008</b>	<b>2008/2009</b>
01 April	55,813	52,192
Expected Rate of Return	3,947	3,682
Actuarial gains and losses	(7,066)	(16,020)
Employer contributions	1,798	1,891
Contributions by scheme participants	451	464
Benefits paid	(2,751)	(3,020)
31 March		
	<b>52,192</b>	<b>39,189</b>

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

The scheme history details the value of funded and unfunded liabilities from 2004/05 to 2008/09 and shows the annual change.

<b>Scheme History</b>	<b>2004/2005</b>	<b>2005/2006</b>	<b>2006/2007 As Restated</b>
Present Value of Liabilities	(62,970)	(73,150)	(72,218)
Present Value of Unfunded Liabilities	(682)	7,130	373
Fair Value of assets in the Local Government Pension Scheme	43,500	52,970	55,813
Surplus/(deficit) in the scheme	(9,362)	(130)	4,095
<b>Cumulative</b>	<b>(9,362)</b>	<b>(9,492)</b>	<b>(5,397)</b>
<b>Scheme History</b>	<b>2007/2008 As Restated</b>	<b>2008/2009</b>	
Present Value of Liabilities	(63,186)	(61,359)	
Present Value of Unfunded Liabilities	(3,869)	(15,998)	
Fair Value of assets in the Local Government Pension Scheme	52,192	39,189	
Surplus/(deficit) in the scheme	5,022	(22,170)	
<b>Cumulative</b>	<b>(375)</b>	<b>(22,545)</b>	

The £22.2 million net liability represents the difference between the value of the Authority's Pension Fund Assets at 31 March 2009 and the estimated Present Value of future pension fund payments to which it was committed at that date (£10,994m 2007/08).

The principal assumptions used by the Actuary have been:

Equity investments	7.70	7.00
Bonds	5.70	5.40
Property	5.70	4.90
Cash	4.80	4.00
Other		
Mortality assumptions: Longevity at 65 for current pensioners (years):		
Men	21.50	21.50
Women	24.40	24.40
Mortality assumptions: Longevity at 65 for future pensioners (years):		
Men	22.60	22.60
Women	25.50	25.50
Rate of inflation	3.60	3.10
Rate of increase in salaries	5.10	4.60
Rate of increase in pensions	3.60	3.10
Rate for discounting scheme liabilities	6.90	6.90



Take up option to convert annual pension into retirement lump sum	25.00%	25.00%

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

## 9. Local Authority Goods and Services Act 1970

No work was carried out under the provisions of the above Act in 2008/09.

## 10. Employee Remuneration

The number of employees whose remuneration (including salary, leased car and other employee benefits but excluding pension contributions) was greater than £50,000, in bands of £10,000, is shown in the table below.

Remuneration Band (inc Salary and Benefits)	Number	
	2007/08	2008/09
£50,000 - £59,999	12	6
£60,000 - £69,999	2	7
£70,000 - £79,999	2	-
£80,000 - £89,999	1	1
£90,000 - £99,999	1	-
£100,000 - £109,999	-	2

## 11. Members' allowances

Members' allowances of £203,387 (£190,089 in 2007/08) were paid in the year to 31st March 2009.

## 12. Revenue expenditure funded from capital under statute

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

Analysis of expenditure is as follows: -

	<b>£'000</b>
Central Services	-
Cultural, Environmental Regulatory and Planning	57
Highways Roads & Transportation	-
General Fund Housing Services	589
Adult Social Care	-
<b>TOTAL</b>	<b>646</b>

### **13. Related Party Transactions**

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

Central Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates; providing a significant amount of its funding in the form of grants; and it prescribes the terms of many of the transactions the Council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in notes 27 and 28 on page 35. Details of cash received from government grants are set out in note 38 on page 40.

Members of the Council have direct control over the Council's financial and operating policies. During 2008/09 there were no material related party transactions between the Council and Council Members. Any declarations of interest are properly recorded in the Register of Members' Interests, which is open to public inspection.

Senior Officers have the ability to influence the Council. During 2008/09 there were no related party transactions between the Council and Senior Officers.

### **14. Building Control Trading Accounts**

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

<b>Building Regulations Charging Account</b>	<b>Chargeable 2008/09 £</b>	<b>Non Chargeable 2008/09 £</b>	<b>Total Building Control 2008/09 £</b>
Expenditure			
Employee expenses	165,534	145,232	310,766
Premises (Office Accomodation)	11,081	5,708	16,789
Transport	3,990	2,332	6,322
Supplies & Services	11,372	5,856	17,228
Central and support service charges	79,156	40,777	119,933
<b>Total Expenditure</b>	<b>271,133</b>	<b>199,905</b>	<b>471,038</b>
Income			
Building Regulation Charges	289,778	1,797	291,575
<b>Total Income</b>	<b>289,778</b>	<b>1,797</b>	<b>291,575</b>
(Surplus)/Deficit for Year	<b>(18,645)</b>	<b>198,108</b>	<b>179,463</b>
<b>2007/08</b>			
Expenditure	<b>255,710</b>	<b>198,045</b>	<b>453,755</b>
Income	<b>281,418</b>	<b>2,355</b>	<b>283,773</b>
Net	<b>(25,708)</b>	<b>195,690</b>	<b>169,982</b>

The Building Regulation (Local Authority Charges) Regulations 1999 came into force on 1st April 1999, stipulating that the Council is obliged to meet 100% of the chargeable costs over a three year period. A total surplus of £65,112 has been achieved over the last 3 year period.

## 15. Disclosure of Audit Costs

In 2008/09, the Authority incurred the following fees relating to external audit and inspection:

	<b>2007/08 £'000</b>	<b>2008/09 £'000</b>
Fees payable for external audit services	87	88
Fees payable for statutory inspections	6	7
Certification of grant claims and returns	23	23
<b>TOTAL</b>	<b>116</b>	<b>118</b>

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

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

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

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

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

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

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

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

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

## Notes to the Balance Sheet

### 18. Fixed Assets

Under Financial Reporting Standard 15 "Tangible Fixed Assets", depreciation must be provided for on all operational buildings including council dwellings. Assets have been depreciated over their useful economic life using the straight line method except for vehicles and plant which is depreciated using the reducing balance method. All land and property assets were revalued as at 1<sup>st</sup> April 2005 but due to the current economic climate and the effect this has had on property values, certain assets were re-valued as at 1<sup>st</sup> April 2008 (see also Note 21).

The total value of impairments in 2008/09 totalled £10,265,385. The most significant impairments related to Leisure Centres (£5,511,932), Kingston Road Car Park (£536,700) and the Elmsleigh Centre in Staines (£2,500,000) which accounted for £8,548,632 of the total. The Benwell Centre was revalued in line with the revised sale valuation.

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

Movements during the year were as follows:

<b>Movement in Fixed Assets</b>	<b>Land and Buildings</b>	<b>Vehicles, Plant &amp; Equipment</b>	<b>Total Operational Assets</b>	<b>Non Operational Assets</b>	<b>Total Fixed Assets</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Cost or Valuation</b>					
At 1 April 2008	40,645	2,468	43,113	14,154	57,267
Additions	1,074	973	2,047	75	2,122
Disposals	-	(1)	(1)	-	(1)
Reclassifications	-	-	-	-	-
Revaluations	7,911	-	7,911	(325)	7,586
Impairments	(7,289)	(281)	(7,570)	(2,696)	(10,266)
Reclassifications	-	-	-	-	-
<b>At 31 March 2009</b>	<b>42,341</b>	<b>3,159</b>	<b>45,500</b>	<b>11,208</b>	<b>56,708</b>
<b>Depreciation and Impairments</b>					
At 1 April 2008	2,713	387	3,100	-	3,100
Charge for 2008/09	1,428	597	2,025	-	2,025
Disposals	-	-	-	-	-
Reclassifications	-	-	-	-	-
Revaluations	-	-	-	-	-
<b>At 31 March 2009</b>	<b>4,141</b>	<b>984</b>	<b>5,125</b>	<b>-</b>	<b>5,125</b>
<b>Balance Sheet at 31 March 2009</b>	<b>38,200</b>	<b>2,175</b>	<b>40,375</b>	<b>11,208</b>	<b>51,583</b>
<b>Balance Sheet at 1 April 2008</b>	<b>37,932</b>	<b>2,081</b>	<b>40,013</b>	<b>14,154</b>	<b>54,167</b>
<b>Nature of Asset Holdings</b>					
Owned	38,200	2,175	40,375	11,208	51,583

The main items of capital expenditure and financing are shown on page 42. As at 31 March 2009 we had no contractual major capital commitments.

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

	<b>£'000</b>
Total Capital Expenditure 2008/09	2,792
Less: expenditure incurred where no asset is owned by the Council or created	(670)
Additions to fixed assets	<b>2,122</b>

The Council owned the following assets at 31st March 2009:

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

The Council also owns assets classified as community assets. 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.

## 20. Leases

There are no assets funded by means of finance leases.

## 21. Valuation Disclosure

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

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

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

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

## 22. Analysis of Net Assets Employed

	<b>31 March 2008 £'000</b>	<b>31 March 2009 £'000</b>
General Fund	63,362	45,245
Collection Fund	(150)	(48)
<b>TOTAL</b>	<b>63,212</b>	<b>45,197</b>

This represents the aggregate of reserves attributable to the Authority and equals the sum of the local taxpayers' equity. The change in the General Fund between years is due to the financing of both capital and revenue expenditure from reserves.

### **23. Deferred Capital Receipts**

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

### **24. Long Term Borrowing**

We have no long term debt.

### **25. Contingent Liabilities**

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

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

A claim against the Council may be made in respect of the redevelopment of Memorial Gardens in Staines. The Council considers further negotiations with the contractor will be required to establish the validity and amount of any such claim. We do however feel that there is now very little likelihood that the contractors will pursue and win their claim

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

### **Contingent Assets**

Under the Fleming case legislation the Authority is currently awaiting confirmation from HM Revenue and Customs in respect of two claims submitted for refunds of VAT relating to leisure centre and trade / bulky waste collection. The claims are for up to £1m but with statutory interest could be worth approaching £2m.

### **26. Investments**

	<b>31 March 2008 £'000</b>	<b>31 March 2009 £'000</b>
Long term:		
Capital Funds	10	0
Revenue Funds	9,720	8,471
	9,730	8,471
Short term:		
Temporary investment	10,872	13,615
<b>TOTAL</b>	<b>20,602</b>	<b>22,086</b>

## 27. Analysis of Debtors

	<b>31 March 2008 £'000</b>	<b>31 March 2009 £'000</b>
Central Government	2,643	692
Revenues & Customs	206	196
Council Taxpayers	1,360	1,369
General	2,557	3,306
Precepting Authorities	1,149	378
Less Provisions for Bad Debts	(737)	(1,237)
<b>Total Debtors</b>	<b>7,178</b>	<b>4,704</b>
Payments in Advance	58	193
	<b>7,236</b>	<b>4,897</b>

## 28. Analysis of Creditors

	<b>31 March 2008 £'000</b>	<b>31 March 2009 £'000</b>
Central Government	281	350
Inland Revenue	1	1
General	2,887	3,317
<b>Total Creditors</b>	<b>3,169</b>	<b>3,668</b>
Receipts in Advance	2,269	2,665
	<b>5,438</b>	<b>6,333</b>



## **29. Provisions**

A claim against the Council has also been made in respect of Orchard Meadow, Sunbury.

The notice of claim was issued and we have recently received the outcome of the Lands Tribunal deliberations which occurred in March 2009. The decision made the Authority liable to pay the claim. A provision has therefore been made in the sum of £96,000 in respect of the estimated costs and interest payments for this liability.

## **30. Financial Instruments**

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

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

Credit risk – the possibility that other parties might fail to pay amounts due to the Council.

Liquidity risk – the possibility that the Council may have insufficient funds available to meet its financial commitments.

Market risk – the possibility that financial loss may arise for the Council as a result of changes in interest rates etc.

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

#### **Credit Risk:**

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

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

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

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

		<b>31 March 2009 £000's</b>
Deposits with banks and financial institutions		
Fitch rating - AA, F1, B, 1	2,096	
Fitch rating - AA-, F1+, B/C, 1	1,727	
Fitch rating - AA-, F1+, E, 1	2,078	
Fitch rating - A+, F1+, C/D, 1	5,080	
Fitch rating - A-, F1+, D, 1	3,701	
Fitch rating - A-, F1+, F, 1	1,029	
		<b>15,711</b>
Euro-Sterling Bonds    Rated AAA		6,374
Customers		4,704

#### Liquidity Risk:

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

#### Market Risk:

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

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

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

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

#### Fair Value of Financial Instruments:

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

Estimated interest rates range from 0.69% to 2.18% for loans and receivables, dependant on the term remaining and market rates for similar investments as at 31st March 2009.

No early repayment or impairment is recognised

Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to the fair value.

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

<b>31 March 2008</b>	<b>31 March 2008</b>		<b>31 March 2009</b>	<b>31 March 2009</b>
<b>Carrying Amount £000's</b>	<b>Fair Value £000's</b>		<b>Carrying Amount £000's</b>	<b>Fair Value £000's</b>
		<b>Financial Liabilities</b>		
2,553	2,553	Short Term Borrowing	4,554	4,554
3,246	3,246	Trade and Other Creditors	3,668	3,668
		<b>Financial Assets</b>		
		Loans and Receivables		
9,720	9,784	Long Term Investments	2,096	2,096
5,869	5,613	Short Term Investments	13,615	13,615
37	37	Cash and Bank Balances	256	256
		Available For Sale Assets		
5,003	5,003	Euro-Sterling Bonds	6,354	6,374

The fair value of Euro-Sterling bonds is determined by price quotations in the active market.

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

### **32. Post Balance Sheet Events**

There are no post balance sheet events relevant to the 2008/09 Accounts.

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

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

### **33. Revenue Activities**

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

- Cash paid to and on behalf of employees includes all payments to the Tax authorities of employees' and employers' contributions.
- Housing benefit expenditure reflects cash payments made to private tenants.

- Rent income and Council Tax income are shown net of rebates so that the statement only reflects the cash received.
- The income from the government in relation to benefits awarded is included as government grants for housing benefits.

### 34. Returns on Investments and Servicing of Finance

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

### 35. Capital Activities

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

### 36. Management of Liquid Resources

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

### 37. Financing

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

### 38.

<b>Reconciliation of Net Revenue Deficit to Net Cash Flow</b>		
	<b>£'000</b>	<b>£'000</b>
General Fund Deficit	14,076	
Collection Fund Deficit	(92)	
		13,984
<b>Non-Cash Transactions</b>		
Depreciation and Impairments	(10,673)	
Loss on Sale of Fixed Assets	(1)	
Net Contributions to/from Reserves	(174)	
Net Provision Set Aside and applied	(145)	
		(10,993)
<b>Items on an Accrual Basis</b>		
Decrease in Creditors	(1,651)	
Decrease in Stock	(41)	
Increase in Debtors	(2,151)	
		(3,843)
<b>Items in Another Classification</b>		
Servicing of Finance	1,440	
Management of Liquid Resources	26	
Capital Expenditure Financed from Revenue	(847)	
		619
<b>Net Cash Inflow from Revenue Activities</b>		<b>(233)</b>

<b>Reconciliation of Movement in Cash to Movement in Net Debt</b>			
	<b>31.3.08</b>	<b>31.3.09</b>	<b>Movement</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank/(overdraft)	(232)	(79)	153
Cash in hand	269	335	66
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>37</b>	<b>256</b>	<b>219</b>
Debt due within one year (short term borrowings)	(2,551)	(4,554)	(2,003)
Debt due after one year	0	0	0
<b>Total Debt</b>	<b>(2,551)</b>	<b>(4,554)</b>	<b>(2,003)</b>
Current Asset Investments (short term deposits)	5,500	13,615	8,115
Long Term Investments (over one year)	14,550	8,471	(6,079)
<b>Total Investments</b>	<b>20,050</b>	<b>22,086</b>	<b>2,036</b>
<b>Net Funds/(Debt)</b>	<b>17,536</b>	<b>17,788</b>	<b>252</b>

<b>Reconciliation of Financing and Management of Liquid Resources</b>			
	<b>31.3.08</b>	<b>31.3.09</b>	<b>Movement</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Current Asset Investments (short term deposits)	5,500	13,615	8,115
Debt due within one year (short term borrowings)	(2,551)	(4,554)	(2,003)
<b>Net Funds/(Debt)</b>	<b>2,949</b>	<b>9,061</b>	<b>6,112</b>

<b>Government Grants and Contributions</b>	
<b>Revenue Grants</b>	<b>£'000</b>
NNDR Redistribution Grant	4, 936
Revenue Support Grant	687
Housing Benefits Subsidy	2 8,003
Business rate Collection	14 8
Concessionary Fares	244
Economic Development Grant	49
Specific Grant – Disabled facilities	208
Planning Delivery Grant	301
Other	117
	<b>34,693</b>
<b>Capital Grants</b>	
DEFRA - Contaminated land	82
	<b>82</b>
<b>TOTAL GOVERNMENT GRANTS</b>	<b>34,775</b>

### 39. Capital Expenditure and Financing

	<b>Summary of Capital Expenditure</b>	<b>2007/08</b>	<b>2008/09</b>
		<b>£'000</b>	<b>£'000</b>
<b>Housing</b>	Improvement Grants	437	549
	Feasibility Studies and Capital Salaries	30	0
		<b>467</b>	<b>549</b>
<b>Leisure</b>	Public Halls	0	11
	Memorial Gardens	32	0
	Parks and Recreation Grounds	85	683
	Leisure Facilities	366	213
	Leisure Centres	1,521	51
	Allotments	6	0
	Museum	1	10
		<b>2,011</b>	<b>968</b>
<b>Community Care</b>	Day Centres	163	102
	Community Alarm System	31	44
		<b>194</b>	<b>146</b>
<b>Highways and Transportation</b>	Depot	93	42
	Vehicles & Plant	0	50
	Car Parks	163	68
		<b>256</b>	<b>160</b>
<b>Environmental Services</b>	Refuse Collection & Recycling	1,132	146
	Critical Ditches	43	16
	Environmental Initiatives	279	14
	Cemeteries	0	75
	Public Conveniences	45	0
	Community Safety/CCTV	7	0
	Street Cleansing	0	10
		<b>1,506</b>	<b>261</b>
<b>Other</b>	Loans/Grants to Voluntary Organisations	47	50
	Computer Developments	407	369
	Knowle Green	122	96
	Feasibility Studies and Capital Salaries	258	193
		<b>834</b>	<b>708</b>
	<b>TOTAL CAPITAL EXPENDITURE</b>	<b>5,268</b>	<b>2,792</b>
	<b>Summary of Capital Financing</b>	<b>2007/08</b>	<b>2008/09</b>
		<b>£'000</b>	<b>£'000</b>
	Borrowing	0	0
	Capital Receipts	4,862	2,381
	Specific Government Grants	242	252
	Reserve and Other Funds	164	159
	<b>TOTAL CAPITAL FINANCING</b>	<b>5,268</b>	<b>2,792</b>

#### 40. Revenue Reserves

Fund	Bal B/fwd 1.4.08 £'000	Surplus/ Deficit £'000	Conts from/ (to) other funds	Financing £'000	Bal C/fwd 31.3.09 £'000
Risk Management	10	-	-	-	10
Capital Fund	1,541	-	-	948	593
Housing Initiatives	7,666	-	40	-	7,626
Lottery Fund	21	-	1	4	18
New Schemes Fund Rev	2,501	-	-	332	2,169
Good Causes Fund	3	-	-	-	3
Investment Valuation	47	-	47	-	-
Car Parks Reserve	111	-	-	-	111
Building Maintenance	24	-	24	-	-
Interest Equalisation Reserve	893	-	300	-	593
Insurance Reserve	150	-	17	-	133
Business Improvement Reserve	703	-	-	166	537
PDG Reserve	150	-	-	-	150
Carry Forward Reserve	200	-	-	50	150
<b>Sub total</b>	<b>14,020</b>	<b>-</b>	<b>427</b>	<b>1,500</b>	<b>12,093</b>
General Fund	1,571	-	-	215	1,356
Collection Fund	1,299	873	-	-	426
<b>Total</b>	<b>14,292</b>	<b>873</b>	<b>427</b>	<b>1,715</b>	<b>13,023</b>

#### 41. Capital Reserves

Fund	Bal B/fwd 1.4.08 £'000	Transfer to Revenue £'000	Capital Credits £'000	Net Unrealised Gains/Losses £'000	Financing £'000	Bal C/fwd 31.3.09 £'000
Capital Adjustment Account	53,477	(12,573)			2,743	43,647
Revaluation Reserve	597			7,198		7,795
Available for Sale Reserve	9	(9)		145		145
Deferred Capital Receipts	15		(3)			12
Usable Capital Receipts	4,665		83		(2,381)	2,367
Pension Reserve	(10,994)			(11,176)		(22,170)
	<b>47,769</b>	<b>(12,582)</b>	<b>80</b>	<b>(3,833)</b>	<b>362</b>	<b>31,796</b>

## Capital and Earmarked Revenue Reserves

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

### 42. Capital Reserves

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

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

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

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

### 43. Earmarked Revenue Reserves

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

Housing Initiatives – To support low cost social housing initiatives in the public and private sectors.

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

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

Investment Valuation Reserve – To equalise the effect on the General Fund of future declines in the market value of external investments.

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

Building Maintenance Fund – To equalise building maintenance expenditure across years.

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

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

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

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



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

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

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

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

#### **44. Capital Commitments**

There were no major contractual commitments as at 31 March 2009

#### **45. Trust Funds**

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

	<b>As at 31.3.08 £</b>	<b>As at 31.3.09 £</b>
Lord Mayor's National Flood Distress Fund	5,188	5,351

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

## Collection Fund

2007/08 £'000		2008/09	
		£'000	£'000
	<b>Income</b>		
48,435	Income from Council Tax	51,130	
4,515	Council Tax Benefits	4,967	
52,950			56,097
35,482	Income from Business ratepayers		40,882
<b>88,432</b>	<b>Total Income</b>		<b>96,979</b>
	<b>Expenditure</b>		
53,238	Precepts and demands from County and Police		56,273
	Business Rate		
35,012	Payment to the National Pool	40,192	
147	Costs of Collection	148	
(59)	Discretionary Rate Relief	(41)	
			40,299
	Bad and Doubtful Debts		
694	Bad Debts written off	416	
(134)	Increase in bad debt provision	348	
			764
67	Distribution of Surplus/(Deficit)		(1,230)
<b>88,965</b>	<b>Total Expenditure</b>		<b>96,106</b>
(766)	<b>Balance brought forward 1st April 2008</b>		(1,299)
(533)	<b>Movement in Fund</b>		873
<b>(1,299)</b>	<b>Balance carried forward 31st March 2009</b>		<b>(426)</b>

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

## Notes to the Collection Fund

### 1. Council Tax

In order to calculate the total yield from Council Tax in a year it is necessary to convert the number of dwellings in each band to an equivalent number of Band D dwellings. For 2008/09 the following calculation was made:

Band	Number of Chargeable Dwellings	Ratio	Equivalent Band D Dwellings	Estimated Yield at £1,405.76 (Band D) £'000
A	285	6/9	190	267
B	1,321	7/9	1,027	1,444
C	6,849	8/9	6,088	8,558
D	12,481	1	12,481	17,545
E	8,884	11/9	10,859	15,265
F	4,151	13/9	5,996	8,429
G	1,898	15/9	3,163	4,446
H	93	18/9	186	261
<b>Total</b>	<b>35,962</b>		<b>39,990</b>	<b>56,216</b>
Allowance for Losses on Collection and Appeals			<b>40</b>	<b>56</b>
Council Tax Base and Expected Yield			<b>40,030</b>	<b>56,272</b>

The Actual Yield for the year was £56,021,867 the difference of £250,306 being attributable to the change in the numbers of properties in each Band between the initial calculation in November 2007 and the final figures in March 2009.

### 2. Business Rates

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate. The total non-domestic rateable value at 31 March 2009 was £101,626,408 and the multiplier for the year 2008/09 was 0.462.

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

	£'000
<b>Gross amount payable for 2008/09</b>	<b>42,309</b>
Less: Adjustments for Transition	480
Less: Debit Adjustments made in year for empty properties, revaluation including prior years etc.	0
Less: Reliefs and write offs	(1,907)
<b>Net sum collectable</b>	<b>40,882</b>
Less: Allowance for collection	(148)
Less: Bad Debt Provision	(542)
<b>Payment to National Pool for 2008/09</b>	<b>40,192</b>

### 3. Precepts and Demands

<b>Precepts and Demands</b>	<b>2007/08 £'000</b>	<b>2008/09 £'000</b>
Surrey County Council	40,272	42,354
Surrey Police	6,831	7,522
Spelthorne BC	6,135	6,397
	<b>53,238</b>	<b>56,273</b>

### 4. Distribution of Surplus

<b>Distribution of Surplus/(Deficit)</b>	<b>2007/08 £'000</b>	<b>2008/09 £'000</b>
Surrey County Council	50	(930)
Surrey Police	9	(158)
Spelthorne BC	8	(142)
	<b>67</b>	<b>(1,230)</b>

# ANNUAL GOVERNANCE STATEMENT

## **Scope of responsibility**

Spelthorne Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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

## **The purpose of the governance framework**

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

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

The governance framework has been in place at the Council for the year ended 31 March 2009 and up to the date of approval of the statement of accounts.

## ***The governance framework***

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

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

- The Council publishes on an annual basis its Corporate Plan. The Council's current Corporate Plan 2006-09 is published on the website [http://www.spelthorne.gov.uk/12feb08\\_reporta\\_appendixa.doc](http://www.spelthorne.gov.uk/12feb08_reporta_appendixa.doc). The Corporate Plan and priorities feed into the Service Plans which set out the financial and performance objectives of each service for the year
- Other significant plans and policies are contained within the Policy Framework and are regularly reviewed to ensure that they remain relevant and effective.

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

- The Council regularly reviews the authority's vision and its implications for the authority's governance arrangements. The Council reviewed and agreed in February 2008 a new set of Corporate priority themes. Progress towards the achievement of the objectives will be monitored through the performance management system and by the Performance Management and Review Committee.
- The Council engages with the public and translates the community's priorities into a Community Plan in conjunction with our partners

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

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

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

- Spelthorne Borough Council has an agreed Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The Council operates Executive arrangements with a Leader and Cabinet who recommend the major policies and strategies to the Council. The Executive is also responsible for most of the non-regulatory functions of the Council. The Executive is made up of the Leader and eight other cabinet members, who are all appointed by the Council. Major decisions which affect significant proportions of the community are published in advance in the Executive'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 are two scrutiny committees Performance Management and Review Committee and Improvement and Development Committee which review decisions and actions taken by the Cabinet and other Council functions. A "call-in" procedure allows scrutiny to review Executive decisions before they are implemented, thus presenting challenge and the opportunity for a decision to be reconsidered. The scrutiny committees also review, monitor and scrutinise the performance of the Council in relation to its policy objectives, performance targets, action plans and relationships with external partnership bodies and organisations. Within its community leadership functions, the scrutiny powers have been exercised by the Council in relation to the work of other partner organisations which affect the whole of the Spelthorne Community.
- The Council has agreed a Local Code of Corporate Governance in accordance with the revised CIPFA/SOLACE Framework for Corporate Governance and in doing so has adopted the highest possible standards for the governance of the authority.

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

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

- Member Code of Conduct and Standards Committee

- An effective performance management system
- Regular performance appraisals for staff linked to corporate and service objectives
- A fraud and corruption policy
- Member/officer protocols

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

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

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

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

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

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

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

- The Council has good performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best

use of resources. Performance against targets is reported regularly to Performance Management and Review Committee and performance against targets is maintained online on the Council's performance management system available for review by Councillors and officers.

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

### Financial Management

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

In particular, the process in 2008/09 included:

- The setting of the outline budget framework and the detailed annual budget;
- Monitoring of actual income and expenditure against the annual budget;
- 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 Executive and the Performance Management and Review Committee;
- Clearly defined capital expenditure guidelines;
- The monitoring of finances against a Medium Term Financial Plan;
- Managing risk in key financial service areas.

### Effectiveness of Internal Audit

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

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

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

### Performance and Risk Management

- The Council has good performance management and data quality arrangements in place for measuring the quality of services for users, and for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Performance against targets is reported regularly to Performance Management and Review Committee and performance against targets is maintained online on the Council's performance management system available for review by Councillors and officers.



- Audit Services provide the lead on risk management and ensure that all services undertake annual risk assessments of their services. Risk management is built into the Council's corporate project methodology.

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

- A fully resourced training and development plan is in place for officers and members of the Council, clearly linked to the Corporate and Service Plans and statutory responsibilities.

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

- The Council incorporates good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflects these in the authority's overall governance arrangements. The Head of Audit Services and the Head of Corporate Governance will ensure that the Annual Review of Corporate Governance in December 2008 addresses the governance of partnerships.

The ethical conduct of members and officers of this Council

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

## **Review of effectiveness**

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

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

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

The Task Group reported on its work and findings to the Performance Management Review Committee (PMR) on 4<sup>th</sup> March 2008. The Task Group's recommendations relating to issues such as improving the corporate complaints process (report presented to PMR on 9th June 2009)

and partnerships (report to PMR 9<sup>th</sup> June 2009) were progressed during 2009. The Task Group did not meet during 2008/09.

An officer working group consisting of Head of Audit Services, Head of Corporate Governance and Head of Finance and Resources completed, during 2007/08, a detailed assessment of the Council's position against the criteria set out in the eight objectives underpinning the Code of Governance framework. This officer group reviewed and updated the assessment during 2008/09, including reviewing the previous work of the Task Group.

The eight objectives are:

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

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

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

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

### **Significant governance issues**

The overall opinion of the Head of Audit Services is that the Council's internal control environment is adequate and effective. This is based on the work undertaken by Audit Services during 2008-09. Any shortcomings identified during the year with a significant level of risk attached have been reported to the Audit Committee and residual corporate risks are summarised below:

- MAT / Councillors should continue to review the Council's Corporate Risk Register and monitor ongoing actions. To reinforce this the Corporate Risk Register in addition to being reported quarterly to the Audit Committee will be reported twice yearly to Cabinet.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for

improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

At the end of March 2009 there were nine high risk audit recommendations outstanding which were:

- 1. All Service Plans should be updated annually and reflect new corporate priorities.
- 2. Penetration testing should be undertaken during 2008/09 to comply with mandatory requirements.
- 3. The authority should ensure the plans are fully communicated, tested and updated regularly.
- 4. A separate risk assessment is required to address contractual, financial/resources and legal/regulatory risks relating to contaminated land. Controls to reduce risks associated with potential lack of resources to undertake further detailed site investigations should be identified.
- 5. A procedure document required to clarify health and safety responsibilities/ arrangements where the authority leases out assets.
- 6. Managers should formalise protocols/agreements for all significant partnerships, ensuring that roles and responsibilities of each party are clear and risks identified. Outcomes should be monitored against expected targets/objectives.

The following is same point

- 7. There is scope for drawing up a partnership framework that applies to all significant partnerships, to ensure that proper governance arrangements exist around our partnerships. It is understood that the Head of Corporate Governance is currently reviewing partnership governance arrangements. Elmbridge Borough Council has identified all partnerships, categorised them into levels of significance, are developing a framework, and set up an officer working party to address partnership governance arrangements. SBC should work closely with Elmbridge to share best practice in this area.
- 8. Mandatory training should be provided for relevant staff relating to the tendering, selection, awarding and monitoring of contracts, and applied to the management of contracts.
- 9. Staff should be reminded of the requirement to comply with Contract Standing Orders and Financial Regulations, and to seek approval for exemptions as appropriate. Staff should pass draft contract agreements to Legal for review (where over £20k or considered high risk) Regular contract monitoring should be carried out, to ensure that planned outcomes and objectives are met. Consideration should be given to how the system of contract management could be strengthened eg by channelling all asset related contracts through Asset Management.

The issues reported in last year's Annual Governance Statement with respect to project management, service planning, business continuity plans and partnership work have been addressed by management but will be kept under review

.....  
John Packman  
Leader of the Council

.....  
Roberto Tambini  
Chief Executive

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

## **Opinion on the statement of accounts**

We have audited the Authority statement of accounts and related notes of Spelthorne Borough Council, for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority statement of accounts comprises the Explanatory Foreword, Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. The statement of accounts has been prepared under the accounting policies set out in the Statement of Accounting Policies. This report is made solely to Spelthorne Borough Council as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Spelthorne Borough Council as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Spelthorne Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

### ***Respective responsibilities of the Chief Finance Officer and auditor***

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

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

We report to you our opinion as to whether the Authority statement of accounts presents fairly the financial position of Spelthorne Borough Council and its income and expenditure for the year in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007.

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

### ***Basis of audit opinion***

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

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

## **Opinion**

In our opinion:

The Authority statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and

KPMG LLP  
Chartered Accountants  
London  
September 2009

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

### Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### Auditor's Responsibilities

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

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2006, in all significant respects, Spelthorne Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

## Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2008/09 in April 2009. We recommended that the plan should be amended for it to be in accordance with statutory requirements. On the basis of our audit work, we recommended that the authority should publish on its web site certain revised best value performance indicators where these had been incorrectly calculated. We also recommended that the authority should address the deficiencies in the systems to support the production of BVPIs 11a, 78b and 82b, which required significant amendment as a result of the audit.

## Certificate

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

**Auditor**      **KPMG**  
**Chartered Accountants**

**Date: \*\* September 2009**

**Address**

## Other Information

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

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

## Suggestions and Complaints

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

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

# GLOSSARY OF TERMS

## ACCOUNTING POLICIES

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

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

Accounting policies do not include estimation techniques.

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

## ACCRUALS

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

## ACTUARIAL GAINS AND LOSSES

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

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

## BEST VALUE

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

## BEST VALUE ACCOUNTING CODE OF PRACTICE (BVACOP)

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

## BUDGET

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

## CAPITAL CHARGES

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

## CAPITAL EXPENDITURE

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

## CAPITAL ADJUSTMENT ACCOUNT

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



## CAPITAL RECEIPTS

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

## COLLECTION FUND

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

## COMMUNITY ASSETS

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

## COMPREHENSIVE PERFORMANCE ASSESSMENT (CPA)

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

## CONSISTENCY

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

## CONTINGENCY

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

## CONTINGENT LIABILITIES

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

## CORPORATE AND DEMOCRATIC CORE

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

## COUNCIL TAX

A local tax levied by local authorities on its citizens.

## CREDITOR

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

## CURRENT ASSET

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

## CURRENT LIABILITY

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

## CURRENT SERVICE COST (PENSIONS)

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

## CURTAILMENT

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

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

## DEBTOR

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

## REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

## DEFINED BENEFIT SCHEME

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

## DEPRECIATION

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

## DISCRETIONARY BENEFITS

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

## DOUBTFUL DEBT

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

## EXPECTED RATE OF RETURN ON PENSION ASSETS

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

## EXPERIENCE GAINS/LOSSES

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

## FINANCE LEASE

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

## FINANCIAL REPORTING STANDARD (FRS)

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

## FIXED ASSETS

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

## GENERAL FUND

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

## GOING CONCERN

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

## GOVERNMENT GRANTS

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

## IMPAIRMENT

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

## INFRASTRUCTURE ASSETS

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

## INVESTMENTS

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

## INVESTMENT PROPERTIES

Interest in land and/or buildings in respect of which construction work and development

have been completed and which is held for its investment potential.

## LIQUID RESOURCES

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

## LONG-TERM ASSET

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

## LONG-TERM BORROWING

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

## LONG-TERM CONTRACTS

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

## LONG-TERM DEBTOR

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

## NATIONAL NON-DOMESTIC RATE

Business rate levied on Companies, firms etc.

## NET ASSETS

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

## NET BOOK VALUE

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

## NET CURRENT LIABILITIES

The amount by which current liabilities exceed current assets.

## NET CURRENT REPLACEMENT COST

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

## NET EXPENDITURE

Total expenditure for a service less directly related income.

## NET REALISABLE VALUE

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

## NET WORTH

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

## NON-DISTRIBUTED COSTS

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

## NON-OPERATIONAL ASSETS

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

## OPERATING LEASES

A lease other than a finance lease.

## OPERATIONAL ASSETS

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

## PAST SERVICE COST

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

## POST BALANCE SHEET EVENTS

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

## PROJECTED UNIT METHOD

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

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

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

## PROVISIONS

An estimated figure within the accounts for liabilities that are known to exist, but that

cannot be measured accurately.

## RELATED PARTIES

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

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

## RELATED PARTY TRANSACTION

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

## REMUNERATION

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

## RESIDUAL VALUE

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

## RETIREMENT BENEFITS

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

## REVALUATION RESERVE

Unrealised gains and losses on revaluation of fixed assets.

## REVENUE EXPENDITURE/INCOME

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

## REVENUE SUPPORT GRANT

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

## SCHEME LIABILITIES

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

## SETTLEMENT

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

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

## STATEMENT OF STANDARD ACCOUNTING PRACTICES (SSAP)

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

## STOCKS

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

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

## STRAIGHT-LINE BASIS

Dividing a sum equally between several years.

## USEFUL LIFE

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

## VESTED RIGHTS

In relation to a defined benefit scheme, these are:

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

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



INFRASTRUCTURE, GOVERNMENT  
AND HEALTHCARE

**Report to those  
charged with  
governance  
2008/09**

Spelthorne Borough  
Council

24 September 2009

AUDIT



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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Neil Thomas, who is the engagement partner to the Authority, telephone 020 7311 1379, email [neil.thomas@kpmg.co.uk](mailto:neil.thomas@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e-mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive summary

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### Scope of this report

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements. We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of Spelthorne Borough Council's ('the Authority's') financial statements for the year ended 31 March 2009. In addition, this report summarises our assessment of the Authority's arrangements to secure value for money in its use of resources.

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

### Summary of findings

#### *Use of Resources*

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

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. This assessment draws on the findings from the new use of resources assessment framework introduced by the Audit Commission.

The new use of resources framework assesses local authorities against three themes: managing finances, governing the business and managing resources. The Authority has been assessed overall as performing adequately against these themes. Based on this, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our findings are detailed in section two of this report and our proposed conclusion is set out in Appendix 1.

#### *Financial statements*

The Authority is responsible for having in place effective systems of internal control which ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements. Our detailed findings are set out in section three and our proposed opinion on the accounts is presented in Appendix 4.

#### *Status of the audit*

At the date of this report our audit of the financial statements is substantially complete, subject to management processing our audit adjustments and us receiving a signed management representation letter. We have provided a draft version as Appendix 9.

#### *Declaration of independence and objectivity*

In relation to the audit of Spelthorne Borough Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Spelthorne Borough Council, its directors and senior management and its affiliates that may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity. We have provided a detailed declaration in Appendix 8 in accordance with ISA 260.

#### *Exercise of other powers*

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it brought to the attention of the public. In addition we have a range of other powers under the 1988 Act. We did not exercise these powers or issue a report in the public interest in 2008/09.

#### *Certificate*

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements. At present there are no issues that would cause us to delay the issue of our certificate of completion of the audit.

## Executive summary (continued)

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### *Fees*

Our fee for the audit is £88,000. This is contained within the fee agreed with you in our audit plan. We have not performed any non-audit work.

### **Acknowledgements**

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

## Use of resources

We are required to conclude whether the Authority has adequate arrangements to ensure effective use of its resources. This assessment draws on the new use of resources assessment framework introduced by the Audit Commission.

The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources and the Authority has been assessed as performing adequately against these themes

Based on this, we concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Introduction

In our *Annual Audit and Inspection Plan 2008/09* we outlined the work streams which we complete to assess the adequacy of your arrangements which ensure that your resources are deployed effectively. Our conclusion is based on these work streams, our cumulative audit knowledge and any specific local risk work, as detailed below.

### The new use of resources assessment

The Audit Commission introduced a new assessment this year. This assesses how well organisations are delivering value for money and better and providing sustainable outcomes for local people. This new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes. As a consequence it is not possible to make direct comparisons with the previous year's assessment.

The assessment is based on three Key Lines of Enquiry (KLOEs) themes which cover:

- **Managing finances** - focusing on sound and strategic financial management;
- **Governing the business** - focusing on strategic commissioning and good governance; and
- **Managing resources** - focusing on the effective management of natural resources, assets and people.

The scoring of the themes ranges from one (performing inadequately) to four (performing exceptionally).

### Findings

We have assessed the Authority as an overall score of level 2 which means the Authority is performing adequately.

The table below shows our Use of Resources assessment across the three themes.

KLOE	Theme Score
1 – Managing finances	2
2 – Governing the business	2
3 – Managing resources	3

The scores have been quality checked by KPMG's national quality control processes, through a local area based challenge process and nationally by the Audit Commission to ensure consistency in scoring with other auditors and authorities.

Appendix 2 sets out our detailed findings from the use of resources assessment.

Key findings of the assessment are as follows;

- ✓ The council sets out its vision in the corporate plan. This details the council's vision "To Make Spelthorne a Safe, Healthy, Inclusive, Prosperous and Sustainable Community" and the corporate priorities in achieving this. A strategic review of priorities was undertaken during 2008/09 and launched in November 2008;
- ✓ The Authority has recognised risks to achieving a balanced budget including government enforced savings, potential capping of council tax and a need to reduce reliance on revenue reserves. An outline budget 2009/10 to 2012/13 was approved in December 2008. As part of this process the use of reserves were reviewed and financial indicators to monitor the Authority's position were determined;

## Use of resources (continued)

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- ✓ The Authority reviews its costs as part of the annual budget setting and monitoring process. A business improvement programme has been in place since 2006 which has delivered in excess of the targeted £500K savings;
- ✓ A 'People Strategy' is in place which details the responsibilities of its workforce, and the general ethos of the council. These are linked to the council's vision and corporate objectives. In addition the Authority achieved Equality Standard Level Three in March 2009;
- There is scope for the Authority to ensure greater linkage of resource allocations to corporate priorities. This could be done through analysing the budgetary allocation across the Authority's corporate priorities;
- We sample tested data supporting National Indicators (Nis) 15, 16, 157c and 195a. This identified errors in the reporting of performance for NIs 15 and 16, serious violent crime & acquisitive crime rates respectively.
- For NI 15 the figures recorded on PB Views were conflicting; for Q4 2008/09 there were 35 actual serious violent crimes recorded however the commentary stated that there were 15 offences.
- For NI 16 source data figures did not agree to those provided to the Performance Committee. The figures reported to the Performance Committee were stated in hard figures but titled incorrectly as per 1000 population. The figures are given cumulatively, however these figures do not agree to source data figures – in Q3 & Q4 2008/09 cumulative figures were reported to have decreased but source data showed around 300 crimes in the period.
- Following identification of these errors in the reporting of these performance figures discussions with the responsible officer (Senior Community Safety Officer) identified confusion over the form of figures to be reported and the need for consistent reporting.
- The Authority should review its data quality processes to ensure that all relevant officers engaged in the production and reporting of data are appropriately supported; and
- Our audit for 2008-09 has identified 13 adjustments to the financial statements that have had a net effect of decreasing the general fund by £69k. We have also identified a number of presentational issues which have impacted on the score for KLOE 1.3. The Authority should ensure in 2009/10 that high risk areas of the accounts are subjected to appropriate review prior to audit;

We have included these recommendations in Appendix Six.

### Use of resources (value for money) conclusion

We are required to give an annual conclusion on the adequacy of the Authority's arrangements to ensure effective use of its resources. This is the use of resources or value for money (VFM) conclusion

For 2008/09, the KLOEs for the scored use of resources assessment directly map to the criteria for the VFM conclusion. The Audit Commission has specified which of the KLOEs will form the relevant criteria for the VFM conclusion and these are summarised in Appendix 3.

Based on our use of resources assessment, we conclude that the Authority has appropriate arrangements in place to ensure the effective use of its resources. Our proposed conclusion is set out in Appendix 1.

## Financial statements

The Authority is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

We have completed our work on the 2008/09 financial statements. This has resulted in 13 adjustments which have had a net impact of decreasing the General Fund by £69K. The level of adjustments is slightly below that of 2007/08. We have provided you with a review of the accounts production process and how this can be improved in the future.

### Introduction

Our financial statements work can be split into four phases.

Stage	Tasks	Timing	Completed
Planning	<ul style="list-style-type: none"> <li>Updating our business understanding and risk assessment</li> <li>Assessing the organisational control environment</li> <li>Issuing our Internal / External Audit protocol and Prepared by Client request</li> </ul>	December 2008 to February 2009	✓
Control evaluation	<ul style="list-style-type: none"> <li>Reviewing the accounts production process</li> <li>Evaluating and testing controls over key financial systems</li> <li>Review of internal audit</li> </ul>	March to April 2009	✓
Substantive testing	<ul style="list-style-type: none"> <li>Planning and performing substantive work</li> <li>Evaluating the accounts production and audit process</li> <li>Concluding on critical accounting matters</li> <li>Identifying audit adjustments</li> <li>Reviewing the Annual Governance Statement</li> </ul>	July to August 2009	✓
Completion	<ul style="list-style-type: none"> <li>Declaring our independence and objectivity</li> <li>Obtaining management representations</li> <li>Reporting matters of governance interest</li> <li>Forming our audit opinion</li> </ul>	September 2009	✓

This report focuses on the substantive testing and completion stages.

### Substantive testing – accounts production and audit process

As part of our use of resources assessment we assess the Authority's process for preparing the accounts and its support for an efficient audit. We considered these against three criteria:

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 23 July 2009. We identified a significant number of audit adjustments and presentational issues, indicating that there is scope to further improve the level of internal review and quality control applied to draft accounts before the audit.
Quality of supporting working papers	Our prepared by client request, which we discussed with the Chief Accountant, set out our working paper requirements for the audit. The quality of working papers provided was good and met the standards specified in our Prepared by Client request list.
Response to audit queries	Additional audit queries were resolved in a reasonable time by the finance team. All audit adjustments were also processed by the finance team in accordance with our agreed schedule.

### Substantive testing – critical accounting matters

We detail below the key accounting issues we identified and our response to them for your 2008/09 financial statements. We have now completed our testing of these areas and the outcome of our work is summarised below.

## Financial statements (continued)

Issue	Risk and implications	Findings during final audit
<p><b>Issue 1</b></p> <p>Valuation of assets</p>	<p>In light of the current economic situation the Authority needs to ensure that it has undertaken an appropriate impairment review to identify fixed assets that are held in the Authority's books at a value above their current recoverable value.</p> <p>This was highlighted in a recent report by the Audit Commission Valuation Services, carried out by Gerald Eve LLP, which identified that capital values fell by 26.3% over the whole of 2008.</p>	<p>Assets selected for the interim revaluation and impairment review have been selected from both operational and non operational assets. The criteria applied was to consider those assets that have a commercial emphasis and are therefore potentially affected by the economic downturn in the economy. We have vouched a sample of impairments to independent valuations.</p> <p>The effect of the impairment review performed by the Authority has resulted in an overall impact for each as follows;</p> <ul style="list-style-type: none"> <li>• Operational Assets: Impairment of £6.5M</li> <li>• Non Operational Assets: Impairment of £3M</li> </ul>
<p><b>Issue 2</b></p> <p>Use of reserves</p>	<p>In the current financial year the Authority has transferred £1.9M of earmarked reserves to the General Fund. We require assurance that this transfer has been approved by the appropriate Authority body.</p>	<p>We have discussed with members of the finance team the use of ear-marked reserves.</p> <p>We have confirmed that the funding of the additional shortfall, in excess of that budgeted, from earmarked reserves was approved by the Cabinet at its meeting of 16 June 2009.</p>
<p><b>Issue 3</b></p> <p>Provisions</p>	<p>The Authority currently has a provision of £96k on its balance sheet in relation to a compulsory purchase order. We need to provide assurance that this provision is fairly stated and that there are no other potential liabilities for which the Authority should be making provision,</p>	<p>We have examined the basis for the Authority's valuation of the current provision and concluded that it is not likely to be materially miss-stated.</p> <p>Our audit work, which includes examining the basis of contingent liability disclosures, reviewing Committee minutes and making enquiries of relevant officers, has not identified any further liabilities for which the Authority should be making provision,</p>
<p><b>Issue 4</b></p> <p>Bad debt provision</p>	<p>In the current economic climate the Authority needs to pay particular attention to the recoverability of its debtors and the provision is place for irrecoverable debtors at year end.</p>	<p>Following our 2007/08 audit recommendations the Authority has reviewed its bad debt provision methodology and benchmarked against other Surry district councils. This has resulted in the bad debt provision increasing from £738k in 2007/08 to £1,237k in 2008/09. The major increase is £280k in relation to Business Rate Payers.</p> <p>We have agreed with management the new bad debt provision methodology, checked that this methodology has been consistently applied and also reviewed the adequacy of the resulting provision.</p>

### Substantive testing – adjustments to the accounts

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

We did not identify any material misstatements. We identified a number of issues that have been adjusted by management.

The net impact on the General Fund as a result of audit adjustments is to decrease the balance as at 31 March 2009 by £69k. This is the result of the following adjustments:

- Reduction in Council Tax benefit income of £74k;
- Decrease in provision required for Orchard Meadow dispute of £49k; and
- Recognition of expenditure in relation to SLM energy dispute in 2007/08 of £44k.



## Financial statements (continued)

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- £1,031K adjustment to capitalise and then impair non enhancing capital expenditure. The impairment charge is included in the Income and Expenditure account and then the effect on revenue is neutralised by a transfer from the Capital Adjustment Account; and
- £712K adjustment to the revaluation of land and buildings as at 1 April 2009 due to errors in applying the independent valuer's valuations.

We have provided a summary of significant audit differences in Appendix 5. These will be adjusted in the final version of the financial statements. There are no uncorrected audit differences.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2008: A Statement of Recommended Practice* ('SORP'). The Authority will address these in the final version of the financial statements where significant.

### Substantive testing – Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

### Completion – declaration of independence and objectivity

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

In relation to the audit of the financial statements of Spelthorne Borough Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Spelthorne Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity. We have provided a detailed declaration in Appendix 8 in accordance with ISA 260.

### Completion – management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix 9. We have provided a draft to the Assistant Chief Executive. We require a signed copy of your management representations before we issue our audit opinion.

For 2008/09 we are seeking specific assurance that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11. We are also seeking assurance that the use of specific revenue reserves has been approved by the appropriate body at the Authority.

### Completion – other matters

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

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

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

### Completion – opinion

We anticipate issuing an unqualified audit opinion by 30 September 2009. Our proposed opinion on the financial statements is presented in Appendix 4.



## Appendix 1: Proposed use of resources conclusion

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

#### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor's Responsibilities

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

#### Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Spelthorne Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009

Neil Thomas

Senior Statutory Auditor

**for and on behalf of KPMG LLP**

Chartered Accountants

Statutory Auditor

1 Canada Square

Canary Wharf

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E14 5AG

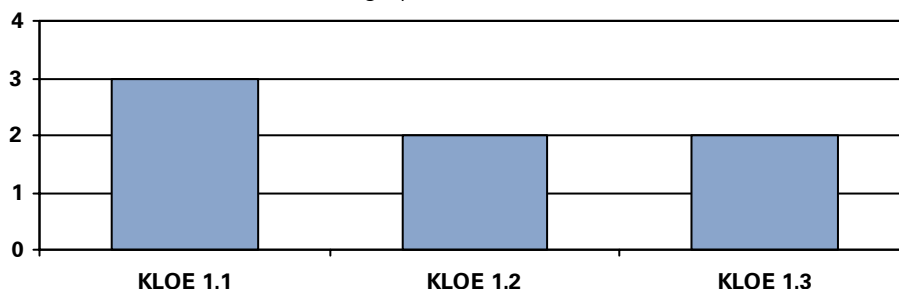
30 September 2009

## Appendix 2: Use of resources key findings

This appendix summarises key messages from the use of resources assessment by theme.

### KLOE 1 – Managing finances: overall score 2

The scores by sub KLOE are summarised in the graph below:



As the Authority has scored at least level 2 for all criteria, it has met the requirements for the VFM conclusion.

#### KLOE 1.1 – Financial planning

The Authority sets a balanced and realistic budget that is supported by saving plans. The Authority has recognised risks to achieving a balanced budget such as government enforced savings, potential capping of council tax and a need to reduce reliance on revenue reserves. An outline budget 2009/10 to 2012/13 was approved in December 2008. This includes reviewing the use of reserves policy and sets financial indicators to monitor the Authority’s position.

A three year capital plan for 2008/09 – 2010/11 was approved in February 2008 which is interlinked with revenue budget and corporate plans.

During the 2009/10 budget-setting process different scenarios were modelled – particularly with regard to the possible sale of the Bridge Street car park and any associated capital receipt. Areas of budget risk especially around income streams and investment returns were highlighted and these have informed the budget planning process.

Finance matters are reported to the Executive and the ‘Performance Management and Review Committee’. Budget holders monitor income and expenditure within their directorate on a monthly basis. We have reviewed this process and found it to be effective. Our work on treasury management has not identified any breaches in the investment policy and the authority did not have any investments in Icelandic banks.

#### KLOE 1.2 – Understanding costs and achieving efficiencies

The Authority reviews its costs as part of the annual budget setting and monitoring process. A business improvement programme has been in place since 2006. This has achieved in excess of the targeted £500k. savings.

The corporate project methodology and corporate report template require identification and evaluation of options and risks and benefits.

The Council is leading on an internal audit service partnership which has delivered cashable savings to the three partner authorities and provided resilience and sharing of expertise benefits. The Council has spent a considerable amount of time and effort reviewing its grounds maintenance specifications and this has helped lead to a £200k per annum saving.

There is scope for the Authority to ensure greater linkage of resource allocations to corporate priorities. Currently the budget setting process does not explicitly consider the allocation of budgetary resources by corporate priorities. Introducing this would demonstrate to members and the public the resources allocated to achieving corporate priorities. This has been included in our recommendations in Appendix Six.

## Appendix 2: Use of resources key findings (continued)

### KLOE 1.3 – Financial reporting

Budget reports are issued to budget holders on a monthly basis. Heads of service and Management team members receive a budget summary by email on the fourth working day of the month showing spend against budget into which they can drill down. Quarterly monitoring and forecasting is reported to the Cabinet and to the 'Performance Monitoring and Review Committee'.

Reports and minutes of council meetings are available on the council's website. The Council delivers a monthly 'Borough Bulletin' to all residents which contains messages from the Leader of the Council and Mayor and information on the latest news and activities in the Borough. This bulletin can be accessed via the council's website, and in audio and large print. An information text messaging service is also available.

Our audit for 2008-09 has identified 13 adjustments to the financial statements that have had a net effect on the general fund of £69k. We have also identified a number of presentational issues which have impacted on the score for KLOE 1.3. The Authority should ensure in 2009/10 that high risk areas of the accounts are subjected to appropriate review prior to audit.

### KLOE 2 – Governing the business: overall score 2

The scores by sub KLOE are summarised in the graph below:



As the Authority has scored at least level 2 for all criteria, it has met the requirements for the VFM conclusion.

### KLOE 2.1 – Commissioning and procurement

The council sets out its vision in the corporate plan and the corporate priorities in achieving this. A strategic review of priorities was undertaken during 2008/09 and launched in November 2008, some early outcomes have been achieved and pointers can be seen of future outcomes for 2009/10 and 2010/11.

The Council has updated its Procurement Strategy which specifically refers to addressing inequalities and diversity issues with emphasis on sustainable procurement. It recognises the findings of the 'Byatt report' regarding the achievement of best value through procurement. It also identifies the Authority's responsibilities to local businesses, and to the environment.

The Council has worked in partnership with Surrey County Council to commission an extra care housing scheme with day centre facility at Benwell from Notting Hill Housing Association. This utilises SCC funding of the care contract and Housing Association expertise in management of the site and provision of the care contract. As recognised in the Procurement Strategy the Authority should continually monitor its use of partnership working in commissioning and procuring. It should also regularly review the performance of services to ensure achieving value for money.

### KLOE 2.2 – Data quality and use of information

The Chief Executive holds the overall responsibility for data quality. The council has a 'data quality policy'. Staff are given initial training on the quality of data, and any further necessary briefings are done ad hoc if and when an issue arises. Training notes are also available on the council's intranet.

The council has a business continuity plan in place to provide protection for records and performance data, in the form of a council wide disaster recovery plan and annual disaster recovery test.

A standard format of committee report has been agreed and amended by Members and the management team ensuring that information is presented in a consistent manner.

Our testing of a sample of National Indicator data identified some errors in the reporting of performance. Discrepancies were identified between crime figures per the data source and those reported within the Authority on PB Views for National Indicators 15 and 16 relating to serious violent crime and serious acquisitive crime rates. The Authority should review its data quality processes to ensure that all relevant officers engaged in the production and reporting of data are appropriately supported and trained. This has been included in our recommendations in Appendix Six.

## Appendix 2: Use of resources key findings (continued)

### KLOE 2.3 – Good governance

The Council publishes its constitution which is updated every year as is the overall framework of governance. The constitution describes the roles of all relevant people and also contains other relevant information about the decision making processes of the Council.

The constitution is published on the Council’s website to enable easy access. It The Council was the first district Council in the South East to be awarded the South East Employers Charter for its commitment to member development. There is training available for all members, and a ‘member development steering group’ is in place to increase the training opportunities available to members. As part of this the Authority could consider the scope for member-specific development plans.

The Council also has a Protocol for Member / Officer relations as part of the constitution.

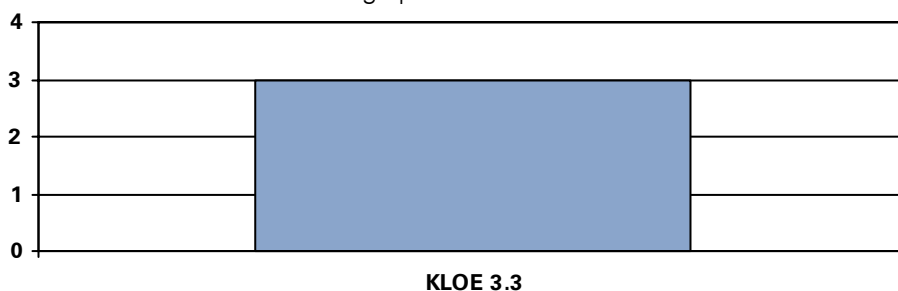
### KLOE 2.4 – Risk management and internal control

The council maintains many separate risk registers and one corporate risk register which is reviewed by the audit committee quarterly. This register lists the responsible officer to take lead on actions to mitigate the risk. Risks are assessed on likelihood and impact, giving an overall score for priority. Risks assessed are based on strategic aims and priorities.

There is a sound system of corporate governance in place, with a ‘Local Code of Corporate Governance’ included within the council’s constitution.

### KLOE 3 – Managing resources: overall score 3

The scores by sub KLOE are summarised in the graph below:



As the Authority has scored at least level 2 for KLOE 3.3, it has met the requirements for the VFM conclusion.

### KLOE 3.3 – Workforce planning

A ‘People Strategy’ is in place which details the responsibilities of its workforce, and the general ethos of the council. These are linked to the council’s vision and corporate objectives.

The people strategy identifies ways of achieving excellence in people and performance management. The strategy consists of 4 principles; Developing the Organisation; Developing Leadership & Workforce Skills Capacity; Resourcing the Organisation; and Pay & Reward.

The council has held the ‘Investor in People’ award since 1992, in recognition of its commitment to the development and training of staff and to communication.

The council has a workforce development plan for 2007-2010, which is supported by underlying service plans which look forward 5 years and are updated on a continuous basis. The plan details the current make-up of the council’s workforce, and explains the need for such a plan in recognising current and future skill requirements. It includes a gender equality scheme. A succession planning group has also been set up.

The Council has been involved in an e-recruitment partnership since around 2004 with other Surrey public sector bodies. This involves a single jobs portal that provides the Council with a permanent employer presence on-line. This helps the Council access a diverse range of applicants. Applicants can register for updates and apply electronically. This has led to the Council being able to make savings on recruitment spend - dropping from around £90k (a significant overspend) a few years ago to £20k in 2008/09.

The Council has been examining ways to best utilise staff during the downturn to redeploy staff so that skills are not lost requiring re-hiring in future – for example some building control staff have been redeployed to housing.

The Council achieved Equality Standard Level Three in March 2009.

## Appendix 3: Use of resources criteria and link to VFM conclusion

The Audit Commission has specified which of the use of resources KLOEs form the criteria for the VFM conclusion. These criteria are summarised below.

Use of resources KLOE	Relevance to the Authority
<b>Managing finances</b>	
1.1 – Financial planning	✓
1.2 – Understanding costs and achieving efficiencies	✓
1.3 – Financial reporting	✓
<b>Governing the business</b>	
2.1 – Commissioning and procurement	✓
2.2 – Data quality and use of information	✓
2.3 – Good governance	✓
2.4 – Risk management and internal control	✓
<b>Managing resources</b>	
3.1 – Use of natural resources	X*
3.2 – Strategic asset management	X*
3.3 – Workforce planning	✓

\* These were not assessed at district councils as part of the 2008-09 Use of Resources assessment.

## Appendix 4: Proposed audit report

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

#### Opinion on the accounting statements

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

This report is made solely to Spelthorne Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Spelthorne Borough Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Spelthorne Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

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

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

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

We report to you our opinion as to whether the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year;

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

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

#### Basis of audit opinion

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

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

## Appendix 4: Proposed audit report (continued)

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### Opinion

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

### Certificate

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

Neil Thomas

Senior Statutory Auditor

**for and on behalf of KPMG LLP**

Chartered Accountants

Statutory Auditor

1 Canada Square

Canary Wharf

London

E14 5AG

30 September 2009

## Appendix 5: Audit differences

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

### Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Spelthorne Borough Council's financial statements for the year ended 31 March 2009.


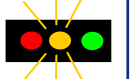

Impact					Basis of audit difference
Income and expenditure	Statement of Movement on GF Balance	Assets	Liabilities	Reserves	
1,031	(1,031)	-	-	-	SORP requirement to capitalise and then impair non enhancing capital expenditure. The impairment charge is included in the Income and Expenditure account and then the effect on revenue is neutralised by a transfer from the Capital Adjustment Account.
-	-	(712)	-	712	Adjustment to revaluation as at 1 April 2009 due to errors in applying the independent valuer's valuations.
434	(434)	(434)	-	434	Correct impairment charged to Land & Buildings. The impairment charge is included in the Income and Expenditure account and then the effect on revenue is neutralised by a transfer from the Capital Adjustment Account.
-	-	(62)	-	62	Impairment of previously revalued asset charged to revaluation reserve to the extent that the asset had been previously been revalued upwards.
115	(115)	(115)	-	115	Impairment charged to surplus assets held for sale. The impairment charge is included in the Income and Expenditure account and then the effect on revenue is neutralised by a transfer from the Capital Adjustment Account.
75	-	(66)	(9)	75	Adjustment to council tax benefit income due to finalisation of benefits subsidy claim post accounts production.
(49)	-	-	49	(49)	Correction to provision for Orchard Meadow since the case was decided post-year end and more exact information is therefore available.
44	-	-	(44)	44	Inclusion of expenditure and creditor relating to SLM following agreement between the Authority and SLM over energy charges.

Management are currently in the process of making the required adjustments for these audit differences. There were no uncorrected audit differences. Management also made a number of presentational adjustments to ensure that the accounts are compliant with the SORP.



## Appendix 6: Recommendations

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

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

No.	Risk	Issue and recommendation	Management response	Officer and due date
1	● (two)	<p><b>Accounting for Fixed Assets</b></p> <p>Issue: A number of errors were identified in the accounting for fixed assets.</p> <p>Risk: The Authority's accounts are not stated in accordance with CIPFA's Statement of Recommended Practice</p> <p>Recommendation: As one of the most technical areas of local authority accounts this area should be subject to more detailed review by the Chief Accountant to help ensure that the correct accounting treatment is applied.</p>	<p>Additional time will be built into the 2009-10 Statement of Accounts timetable to enable greater review and scrutiny by Chief Accountant and Chief Finance Officer</p>	<p>Chief Accountant and Chief Finance Officer</p> <p>31 March 2010</p>
2	● (two)	<p><b>Linking of Resource Allocation to Corporate Priorities</b></p> <p>Issue: There is scope for the Authority to ensure greater linkage of resource allocations to corporate priorities. Currently the budget setting process does not explicitly consider the allocation of budgetary resources by corporate priorities.</p> <p>Risk: It is not clear to members or the public the resources allocated to achieving corporate priorities.</p> <p>Recommendation: Budget allocations should be analysed across the Authority's corporate priorities.</p>	<p>The Budget Book and budget monitoring reports for 2009-10 were re-formatted to be ordered by Cabinet member portfolio areas The Cabinet areas broadly do relate to Corporate Priorities.</p> <p>When considering both any growth bids and more likely where to focus savings for 2010-11 Heads of Service and Cabinet Members will be asked to relate their proposals to Corporate Priorities. The Council will be seeking greater savings from non-priority activities.</p> <p>Areas.</p> <p>When we produce the Budget Book we will explore the practicality (re resources and time) of signposting cost centres to their related corporate priorities.</p>	<p>Chief Finance Officer</p> <p>31 December 2009</p> <p>Chief Accountant</p> <p>31 March 2010</p>
3	● (two)	<p><b>Accuracy of Performance Information</b></p> <p>Issue: Our testing of a sample of National Indicator data identified some errors in the reporting of performance.</p> <p>Risk: Decisions are taken based on inaccurate data.</p> <p>Recommendation: The Authority should review its data quality processes to ensure that all relevant officers engaged in the production and reporting of data are appropriately supported and trained.</p>	<p>We will reconsider our control procedures and ensure that all relevant staff are aware of them and the importance of compliance.</p>	<p>Assistant Chief Executive (BC)</p> <p>31 December 2009</p>

## Appendix 6: Recommendations (continued)

No.	Risk	Issue and recommendation	Management response	Officer and due date
4	● (two)	<p><b>Generic Usernames</b></p> <p>Issue: Currently, generic user names are used for both Integra (for day centres) and Academy for temps.</p> <p>Risk: There is no way of tracing activity under these usernames to individual staff members.</p> <p>Recommendation: The Authority should consider using specific user names for all staff using the applications including temporary staff and staff at off-site centres. This will ensure that the activity performed under every user name can be traced to specific users.</p>	<p>Revenues have two generic users n/a passwords in Academy for work experience and summer cover. Due to the nature of work required, it is not an effective use of the system administrator's time to keep setting up new passwords for a two week work placements and to keep granting access to specific areas. They are strictly monitored in what work they do and do not have access to high level transactions that could corrupt the data bases.</p> <p>At each Day Centre there is one PC which staff share. Whilst individual logins could be created by ICT this would require staff to then log on and off the machine taking additional time. The Day centre staff can only initiate purchase orders; they can not authorize any transactions or change any data within Integra. Therefore officers do not accept there is a risk which merits the adverse impact on staff time of logging on and off of shared PCs.</p>	
5	● (three)	<p><b>Superuser policy</b></p> <p>Issue: There are no specific policies in place regarding who may have superuser access to the in-scope applications.</p> <p>Risk: Some users may be given super user access rights which are inappropriate.</p> <p>Recommendation: The Authority should consider introducing a policy over superuser access to ensure that all users with superuser access are appropriate.</p>	<p>Super-user access to the systems is again a system administration function however, ICT does control the access to the Uni-Form suite of products</p> <p>A policy will be drafted and implemented for System Administrators to adhere to.</p>	<p>ICT Manager with Information Security Group</p> <p>1 November 2009</p>
6	● (three)	<p><b>Timeliness of System Reconciliations</b></p> <p>Issue: Reconciliations of Housing Benefit runs to the General Ledger are not always performed in a timely manner and were not performed for long period of time during the year.</p> <p>Risk: Benefits expenditure is not recorded correctly in the General Ledger</p> <p>Recommendation: If the Senior Revenue Officer responsible for the reconciliations is on leave for a long period of time, other officers should carry out the reconciliations to ensure timely performance of the monthly reconciliations.</p>	<p>Accepted that Housing Benefit to ledger reconciliations have been delayed due to the absence on sick leave of the Senior Revenue Officer (SRO)</p> <p>When the officer returns it will be the first priority to establish procedures so that there is cover in the event of the Senior Recovery Officers absence.</p>	<p>Financial Support Manager</p> <p>31 October 2009</p>

## Appendix 7: Follow up of previous recommendations

This appendix summarises the progress made to implement the recommendations identified in our previous reports.

Report	Number of recommendations that were:		
	Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)
Interim Report 2007/08	10	8	2
ISA 260 Report 2007/08	10	10	0
<b>Total</b>	<b>20</b>	<b>18</b>	<b>2</b>

No.	Risk	Issue and recommendation	Management response	Officer and due date	Status at August 2009
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### Interim Report 2007/08

#### One-sided journals

1	● (two)	<p>There is currently a problem with Integra, the general ledger system, that results in the interface between itself and the purchase ledger occasionally failing, resulting in one sided journals being created. These must then be identified and corrected by the systems accountant.</p> <p>This results in a risk that information obtained from the ledger is incorrect.</p> <p>The Council has communicated the problem to IB Solutions, the provider of Integra, but the problem has yet to be resolved.</p> <p>The Council should apply pressure to the supplier to provide a solution as soon as possible. We will require a clear demonstration during our accounts audit that these issues have not caused unresolved discrepancies that have the potential to impact on the financial statements.</p>	<p>Accepted</p> <p>The Council has set up a crystal report to allow it to list, monitor and retrospectively approve any one sided journals which occur.</p> <p>Spelthorne alone has limited influence over improvements implemented by the software supplier. Due to the relative infrequency of unbalanced journals occurring, it is unlikely to be treated as a priority by IB Solutions, but the Council will raise the issue as part of Integra 4 rollout.</p>	<p>Assistant Chief Executive</p> <p>Ongoing</p>	<p><b>Incomplete</b></p> <p>One-sided journals are still being produced by the system as per discussions with the, systems accountant.</p> <p>However, we recognise that the Authority has put in place a mitigating control to manage this risk</p>
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#### Access to IT systems

2	● (three)	<p>Testing identified that some members of staff who have left the employment of the authority still had access to Council IT systems.</p> <p>The Council should review its procedures to ensure that whenever payroll or HR are informed of a leaver this information is passed to IT, and that checks are made to ensure access is removed promptly.</p> <p>This will reduce the risk that staff who have left the Authority's service still have access to IT systems.</p>	<p>Accepted</p> <p>ICT are informed of leavers through an e-form and all network logons are immediately deleted.</p> <p>Therefore, even if system passwords have not been deleted by systems administrators the systems will not be accessible to staff who have left.</p> <p>System administrators will be reminded of their obligations.</p>	<p>IT Services Manager</p> <p>Ongoing</p>	<p><b>Incomplete</b></p> <p>Internal Audit tested a sample of 12 leavers and found that 3/12 leavers had not been removed from the network and 2/12 leavers did not have the relevant IT leaver form completed</p>
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## Appendix 8: Declaration of independence and objectivity

### Declaration of Independence and Objectivity 2008/09

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

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

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

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

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

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

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

### General procedures to safeguard independence and objectivity

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

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

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

## Appendix 8: Declaration of independence and objectivity (cont)

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

### Auditor Declaration

In relation to the audit of the financial statements of Spelthorne Borough Council for the financial year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Spelthorne Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

## Appendix 9: Draft management representation letter

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Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Spelthorne Borough Council for the year ended 31 March 2009.

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

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

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

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

We confirm that we:

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

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

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

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

## Appendix 9: Draft management representation letter (continued)

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With reference to the specific issues on which you have requested assurances from Members, we confirm that:

- For 2008/09 we consider that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11; and
- For 2008/09 we confirm that the transfer from ear-marked reserves to the General Fund has been considered and approved by the appropriate body at the Authority.

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

This letter was tabled at the meeting of the Audit Committee on 24 September 2009

Yours faithfully

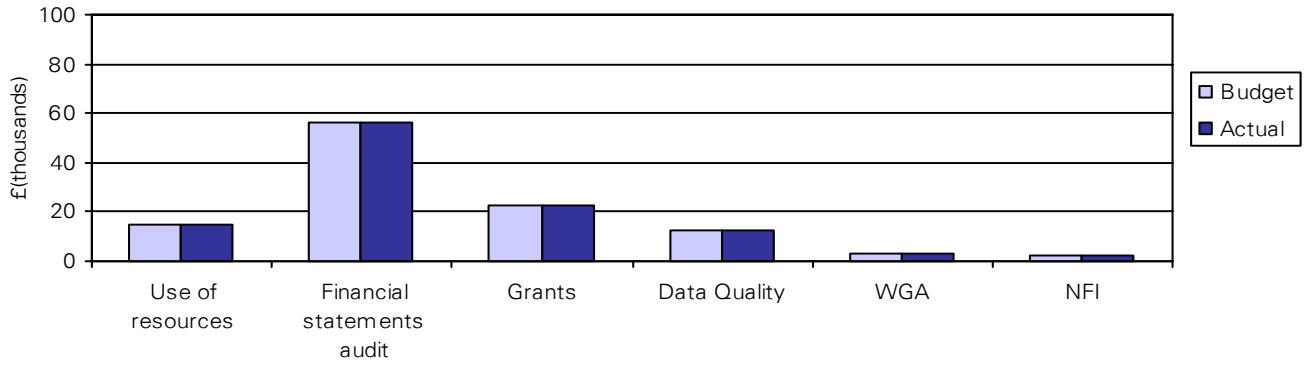
Terry Collier

On behalf of Spelthorne Borough Council

## Appendix 10: Audit Fee

To make sure that there is openness between us and your Audit Committee about the extent of our fee relationship with you, we have summarised below the out-turn against the 2008/09 agreed external audit fee:

### External audit fee for 2008/09



We have not yet completed all our grant certification work so this fee remains an estimate.



**CORPORATE RISK MANAGEMENT**  
**Audit Committee 24 September 2009**  
**Report of the Chief Finance Officer**

**EXECUTIVE SUMMARY**

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

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

**Purpose of Report**

This report provides MAT and the Audit Committee with an opportunity to review the revised Corporate Risk Register and proposed actions for improvement.

**Key Issues**

- The Corporate Risk Register has been reviewed and updated.
- Progress on actions proposed at the last/prior review has been documented on the register.

**Financial Implications**

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

**Corporate Priority**

All corporate priority themes.

**Officer Recommendations**

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

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

**Lead Member: Councillor McShane**

**Portfolio Holder: Councillor Vivienne Leighton**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 The Council's Risk Management policy/strategy, flowchart of responsibilities and Corporate Risk Register can be found on Spelnet, and the Service risk registers can be found on global public folders.
- 1.2 The Audit Committee is responsible for considering the effectiveness of the authority's risk management arrangements, and receives regular reports on risk issues.
- 1.3 This report provides the Audit Committee with an opportunity to review the revised Corporate Risk Register, assess progress on actions previously recommended, and review new actions proposed for improvement.

### 2. KEY ISSUES

- 2.1 The Corporate Risk Management Group have revised the Corporate Risk Register (Appendix 1). Actions required to reduce risks are shown together with officers responsible for implementing recommendations and deadlines. Where actions made previously have been addressed, it is still felt that risks need to remain in the register, as they represent the authority's most significant risks, i.e. could have a major impact on service provision/delivery if not managed effectively, or could potentially result in serious injury/fatality.
- 2.2 Progress on actions proposed at the last review has been documented on the attached register (please refer to columns titled control/action and progress). Progress has been made in areas such as IT Security (IT disaster recovery test and independent health check completed with actions being addressed); under business continuity planning a further corporate training (desk top test) exercise was held in July 2009 which focused on assessing the consequences of Pandemic flu on SBC services, with issues arising being taken forward by the Business Continuity management forum; updating of the borough's emergency plan; ongoing review of partnership governance arrangements and reporting to Members on the application of a partnership framework at SBC; review of the Central Surrey Procurement partnership and reporting on options to Members; delivery board meetings commenced to monitor implementation of the sustainability strategy and delivery of National Indicator 188 (Climate Change).
- 2.3 The following areas are being progressed:
  - (a) Service plans outstanding for Environmental Health and Building Control areas, although it is acknowledged they are currently being reviewed. (Technology/Infrastructure/Operations risk). Please see part 1 of the detailed risk register. [\(Appendix 1\)](#)
  - (b) Risk assessment for contaminated land (Environment risk). The Environmental Health Manger is preparing the document and hopes to complete it by mid September. Please see part 7 of the detailed register.
  - (c) Procedure document to clarify health and safety responsibilities where assets leased (regulatory/legal risk). Whilst some progress has been made on the leased asset project, the general procedure document will be drawn up at project completion stage, (estimated completion date Dec 2009). Please see part 8 of the detailed register.

- (d) Corporate training on contract management (Partner/contractor/commercial risk). Please see part 10, action 3 of the detailed register. The Due-North E-Tendering system (test system) is being used by Asset Management and Environment Services, and it is proposed that the system will be rolled out to other users in autumn 2009 on a 'need to use' basis. The mandatory training relating to procurement and contract management will be provided to officers at the same time.

2.4 It should be noted that the new corporate priority themes have been used for the purpose of relating specific risks to priorities.

### **3. OPTIONS ANALYSIS**

#### **Either:**

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

#### **Or:**

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

### **4. PROPOSALS**

4.1 The Audit Committee are asked to note and accept the contents of the Corporate Risk Register, and the Cabinet are asked to approve it.

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

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

### **6. FINANCIAL IMPLICATIONS**

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

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

7.1 Risk register outlines circumstances where the authority may well be at risk of unacceptable outcomes; risks to health and safety; risks to the finances of the council etc. Should these risks not be addressed adequately then it follows that there may well be undesirable legal consequences arising. The purpose of the risk register is in part to avoid such consequences.

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

8.1 If actions outlined in the Corporate Risk Register are endorsed by Members and implemented by relevant officers, this should improve the council's overall risk management arrangements.

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

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

9.2 The revised Corporate Risk Register will be placed on Spelnet and actions will be monitored by the Corporate Risk Management Group.

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

**Background Papers: There Are None.**

## **AUDIT SERVICES QUARTERLY REPORT**

**Audit Committee: 24 September 2009**

**Resolution Required**

**Report of the Head of Audit Services**

### **EXECUTIVE SUMMARY**

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

The Accounts and Audit Regulations require the Council to maintain an adequate and effective internal audit of their accounting records and control systems. This report provides the Council with assurance of the adequacy of those controls as a contribution to the proper, economic, efficient and effective use of resources.

#### **Purpose of Report**

- The report summarises work undertaken by Audit Services during the period April 2009 – June 2009.

#### **Financial Implications**

There are none.

**Corporate Priority:** The maintenance of a strong internal control environment supports all corporate priorities.

#### **Officer Recommendations**

**The Audit Committee is asked to note and approve the Audit Services' Report for the period April 2009 – June 2009.**

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

**Portfolio Holder: Councillor Leighton**

## MAIN REPORT

### 1. BACKGROUND

- 1.1 The Accounts and Audit Regulations require the Council to maintain an adequate and effective internal audit of their accounting records and control systems. This report provides the Council with assurance on the adequacy of those controls.
- 1.2 During the period a part time auditor left the authority and a member of the Surrey Heath audit team due to undertake work at Spelthorne was absent on sick leave. The audit plan has been reviewed, a temporary auditor employed and a review of the overall audit organisation across the three authorities is underway.

### 2. KEY ISSUES

#### Audit Recommendations

- 2.1 A recommendation database has been implemented to improve the monitoring of outstanding issues. At a previous Audit Committee meeting members requested statistics relating to recommendations issued, implemented and outstanding. Full details of all outstanding recommendations have been supplied to members of the Council's Management Team. It is important to acknowledge that audit work is not measured by the number of recommendations issued and minor/low risk issues are not included in statistics. These details include a number of audits issued in draft where management responses are awaited.

Status	Total	High	Medium
Implemented	110	13	97
Outstanding	31	3	28

#### Audits Completed (to Final/Draft)

- 2.2 **The Head of Audit Services has been asked to provide details of recommendations made. Details for completed audits are appended to this report. Agreed recommendations will be circulated regularly to Assistant Chief Executives/Deputy Chief Executive to ensure implementation.**

Audit	Level of Audit Assurance* - Full/Substantial/Limited/None	Recommendations
Main Accounting Systems	Substantial	Appendix 1.1
Cash and Bank	Substantial	Appendix 1.2
ICT	Substantial	Appendix 1.3
Insurance	Substantial	Appendix 1.4
Leisure	Substantial	Appendix 1.5
Energy	Substantial	No recs

Management		
Council Tax/NNDR	Substantial	Appendix 1.6
Creditors	Substantial	Appendix 1.7
Waste and Recycling	Limited	Appendix 1.8
Human Resources/Payroll	Substantial	Appendix 1.9

\* Audit has introduced a new key to indicate the level of assurance Audit feels it is able to give to a system it has reviewed.

KEY:	
<b>Full Assurance</b>	
Evaluation Opinion	There is a sound system of control designed to meet the system objectives (supported by full audit testing).
<b>Substantial Assurance</b>	
Evaluation Opinion	While there is basically a sound system of control, there are areas of weakness, which put some of the systems objectives at risk.
<b>Limited Assurance</b>	
Evaluation Opinion	Weaknesses in the system of controls are such as to put system objectives at risk.
<b>No Assurance</b>	
Evaluation Opinion	Control is generally weak, leaving the system open to significant error or abuse.

## 2.3 Planned/Unplanned Audit Work in Progress

### 2.3.1 Capital Accounting

Testing on behalf of external audit.

### 2.3.2 Customer and Office Services

Risk assessment updated, previous audit recommendations followed up and further testing completed. Advice was also provided on the draft Customer Services Strategy.

### 2.3.3 Environment Services

Risk assessment reviewed and audit testing completed.

### 2.3.4 Partnership Governance

Liaised with Auditors at Elmbridge and Surrey Heath Borough Councils to progress joint audit and share best practice. Reviewed progress with the application of a Partnership governance framework at Spelthorne, and Audit Services support recommendations made by the Head of Corporate Governance.

### **2.3.5 Choice Based Lettings**

Monitored progress at Spelthorne and Elmbridge.

### **2.3.6 Environmental Health, Building Control, Independent Living, Asset Management, Committee/Civic, Performance Management, Elections**

Risk assessments reviewed and audit testing in progress.

### **2.3.7 Regeneration Projects**

Audit reviewed current status on four projects involving local town regeneration. Initial findings passed to Assistant Chief Executive (TC) for review.

### **2.3.8 Creditor / Invoice testing**

Audit testing in progress.

### **2.3.9 Parking Service**

Risk assessment to be completed, testing partially completed.

### **2.3.10 Corporate Governance / Annual Governance Statement**

Reviewed corporate governance arrangements and assisted to the preparation of the Annual Governance Statement.

### **2.3.11 Contaminated Land**

Advice provided to Environmental Health officers on risks. See Corporate Risk report.

## **2.4 Other Work**

**2.5.1 Corporate Risk Management** – see separate risk report. Audit advises the Corporate Risk Management Group.

**2.5.2 Audit Committee** –Preparation of reports (Annual Report, Review of Effectiveness of Internal Audit), MAT/committee attendance, various meetings and correspondence.

**2.5.3 Audit Partnership – Research into partnership models, review of governance arrangements, co-ordination of work between authorities, review of plan following staff changes, completion of joint audit manual, joint team meeting and partnership documentation.**

**2.5.4 Advice** - Advice has been requested from all directorates on various risk and control issues including food purchases at day centres, NI188 (Climate change strategy) and collection of income at car parks due to vandalism of car park machinery.

**2.6 Miscellaneous** – Meetings (one-to-ones, staff performance clinics/appraisals /team (SBC and joint)/ departmental/ SMN/ manager's briefings, Assistant Chief Executive), team management, training, liaison with external audit, budget monitoring, processing contract payment certificates, Service Planning, work planning, health and safety issues, completion of timesheets, updating audit recommendation database, Emergency Planning/Business Continuity and various other tasks.



## **2.7 Special Investigations**

### Housing Benefit

Audit assisted management in the investigation of inappropriate access to a Department of Works and Pensions database for benefit verification purposes. Despite clear instructions regarding use and confidentiality of the system, audit trails showed that a member of staff had accessed the system for personal information. This individual was disciplined and subsequently dismissed.

## **2.8 IT virus**

Advice given on general IT security measures following introduction of a virus onto the Council's system. All memory stick usage has been temporarily banned until further notice and the ICT service is procuring encrypted removable media, (USB sticks). This will also ensure compliance with the Government Code of Connection.

## **3 OPTIONS ANALYSIS**

3.1 There are none.

## **4. PROPOSALS**

4.1 There are none

## **5. BENEFITS AND SUSTAINABILITY**

5.1 N/A.

## **6. FINANCIAL IMPLICATIONS**

6.1 N/A

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

7.1 Completion of the Audit Plan demonstrates compliance with Local Government Act 1972 and Accounts and Audit Regulations.

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

8.1 Significant risks associated with individual audits are reported in this report. Implementation of audit recommendations will reduce risks for the authority. All audit work is supported by detailed risk assessment.

## **9. TIMETABLE FOR IMPLEMENTATION**

9.1 N/A

**Report Author: Deanna Harris, Head of Audit Services 01784 446207**

**Background Papers: There are none**

## Appendix 1.1 – Main Accounting 2008/9

	<b>Recommendations</b>
1	The Systems Accountant should consider periodically reconciling the Human Resources leavers report to the Integra report (to ensure any unauthorised access removed).
2	<p>1. The Systems Accountant should run a report quarterly, listing all one-sided journals for authorisation. It is acknowledged that there have only been five recorded instances of one sided journals in the last five years and therefore the recommendation addresses a potential risk of accounting error.</p> <p>2. To ensure Integrity of the system, the issue of one-sided journals should be raised again with IB Solutions as part of Integra 4 rollout, with the aim that IB Solutions address the system generated error.</p>
3	<p>1. Financial Services should consider ways of improving liaison with Service Heads in order to identify/manage expected capital sums due.</p> <p>2. Accountancy should consider adding to the capital sum schedule a column titled 'Capital sum received to date', so that as amounts are received for specific projects/schemes this can be compared to the total amount expected, to assist monitoring.</p> <p>3. Accountancy should notify Financial Support of capital sums due via a schedule/e-mail, to ensure there is a clear documented record of the account code and other details, to assist monitoring.</p>

## Appendix 1.2 Cash and Bank

1	The Financial Support Services Manager should liaise with other local authorities to consider alternative cashless systems for taxi licences and miscellaneous income in general, with a view to sharing best practice, and keeping this area under regular review.
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## Appendix 1.3 ICT

1	Security to the server rooms should be improved by protecting the equipment against fire and smoke damage by installing smoke alarms in all areas
2	<p>The access policy should be reviewed and amended, then circulated to all Service Heads and System Administrators for full implementation.</p> <p>Integra system should reflect authority limit set on Authorised Signatory list; this should be updated to reflect new Management structure in place and assessed by DCEX and ACEX's to ensure appropriate levels are set and verified annually.</p> <p>Systems administrators set up a schedule to determine regular review of users access rights, this to be subject to evidenced independent review.</p>
3	Investigation into whether the HR leaver form could link straight to the IT leaver form after it has been completed to prompt managers to complete both. All managers to be reminded of the need to fill in IT leaver form promptly
4	Process to be put in place to ensure systematic removal of staff from IT systems

	<p>(housekeeping) and asset register kept up-to-date and audit trail evidencing same</p> <p>Remote Access policy and guidance to be written</p> <p>Consideration given to conducting random IT audits of SBC owned laptops (Staff and Members) to ensure IT Policy being complied with. (Could possibly use Centennial software to carry out this function).</p>
5	<p>An e-form is produced outlining authorisation for any changes to parameters/system reports by systems administrators.</p> <p>An annual form to be completed for minor system changes (this could cover multiple changes), and a specific form for any major changes to be authorised as and when the changes are made.</p>
6	<p>Procedures outlining detailed process of ad hoc testing of backup data to be provided to ICT Service Manager. These should include dates and times of testing to be carried out and details of staff responsible, and reported to ICT Service Manager at monthly service meeting</p> <p>Backup tapes to be tested routinely on a regular basis, ICT Service Manager to ensure procedures being followed at monthly service meeting.</p>
7	<p>Consideration should be given to adding facility for an on-call person, for business continuity purposes to ensure response to any out-of-hours alerts.</p> <p>All critical servers to be added to the list being monitored.</p>
8	<p>Procedures to be written to establish monitoring and logging any exceptional events that may take place on the firewall.</p> <p>Policy to be written preventing staff from installing unauthorised software onto their PC</p>
9	<p>An IT Strategy to be written with overall vision, including a breakdown of customer demands, business needs, what do we envisage for the future of IT, could also cross refer to IT road map, we need to show the bigger picture.</p>

#### Appendix 1.4 Insurance

1	<p>Insurance claims should be analysed by the Corporate Risk Management Group to identify trends or patterns which may help to minimise the recurrence of incidents. The Insurance Officer should have some input into providing meaningful analysis of the insurance statistics that are provided to the CRMG and conduct an annual trend analysis exercise (year on year over specific periods considering volume, category cause and value). The Insurance Officer should liaise with the Health and Safety Officer to consider how the new Safety Management system may help in producing management information. The CRMG should facilitate risk reduction strategies and promote the implementation of procedures that will reduce the risk of incidents reoccurring. It should be noted that the Terms of Reference for the CRMG state the group will:</p> <ul style="list-style-type: none"> <li>- 'Give consideration to accidents, incidents, insurance claims and liability, corporate arrangements and controls, with a view to preventing, minimising and managing existing and foreseeable risks at every level within the authority.</li> </ul>
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	- 'Consider reports on trends such as accidents, incidents, insurance claims and recommending any action required'.
2	<p>1. Responsibilities of the Systems Accountant and Insurance Officer regarding risk management and insurance should be clarified by the Assistant Chief Executive (TC) and reflected in his latest job description if not already done so. The linkages between risk management and Insurance should be highlighted i.e. If effective risk management processes are implemented whereby officers across the authority take pro-active measures to reduce/manage risks in their areas, this should lead to a reduction in the level of claims submitted over time, which should ultimately lead to a reduction in Insurance premiums paid.</p> <p>2. Direct Services and Car Parks should pursue advice provided by the Insurance Officer to help reduce the risk of claims in their areas.</p>
3	Services responsible for carrying out routine inspections should document such visits in future, as evidence in the event of claims. If there are areas where routine inspections are not being conducted, this needs to be brought to the attention of the CRMG and discussed further.
4	An up to date set of procedure notes relating to the processing of insurance claims should be produced. These could then be referred to by other officers should the Systems Accountant and Insurance Officer be absent. Financial Regulations should be updated to take account of new management arrangements, and the updated Finance Manual placed on the Intranet
5	The ACX (TC) should consider scope for the Accountancy Assistant to use the Insurance computer system periodically, in order to gain familiarity with the system and processes, which would provide better contingency arrangements.

#### Appendix 1.5 Leisure

1	The RPIX inflation figure should be used to calculate the annual charge to SLM as per the terms of the contract. Accountancy should undertake the annual calculation after receiving a request from Leisure to do so. An adjustment should be made to correct the previous years' overcharging.
2	Leisure to diarise 7 months after the year end to expect to receive the annual financial statements from SLM and to chase SLM if the statements have not been received. These should be passed to Accountancy, who should review statements and calculate whether SBC are entitled to any additional sums from the contract.
3	The Leisure centre contract is of significant value and therefore it is important that the Facility and Sports Manager starts to evidence monitoring from now on, using a checklist when conducting site inspections. Audit note that an operational document listing checks to be conducted has already been drawn up for this purpose. Please note that this recommendation was also raised previously (in 2007).
4	Except in exceptional circumstances, all new staff should be CRB checked prior to commencing employment with SBC. If there are exceptional circumstances which justify an employee commencing post prior to having been CRB checked,

	the ACEx (LB) must ensure they do not have unsupervised access to children/ vulnerable adults (in accordance with HR policy).
5	In future Leisure should arrange for Office Services to provide printed sequentially and uniquely numbered vouchers/tickets, which would form part of controlled stationery. Should Leisure arrange printing themselves, alternative quotes should be obtained for printing services or an exemption sought from contract standing orders.
6	A value for money exercise is conducted on events/clubs/courses every two years to ensure they are meeting the needs of the community at an affordable cost.
7	Risk Assessments should be reviewed and updated on an annual basis. Risk assessments should detail what level of residual risk is considered acceptable, provide a key detailing what the risk rating numbers mean and be as specific as possible. A risk assessment for the Youth Theatre should be compiled
8	The ACEx (LB) should remind all staff of the need to pass any credit card details to the Cashier, and no credit card details should ever be retained on file. Leisure Services should ensure all forms instruct customers to return them to Cashiers (PO Box 290) rather than Leisure. Any discrepancies between the club register and the cash banked should be investigated and noted on the income spreadsheet; receipt details should also be recorded on the spreadsheet to aid reconciliation. An independent officer within Leisure should ensure that source income paperwork reconciles to receipts issued and amounts banked. Tickets should be issued for attendance at the 'Off The Hook' skate events and used to reconcile income expected with income banked. Application/booking forms for all courses/clubs must be retained on file as they represent source income records outlining income due. Consideration to be given to fees being decided through the annual fees and charges process.
9	Grants should not be considered without the estimated total costs being provided and grants should not be awarded that exceed 50% of the estimated total costs. All grants should have documented officer recommendations about whether or not to approve the grant. ACEx (LB) should authorise all grant payments. Leisure should ensure that receipts are obtained to evidence expenditure incurred.

#### Appendix 1.6 Council Tax/NNDR

1	Principal Revenues Officer to keep a record of all suppressed accounts reviewed and to diarise the system detailing any suppression's reviewed.
2	Write off policy should be reviewed and updated. Staff should be reminded of the need to adhere to policies; any exceptions to policy should require approval from Senior Officers and reasons documented. All authorisations must be scanned into CIVICA system.

## Appendix 1.7 Creditors

1	Integra system should reflect authority limit set on Authorised Signatory list; this should be updated to reflect new Management structure in place and assessed by DCEX and ACEX's to ensure appropriate levels are set and verified annually.
2	Monthly reconciliations should be performed in a timely manner and to ensure contingency arrangements when officers are off on extended sick leave, need to ensure scope for more. (This recommendation refers to Financial Support Services).

## Appendix 1.8 Waste and Recycling

1	SBC should consider establishing an Service Level Agreement for provision of the Waste Service by Streetscene that includes measurable performance targets.
2	SBC should ensure that they receive a written calculation of the annual gate fee amount each year and check it against the contract for accuracy. SBC should seek a refund for the amount of overcharge.
3	<p>Any future tender for the hire of refuse vehicles should include the requirement to list their schedule of rates for maintenance services.</p> <p>High value contracts should be signed, sealed and retained by Legal Services in accordance with CSO 40.</p> <p>A copy of the SSI Schaeffer Ltd contract should be found and retained by Legal Services.</p>
4	<p>SBC should obtain from Riverside a schedule of rates for maintenance services so that amounts charged can be checked. SBC should ask Riverside to add the unique Daily Vehicle Report numbers against the appropriate job reference on their invoices to aid the checking of these invoices. The Transport Manager should cross-check the Riverside invoices against the individual Defect Reports and mark the Reports once they have appeared on an invoice to ensure that SBC are not invoiced twice for the same work. The Transport Manager should file the books of Defect Reports in a systematic manner.</p> <p>SBC should request monthly consolidated invoices from WCR for its vehicles.</p>
5	Recycling credit claims should be double-checked for accuracy before sending the invoice to SCC.

## Appendix 1.9 Human Resources/Payroll

1	MAT are at risk of damaging their reputation when they fail to carry out an agreed action (in relation to staff survey results), which could result in reduced Staff satisfaction about Senior Management. In light of the new Senior Management structure, MAT should reconsider the action agreed to, and decide whether or not to implement it or withdraw it.
2	Evidence of qualifications should be sought for all posts where considered essential for the post as per person specification.

<p>HR should seek two written references for all Council posts; there is a risk that the authority could be appointing inappropriate staff that do not hold relevant experience/qualifications. There have been recent cases of fraudulent job applications made at other local Councils.</p>
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**WORK PROGRAMME 2009 – 2010**

**AUDIT COMMITTEE - 24 SEPTEMBER 2009**

**Resolution Required**

**1. Work Programme**

- 1.1 This report covers the Work Programme for the 2009/10 municipal year.
- 1.2 The Committee's terms of reference are set out at the front of the agenda.

**2. Current Work Programme**

- 2.1 The remaining two meetings of this Committee have been scheduled in the Council's Diary for 2009 -10 on the following dates:-
  - 14 December 2009
  - 25 March 2010
- 2.2 Any topics identified during consideration of the business at this meeting, will need to be included in the Work Programme.
- 2.3 Other issues Members wish to raise for consideration at the next or any future meeting and agreed by the Committee may be included in the Work Programme.
- 2.4 External audit may have one or two reports that arise from time to time which are not possible to predict in advance but will be incorporated into the Work Programme or appear on the agenda as appropriate.
- 2.5 The Committee may require a Head of Service to attend the next meeting of the Committee, where the Head of Audit Services has identified a risk but the target for controls to be put in place remains outstanding. This may be agreed either at the request of the Committee or if the matter is considered urgent, by the Chairman in consultation with the Chief Finance Officer.
- 2.6 Details of the currently identified items in the Work Programme are as follows:

14 December 2009		
Audit Services Quarterly Report	Head of Audit Services	Report for period July 09 to October 09
Corporate Risk Register	Chief Finance Officer	Review
Corporate Risk Register (provisional)	Head of Service - as appropriate	Updates on target dates missed
Confidential Reporting Code (Whistleblowing Policy)	Assistant Chief Executive	Review
Committee's Work programme	Head of Audit Services/ Chief Finance Officer/Audit Committee	Report
25 March 2010		
Annual Audit and Inspection Letter	External Audit and Audit Commission	



**AGENDA ITEM: 8**

Audit Services Quarterly Report	Head of Audit Services	Report for period November 09 to Feb 10
Corporate Risk Register	Chief Finance Officer	Review
Corporate Risk Register <i>(provisional)</i>	Head of Service - as appropriate	Updates on target dates missed
Anti Fraud and Corruption Policy	Assistant Chief Executive	Review
Annual Audit Plan	Head of Audit Services	Report
Committee's Work programme	Head of Audit Services/ Chief Finance Officer /Audit Committee	Report

**3. Resolution**

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

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

**Report Author: Gillian Hobbs, Committee Manager (01784) 446405**