

Please reply to:

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Our ref: GH/AUD
Your ref:
Date: 27 August 2008

NOTICE OF MEETING

AUDIT COMMITTEE

DATE: THURSDAY 4 SEPTEMBER, 2008

TIME: 7.30 P.M.

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

TO: ALL MEMBERS OF THE AUDIT COMMITTEE

J.D. Pinkerton (Chairman)

M.T. Royer (Vice-Chairman)

M.L. Bouquet

M.J. Collis

L.E. Nichols

E. O'Hara

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 24 June 2008 (copy attached).

4. MATTERS ARISING FROM THE MINUTES

a) Min 201/08 Chairman to contact Emergency Planning Officer re Testing of Emergency Plan

Chairman to report to the meeting. {See Appendix 1 (Corporate Risk Register) to Agenda Item 8 – section 6, pages 31-32}

b) Min 205/08 Chairman to contact Head of Parking Services re PCNs

Chairman to report to the meeting.

5. EXTERNAL AUDIT REPORT ON 2007-08 AUDIT AND STATEMENT OF ACCOUNTS

To receive a report from KPMG, the Council's External Auditors (to follow).

6. EXTERNAL AUDIT INTERIM AUDIT REPORT 2007-08

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

7. AUDIT SERVICES QUARTERLY REPORT

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

8. CORPORATE RISK MANAGEMENT - REVIEW

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

9. COMMITTEE WORK PROGRAMME 2008/09

The Committee is requested to consider and approve its work programme for the remainder of the Municipal Year 2008/09 (copy attached).

MINUTES OF THE AUDIT COMMITTEE

24 JUNE 2008

Present:

Councillor J.D. Pinkerton (Chairman)

Councillors:

M.L. Bouquet

L.E. Nichols

H.A. Thomson

M.J. Collis

E. O'Hara

M.T. Royer

198/08 MINUTES

The minutes of the meeting held on 22 May 2008 were approved as a correct record.

199/08 MATTERS ARISING FROM THE MINUTES

Alternate Weekly Collection Project – Risk Management Process

The Chairman informed the Committee that in connection with Minute 96/08 it was suggested that the Committee receive a presentation on the Alternate Weekly Collection project at its next meeting, to follow the risk assessment process of a project which had been completed.

Shredding of Confidential Information

In connection with Minute 97/08, the Internal Auditor confirmed that a protocol for shredding of confidential information was in place and available for Members to view on Spelnet and showed the Committee examples of shredded material.

RESOLVED that

1. the Committee receive a presentation on the Alternate Weekly Collection project in connection with the risk assessment process, at its next meeting;
2. the protocol on shredding of confidential information be noted.

200/08 ROLE OF THE AUDIT COMMITTEE

The Chairman proposed that due to the length of the agenda, this item be postponed so that it may be presented separately at an informal meeting of the Committee on 21 July.

RESOLVED to postpone the presentation of the Role of the Audit Committee to an informal meeting of the Committee on 21 July 2008.

201/08 CORPORATE RISK REGISTER

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. Progress on actions proposed had been made in a number of areas and further actions had been proposed in some areas to improve

controls further. She detailed those areas where risks had not yet been fully addressed.

Members expressed concern that the emergency plan had not been tested for some time. The Committee authorised the Chairman to contact the Borough's emergency plan officer and if a satisfactory response was not forthcoming, request the attendance of the officer before the next meeting of the Committee.

RESOLVED that

1. the contents of the Corporate Risk Register be noted and
2. the Chairman be authorised to contact the Borough's emergency plan officer in relation to testing of the emergency plan and if a satisfactory response was not forthcoming, request the attendance of the officer before the next meeting of the Committee.

202/08 CORPORATE RISK REGISTER – UPDATES FROM HEADS OF SERVICE

At its meeting on 27 March, the Audit Committee agreed to request the attendance of the Heads of Environmental Health and Asset Management to explain why high level corporate risks had not been addressed.

Contaminated Land

The Head of Environmental Health attended the Committee to explain and answer members' questions on the issues relating to undertaking risk assessments of contaminated land.

He explained that the process the Council had to follow in relation to contaminated land was prescribed by existing Defra guidelines. Further guidelines on soil contamination levels were awaited and until these had been published it would not be appropriate to undertake a risk assessment. He answered Members' questions on the Council's financial liability should it be found necessary to take remedial action on the land.

Asset Management

The Head of Asset Management attended the Committee to advise members of the latest position with regards to preparing a procedure to clarify health and safety responsibilities where the authority leases out assets.

He explained that the Council had a legal responsibility to ensure that groups who used leased properties had carried out Health and Safety assessments in respect of the building and facilities they used. He had already established the number of leased properties and which of these were used by professional or non-professional organisations. The problem with the latter group was that the responsibility for health and safety had not been clear and therefore some of the buildings might need review.

The next stage was to visit each of the properties and determine the facilities on site, in order to establish the works that needed addressing to upgrade the site to acceptable standards. He outlined the project plan for completing these works and agreeing on future responsibilities.

RESOLVED that the explanations be noted and the officers be thanked for their presentations.

203/08 ANNUAL GOVERNANCE STATEMENT

The Chief Finance Officer presented his report and outlined the content of the Annual Governance Statement (AGS) 2007-08.

He explained that in previous years the Council had to produce an annual Statement on Internal Control which was appended to the Statement of Accounts. The AGS extended the coverage of the Statement on Internal Control to reflect how the organisation conducted its business, both internally and in its dealings with others, which provided a useful and practical opportunity to look at a wide range of governance issues.

He outlined the process followed in reviewing the effectiveness of Internal Control and producing the AGS.

RESOLVED that

1. the draft Annual Governance Statement be approved and
2. the four improvement actions identified in the Statement under the heading "significant governance issues" be endorsed.

204/08 OUTTURN AND STATEMENT OF ACCOUNTS

The Chief Finance Officer presented the Statement of Accounts for 2007/08 which were 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 2007/2008 be completed and approved by the Audit Committee by 30 June 2008, and be signed by the Leader of the Council and the Council's Chief Financial Officer.

RESOLVED that

1. the draft Statement of Accounts for 2007/2008 be approved and
2. the Leader of the Council and the Council's Chief Finance Officer be authorised to sign the Statement of Accounts.

205/08 AUDIT SERVICES ANNUAL REPORT

The Head of Audit Services presented her report which summarised the work undertaken by Audit Services during the period April 2007 – March 2008 and responded to questions from Members. Internal audit's overall opinion on the Council's internal control environment, based on the work undertaken in 2007/08 was that it was adequate and effective.

She gave updates on areas of work where action was outstanding on recommendations relating to risks, including:

- Recovery action on debts relating to bed & breakfast;
- Independent checks on payroll transactions;
- Outstanding Penalty Charge Notices (PCNs)

Members were concerned that Audit Services had been advised last year that the problems associated with transmitting data to the Traffic Enforcement Centre had been resolved, when this was not in fact the case. There was now a possibility that a large number of PCNs would be written off, due to the passing of time, at a financial cost to the Council.

The Committee authorised the Chairman to contact the Head of Parking Services requesting an explanation as to why Audit Services had been advised that this problem had been resolved when that was not the case.

RESOLVED that

1. the Audit Services Annual report for the period April 2007- March 2008 be approved and the overall opinion on the Council's systems of internal control be noted and
2. the Chairman be authorised to contact the Head of Parking Services to request an explanation as to why Audit Services had been advised that the problems associated with transmitting data to the Traffic Enforcement Centre had been resolved, when they had not.

206/08 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 nature of this Review had not been specified externally as there were no nationally set indicators, but advice had been obtained regarding issues which should be considered and these were outlined by the Head of Audit Services.

She highlighted achievements by Audit Services during 2007/08 and actions identified to improve the Audit Service in the coming year. She acknowledged the high standard of work achieved by the Audit team.

RESOLVED that

1. the Audit Services Annual Review 2007/08 be noted and
2. the Committee recognises the achievements of Audit Services..

207/08 COMMITTEE WORK PROGRAMME 2008/09

The Committee considered its Work Programme for the 2008/09 Municipal year.

RESOLVED that the Work Programme as submitted be approved.

External Audit Report on 2007-08 Audit and Statement of Accounts

Audit Committee 4 September 2008

Recommendation Required

Report of the Chief Finance Officer

Executive Summary

Purpose of Report

To inform Members of the outcome of the External Auditor's 2007-08 audit.

Key Issues

- At the time KPMG issued their draft report their external audit of the Statement of Accounts had almost been concluded
- The Auditors indicate that they see no reason why they will not issue an unqualified opinion on the Statement of the Accounts for 2007-08.
- 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 interpretation of capital items, provisions, available for sale investments. The changes required have been implemented.
- The Auditors indicate that they are likely to conclude that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

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 2007/08 audit report (Appendix A).

That the Chairman of the Audit Committee and the Chief Finance Officer sign the letter of representation.

Contact: Terry Collier, Chief Finance Officer 01784 446296

Portfolio Holder: Councillor Michel Bouquet

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
 - 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 2007/08 audit.

2. KEY ISSUES

- 2.1 KPMG's proposed Audit Report (page 10 of the draft audit report) states that they are satisfied that the Council has prepared the financial statements in accordance with the relevant accounting codes of practice.
- 2.2 Based on the work undertaken as at the time KPMG issued their draft report the Auditors anticipate concluding that the Council have continued to make proper arrangements during 2007-08 to secure economy, efficiency and effectiveness in our use of resources (page 4)
- 2.3 At the time KPMG issued their draft report they were still evaluating responses made by officers and were therefore unable to complete their conclusions. KPMG will give a verbal update on their conclusions at the meeting of the Committee.
- 2.4 This is the first year KPMG have audited Spelthorne Borough Council and as was to be expected they have brought a fresh perspective. As KPMG state (page 6) this did result in a higher level of queries than normal. KPMG have discussed a number of accounting treatments particularly around capitalisation of expenditure/income, treatment of fixed assets and provisions. These are set out in Appendix 3 (pages 12-22 of the report). Officers have incorporated the required changes into an amended Statement of Accounts which is attached as Appendix B. The net effect of the changes on the movement in the General Fund is for pre-audit Statement's deficit of £191k becomes a surplus of £159k. This largely reflects the impact of treating the trade refuse receipt as revenue rather than capital income.
- 2.5 KPMG have made a total of 10 priority 2 and 3 recommendations for improving the final accounts process (Appendix 4 of the report). As officers have only just received the recommendations there has not been time to agree a set of responses with KPMG. However, the Chief Finance Officer confirms that we will seek to address all the recommendations and that we anticipate a much smoother final accounts audit process next year.

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 7).
- 3.2 That the Committee note the recommendations made in Appendix 7 and that the responses will be reported back to the Committee at its next meeting.

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**



GOVERNMENT

Report to those
charged with
governance

Spelthorne Borough Council
Draft – August 2008

AUDIT

Content

The contacts at KPMG in connection with this report are:

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- Proposed audit reports
- Audit differences
- Accounts recommendations
- Audit reports
- Declaration of independence and objectivity
- Draft management representations letter

This report is addressed to the Council and has been prepared for the sole use of the Council. 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 lead to the Council, telephone 020 7311 1379 email 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 246 4063, email 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 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.



Executive summary

Purpose 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. We report to those charged with governance (in this case the Audit Committee) at the time you are considering the financial statements. We are also required to comply with an International Standard on Auditing (ISA260) 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 the financial statements for the year ended 31 March 2008. It has been prepared for presentation to the Audit Committee in September 2008.

This report does not repeat matters we have previously communicated to you. A summary of the reports we have issued in the year is set out in Appendix 5. Once we have finalised our opinions and conclusions we will prepare our Annual Audit and Inspection Letter jointly with your Audit Commission CAA lead to close our audit.

Our opinions and conclusions

Use of Resources

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

Our responsibility is to satisfy ourselves that you have in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to your corporate performance and financial management arrangements and reporting on them.

At the current time, this work is in progress for 2007-08. However, given your Use of Resources assessment in prior years, and our work to date, we expect to be able to issue you with a Use of Resources conclusion confirming the adequacy of your arrangements.

Accounts and Annual Statement of Governance

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

We have now completed the majority of the audit. We have identified a number of adjustments which, at the time of writing this report, management are in the process of agreeing and processing in the financial statements.

Our findings are detailed in section three and our proposed opinion on the accounts is presented in Appendix 1.

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 exercise these powers or issue a report in the public interest in 2007/08.

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.

There are not expected to be any issues that would cause us to delay the issue of our certificate of completion of the audit.

Executive summary (continued)

Status of the audit

At the date of producing this report our audit work is substantially complete subject to completion of the following areas where we are either awaiting information from the finance team, or in the process of reviewing information recently received:

- Provision of supporting information to explain movements in key income and expenditure categories. These include private sector leasing costs and payroll costs;
- Analysis of the accounting entries made and needed in relation to Salix grant funding;
- Confirmation from two of your banking partners (RBC Dexia and Chelsea Building Society);
- Analysis to support the disclosed levels of Section 137 expenditure;
- Information to resolve queries in relation to the pension fund valuations, including discrepancies in the number of pensioners accounted for;
- Analysis of potential impairments and non-enhancing expenditure on fixed assets;
- Further information in relation to some of the legal cases and disputes with which the Council is involved (or could potentially become involved) in order to assess the valuation and accounting treatment of related potential liabilities within the accounts

Our discussions with management indicate that these matters can and will be resolved.

A further update will be provided to the Audit Committee verbally

We also require a signed management representation letter, and have provided a draft of this in Appendix 7.

Declaration of independence and objectivity

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

We have provided a detailed declaration in Appendix 6 in accordance with ISA 260.

Fees

Our agreed audit plan included a fee for the financial statements audit of £50-55,000. This was based upon the assumption that all information needed to complete the audit would be available to us by the start of the on-site audit on 28 July 2008. Some delays have been experienced and we will be liaising with the Director of Resources and the finance team to consider the financial implications of this, and to identify improvements to the audit process for 2008-09. More detailed discussion of this is provided later in this report.

Use of resources

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

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

Introduction

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

UoR assessments

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

Our 2008 assessment (which considers the 2007-08 financial year) is being undertaken in August and September. We anticipate that the findings of this work will support an unqualified value for money conclusion.

Other work

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

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

Accounts and Annual Statement of Governance

We have now completed the majority of the audit. We have identified a number of adjustments which, at the time of writing this report, management are in the process of agreeing and processing in the financial statements.

While there are a number of areas of the audit which remain in progress (see earlier discussion), at the current time we are not aware of any issues which will prevent us issuing an unqualified audit opinion by the required deadlines, subject to the satisfactory resolution of these outstanding matters.

Introduction

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

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

We reported on the work carried out relating to the pre-accounts production stage as part of our interim audit findings letter, which has been agreed with management and is included on the Audit Committee agenda. Below we focus on stages five and six:

Accounts Production

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

| Element | Commentary |
|--------------------------------------|---|
| Completeness of draft accounts | The draft accounts were provided for audit in accordance with agreed timescales and were complete such that audit work could begin as scheduled. We have identified a number of audit adjustments that will need to be made to these accounts before they are finalised, suggesting that there is scope to further improve the level of internal review and quality control applied to draft accounts before the audit. We will liaise with management to find ways of addressing this in 2008-09. |
| Quality of supporting working papers | <p>Our prepared by client request was issued to management in advance of the accounts audit and management responded to this positively by seeking to provide the information requested. The efficiency of the audit in 2008-09 could be improved through the following additional steps:</p> <ul style="list-style-type: none"> • Ensuring that the information provided to us is in a format which enables us to complete our audit enquiries. While this was achieved in many areas of the audit, in others, for example payroll, we experienced difficulties in obtaining sufficiently detailed analysis of expenditure and causes of movements, which prolonged our audit work. • More robust co-ordination of the work of other departments. Inevitably, the information required for the preparation of the financial statements often originates outside the finance function. It is important, both for financial management purposes and the efficiency of the audit, that the finance function robustly challenges and documents this information before the audit begins. In some areas, for example with respect to the legal team (provisions and contingent liabilities) and HR (pension information), this was not the case and this caused delays to the audit process as additional information had to be sought from the departments concerned, often via multiple sources. • Availability of key contacts: For the most part, access to Council staff was satisfactory and timely. However, we were required to delay our audit work in one area due to other commitments of the staff member. Where possible, all annual leave and other commitments of key officers should be communicated to us at the outset of the audit or before. |

Accounts and Annual Statement of Governance

Accounts Production (continued...)

| Element | Commentary |
|---------------------------|---|
| Response to audit queries | As a result of the above issues, the level of queries raised during the on-site audit has been higher than would normally be the case. This is not unusual in the first year following a transition of auditors, and the finance team responded positively and maturely to this and sought to deal with queries promptly as they were raised. As described earlier, the focus for 2008-09 should be on using the pre-audit period to ensure such queries are minimised and / or easier to answer once the audit begins. |

It should also be noted that management were proactive in implementing K-Client. This is a web based system that allows us to share documents while working from different locations, and through this we were able to access many working papers before the audit began. Management's continued co-operation on this will be valuable in improving audit efficiency in future years.

Audit differences

Our audits can identify issues that have not been adjusted by management as they do not have a material effect on the financial statements. In accordance with ISA 260 we are required to communicate these uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We have provided a summary of both the corrected and uncorrected audit differences in Appendix 3.

Opinions and Representations

As part of the finalisation process we are required to provide you with representations concerning our independence and ability to act as your auditors. We have provided the standard wording for this at Appendix 6.

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. In some circumstances we can also require specific assurances on issues identified during the audit. We will confirm the content of this letter once our audit work is complete, but at the current time we do not expect to require any additional assurances other than those required by auditing standards. We have also included a copy of this as Appendix 7. Once we have received this we will issue our audit opinion.

Other matters

ISA260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes;

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

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

Testing

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

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

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

Accounts and Annual Statement of Governance (continued)

| Area | Description | Status/ Resolution |
|--|--|--|
| <p>Accounting treatment of wheelie bins</p> | <p>During 2007-08 the Council implemented a wheelie bin system for domestic waste collection and subsequently issued households with wheelie bins for use. Costs of c£1m associated with these wheelie bins have been capitalised, i.e. treated as a fixed asset, within the financial statements. Management's view is that these assets are expected to be used for more than one year (they will be depreciated over five years) and thus meet the definition of a fixed asset.</p> <p>Low value items that are dispersed to homeowners across multiple locations are obviously an unusual item to be treated as capital expenditure. Our audit work has focussed on assessing the appropriateness of this, and in particular the extent to which the authority is able to record and control these assets in order to legitimately treat them as its own assets. The Council does not employ a de-minimus limit for fixed assets and the low value of the wheelie bins individually is therefore not necessarily prohibit them being treated as a fixed asset.</p> | <p>Accounting guidance allows judgement on this issue. However, through discussion with our local government technical specialists we have identified that some other authorities have also capitalised wheelie bins as fixed assets. As noted, our potential concern lies not with the ability of the bins to last more than one year (which seems likely in most cases), but rather on the ability of management to keep an accurate track of the assets once distributed. Having discussed this with management we understand that controls will be put in place to do this. These include the use of microchips attached to the bins and an annual review process to confirm the level of missing and damaged bins.</p> <p>We are therefore prepared to accept the capitalisation of the wheelie bins in 2007-08, but will closely reassess this in future years. If management are not able to demonstrate that sufficient measures have been taken to control the wheelie bins then we will expect the capitalised items to be fully written off to revenue in future periods.</p> <p>Discussions will be held with management during our 2008-09 interim audit to agree required control arrangements in advance of year end.</p> |
| <p>Commercial waste services</p> | <p>During 2007-08, the Council ceased to provide commercial waste collection services. This raised two issues for our audit:</p> <ul style="list-style-type: none"> • Firstly, it raises the question of whether this change should be treated as a discontinued activity. This would result in additional disclosures to highlight the impacts of this change on the Council's underlying financial position. • Secondly, c£311k was received from a third party for the sale of customer information relating to this service. While no capital asset was held in relation to customer information in prior year accounts, in the draft accounts for this year this was booked directly as a usable capital receipt. | <p>We have assessed this issue against the criteria in accounting guidance for defining discontinued activities. As the net cost of services of this activity was not material, and the assets used are not separately identifiable, our view is that these criteria are not met. No changes were therefore required to the financial statements.</p> <p>We have requested that management make an adjustment to account for the sales proceeds as income in year, rather than a usable capital receipt. This has been agreed by management.</p> |

Accounts and Annual Statement of Governance (continued)

| Area | Description | Status/ Resolution |
|--|--|--|
| Accounting for capital | <p>The 2007 Statement of Recommended Practice (SORP) has imposed significant changes in the accounting treatment for capital items. The main changes are as follows:</p> <ul style="list-style-type: none"> • The introduction of a revaluation reserve to store gains on revaluation of fixed assets not yet realised through sales. This reserve was established on 31 March 2007 with a nil balance and does not therefore reflect gains prior to this date; and • The creation of a capital adjustment account which recognises the difference between the cost of assets and the capital financing set aside to fund them. • Prior to 2007-08 all impairments arising through a general fall in prices were taken to the Fixed asset restatement account. These losses are now treated as a revaluation. Where such a revaluation can be covered by any previous revaluation gains it is taken to the Statement of Recognised gains and losses. Where previous revaluation gains are not available, or are insufficient, the revaluation cost is taken to the relevant service cost within the Income and Expenditure account. | <p>We have reviewed the accounting entries made in this area against the requirements of the SORP and have not identified any material concerns. Some presentational changes were required and these have been agreed by management.</p> |
| Non-enhancing capital expenditure | <p>The draft accounts presented for audit contained £809k described as non-enhancing capital expenditure and £361k of impairments. Upon investigation, we identified that significant elements of these balances were made up of expenditure capitalised in 2007-08 but which do not create or enhance the value of a capital asset. A more appropriate treatment for such items would be to treat them as revenue expenditure.</p> | <p>Management have now provided us with further analysis of these amounts to identify enhancing and non-enhancing expenditure. We are currently in the process of reviewing this and agreeing the implications for the accounts.</p> <p>To aid the efficiency of the audit in future years, we would suggest that such items are thoroughly reviewed prior to the preparation and audit of the financial statements.</p> |

Accounts and Annual Statement of Governance (continued)

| Area | Description | Status/ Resolution |
|---------------------|---|--|
| Pension fund | <p>Spelthorne Borough Council is a contributor to the statutory pension fund administered by Surrey Council. The value of the fund is calculated by the fund actuary (Hymans Robinson) for Spelthorne Borough Council and formally reviewed every three years.</p> <p>As at 31 March 2007, the pension fund was valued at a deficit of £16.4m. During the current year the actuarial assumptions used to calculate the value of this deficit have been reviewed. The revised valuation of the fund as at 31 March 2008 has revised the Council's pension deficit to £10.9m, a material movement.</p> <p>The Council's share of total assets of the scheme has also decreased from £55,813k (3.26%) to £52,192k (3.03%). This is because smaller authorities contribute less than larger ones, so that the share of total assets relative to other authorities diminishes over time.</p> | <p>The primary responsibility for reviewing the appropriateness of pension assumptions rests with management. However, for the purposes of our audit we have compared the assumptions made in pension calculations to benchmarks used in the sector as a reasonableness check. This has not identified material concerns.</p> <p>All pension disclosures within the 2007-08 financial statements have been agreed to the report of the fund actuary.</p> <p>We have also sought a letter of assurance from the Audit Commission as administering authority auditor for the Surrey County Council Pension Fund.</p> |

Annual Governance Statement

We have also reviewed the Annual Governance Statement, both in terms of format and consistency with our knowledge of the Council. This review has not identified any material issues or concerns with the statement made.

Appendix 1: Proposed audit report

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 2008 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 Housing Revenue Account, 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 [name of Council], as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources 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 me with sufficient evidence to give reasonable assurance that the Authority statement of accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority statement of accounts and related notes.

Opinion

In our opinion:

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

KPMG LLP
Chartered Accountants
London
11 September 2008

Appendix 2: Proposed use of resources conclusion

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

Spelthorne Borough Council's Responsibilities

Spelthorne Borough Council 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 Spelthorne Borough Council 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 Spelthorne Borough Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of Spelthorne Borough Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

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

Certificate

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

KPMG LLP
Chartered Accountants
London
11 September 2008

Appendix 3: Audit differences

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

This appendix sets out the audit differences identified by our audit of Spelthorne Borough Council for the year ended 31 March 2008.

Uncorrected audit differences

Detailed below are the audit differences identified by our audit of the financial statements that have an effect on your reported financial position.

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|--|------------------------------|-------------------------|-------------------------|------------------|
| Audit costs relating to financial year 2006/07 have been included in 2007/08 expenditure. Accounting practice suggests that prior year accounts should only be re-opened for fundamental errors that would significantly impair a users ability to understand the accounts. This is not the case here, and we therefore support management's position not to post this adjustment. | | | | |
| Income & Expenditure Account | Net cost of services 2006/07 | 16,092 | 16,147 | 55 |
| | Net cost of services 2007/08 | 16,721 | 16,666 | (55) |

Corrected audit differences

Detailed below are the audit differences that have been corrected or which, from discussions with management, we expect to be corrected in due course.

| Note no. | Balance Narrative | Current Balance (£000s) | Corrected Balance (£000s) | Variance (£000s) |
|--|---|-------------------------|---------------------------|------------------|
| Fixed Asset Valuation | | | | |
| Errors in accounting entries made in relation to fixed assets led to a revaluation of vehicles, plant and equipment being recorded due to the incorrect net book value of assets being brought forward. In order to keep a proper balance on the revaluation reserve this has been corrected by increasing the depreciation charge for the year to bring the assets to their correct net book value as at 31 March 2008. There is therefore no revaluation of assets and the adjustments below correct for this. | | | | |
| Income & Expenditure Account | Net cost of services | 16,721 | 16,772 | 51 |
| | Net Operating Expenditure | 15,100 | 15,151 | 51 |
| | Deficit for the year | 3,442 | 3,493 | 51 |
| SMGFB | Deficit for the year | 3,442 | 3,493 | 51 |
| | Net additional amount to be credited to GF | (3,251) | (3,302) | (51) |
| Reconciliation Statement | Net amount to be credited to GF | (3,251) | (3,302) | (51) |
| | Amounts included in I&E but required to be excluded from GF | (4,677) | (4,728) | (51) |
| | Depreciation and impairment of fixed assets | (1,467) | (1,518) | (51) |
| STRGL | Deficit on year | (3,442) | (3,493) | (51) |
| | Surplus arising on revaluation of fixed assets | 815 | 794 | (21) |
| | Total recognised gains | 2,426 | 2,405 | (21) |

Appendix 3: Audit differences (continued...)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|---|--|-------------------------|-------------------------|------------------|
| Balance Sheet | Vehicles Plant & Equipment | 1,858 | 1,786 | (72) |
| | Total Fixed Assets | 53,839 | 53,767 | (72) |
| | Total long term assets | 68,971 | 68,899 | (72) |
| | Total Assets | 82,377 | 82,305 | (72) |
| | Total Assets less current liabilities | 74,169 | 74,097 | (72) |
| | Total Assets less Liabilities | 62,926 | 62,854 | (72) |
| | Revaluation reserve | (21) | 0 | 21 |
| | Capital Adjustment Account | (53,724) | (53,673) | 51 |
| | Total Net Worth | (62,926) | (62,854) | 72 |
| Note 1 Service Area Expenditure | Net cost of services | 15,237 | 15,288 | 51 |
| Note 17 Fixed Assets | VPE Depreciation | (130) | (181) | (51) |
| | Total Op Assets Depreciation | (1,106) | (1,157) | (1,157) |
| | Total Fixed Assets Depreciation | (1,106) | (1,157) | (1,157) |
| | VPE Revaluation | 21 | 0 | (21) |
| | Total Op Assets Revaluation | 21 | 0 | (21) |
| | Total Fixed Assets Revaluation | 21 | 0 | (21) |
| | VPE NBV at 1 March 2008 | 1,858 | 1,786 | (72) |
| | Total Op Assets NBV at 31 March 2008 | 39,427 | 39,355 | (72) |
| | Total Fixed Assets NBV at 31 March 2008 | 53,839 | 53,767 | (72) |
| Note 22 Analysis of Net Assets Employed | General Fund | 63,076 | 63,004 | (72) |
| | Total | 62,926 | 62,854 | (72) |
| Note 41 Capital Reserves | Capital Adjustment Account – transfer to revenue | (3,174) | (3,225) | (51) |
| | Capital Adjustment Account – balance c/fwd | 53,724 | 53,673 | (51) |
| | Total – transfer to revenue | (3,174) | (3,225) | (51) |
| | Total – balance c/fwd | 47,421 | 47,670 | (51) |

Appendix 3: Audit differences (cont)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|---|---|-------------------------|-------------------------|------------------|
| Available for Sale Investments | | | | |
| <p>The Council held some available for sale investment bonds at 31 March 2008. A correction has been made to replace the interest recognised in the I&E with interest as calculated on the basis of an effective interest rate calculation as required by the SORP. This has the effect of spreading the cost of premia and discounts associated with the investments over the expected duration of time the Council will have the bond.</p> <p>In addition, at year end the bonds have been valued at market value in accordance with the SORP, with the difference between this value and the amortised cost value (as per the effective interest rate calculation) taken to a new available for sale reserve. Premia and discounts held on the balance sheet have been transferred to the available for sale reserve</p> | | | | |
| Income & Expenditure Account | Interest and investment income | (1,632) | (1,616) | 16 |
| | Net operating expenditure | 15,151 | 15,167 | 16 |
| | Deficit for the year | 3,493 | 3,509 | 16 |
| SMGFB | Deficit for the year | 3,493 | 3,509 | 16 |
| | Decrease in GF balance for year | 191 | 207 | 16 |
| | GF carried forward | (1,220) | (1,204) | 16 |
| STRGL | Deficit for the year | (3,493) | (3,509) | (16) |
| | Surplus on revaluation of available for sale assets | 92 | 9 | (83) |
| | Total recognised gains in year | 2,426 | 2,343 | (83) |
| Balance Sheet | Long term Investments | 14,872 | 14,773 | (99) |
| | Total long term assets | 68,899 | 68,800 | (99) |
| | Total Assets | 82,305 | 82,206 | (99) |
| | Total Assets less current liabilities | 74,097 | 73,998 | (99) |
| | Total Assets less Liabilities | 62,854 | 62,755 | (99) |
| | Available for sale reserve | (92) | (9) | 83 |
| | GF Balance | (1,220) | (1,204) | 16 |
| Total Net Worth | (62,854) | (62,755) | (99) | |
| Note 22 Analysis of Net Assets Employed | General Fund | 63,004 | 62,905 | (99) |
| | Total | 62,854 | 62,755 | (99) |

Appendix 3: Audit differences (cont)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|---|---|-------------------------|-------------------------|------------------|
| Note 26 Investments | Long Term Revenue Funds | 14,822 | 14,729 | (99) |
| | Total long term | 14,872 | 14,773 | (99) |
| | Total Investments | 20,741 | 20,642 | (99) |
| Note 30 Financial Instruments | Euro-sterling Bonds Rated AAA | 5,102 | 5,003 | (99) |
| | Euro-sterling Bonds | 5,102 | 5,003 | (99) |
| <p>The Council had two provisions in place that are not necessary and have needed to be written back. They are:</p> <p>Charitable Rate Relief provision – this was a provision set up to cover the discretionary element of Business Rates due from Charitable Organisations. However, the cost of discretionary relief and the associated liability is already recognised in the Collection Fund so this provision is not needed.</p> <p>A provision has been made each year to enable the Authority to discharge its share of a liability to the former Association of District Councils. However, it has been identified that this liability has been extinguished by the surrender of part the Council's debenture holding with the ADC. It was also necessary therefore to write down the value of the investment in the Council's balance sheet since the debenture holding value did not take into account the portion of it that had been surrendered.</p> | | | | |
| Income & Expenditure Account | Net cost of services | 16,772 | 16,705 | (67) |
| | Net Operating Expenditure | 15,167 | 15,100 | (67) |
| | Deficit for the year | 3,509 | 3,442 | (67) |
| SMGFB | Deficit for the year | 3,509 | 3,442 | (67) |
| | Decrease in GF for year | 207 | 140 | (67) |
| | GF carried forward | (1,204) | (1,271) | (67) |
| Balance Sheet | Provision | (67) | 0 | 67 |
| | Total Assets Less Liabilities | 62,755 | 62,822 | 67 |
| | General Fund Balance | (1,204) | (1,271) | (67) |
| | Total Net Worth | (62,755) | (62,822) | (67) |
| STRGL | Deficit for year | (3,509) | (3,442) | 67 |
| | Total recognised gains for year | 2,343 | 2,410 | 67 |
| Note 1 Service Area Expenditure | Net cost of services | 16,772 | 16,705 | (67) |
| Note 22 Analysis of Net Assets Employed | General Fund | 62,905 | 62,972 | 67 |
| | Total | 62,755 | 62,822 | 67 |
| Note 29 Provisions | Charitable Rate Relief Receipts in Year | (41) | 0 | 41 |
| | Charitable Balance as at 31 March 2008 | (41) | 0 | 41 |

Appendix 3: Audit differences (cont)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|--|--|-------------------------|-------------------------|------------------|
| | ADC Debenture Receipts in year | (3) | 0 | 3 |
| | ADC Debenture Payments in year | 0 | 23 | 23 |
| | ADC Debenture Balance at 31 March 2008 | (26) | 0 | 26 |
| | Total receipts in year | (44) | 0 | 44 |
| | Total payments in year | 210 | 233 | 23 |
| Note 29 Provisions (cont) | Total Balance as at 31 March 2008 | (67) | 0 | 67 |
| As noted above it was then necessary to write down the value of the ADC debenture to its correct carrying value | | | | |
| Income & Expenditure Account | Interest payable and similar charges | 75 | 35 | (40) |
| | Net Operating Expenditure | 15,100 | 15,140 | 40 |
| | Deficit for the year | 3,442 | 3,482 | 40 |
| SMGFB | Deficit for the year | 3,442 | 3,482 | 40 |
| | Decrease in GF in year | 140 | 180 | 40 |
| | GF carried forward | (1,271) | (1,231) | 40 |
| STRGL | Deficit for year | (3,442) | (3,482) | 40 |
| | Total recognised gains for year | 2,410 | 2,490 | 40 |
| Balance Sheet | Long term Investments | 14,773 | 14,733 | (40) |
| | Total long term assets | 68,800 | 68,760 | (40) |
| | Total Assets | 82,206 | 82,166 | (40) |
| | Total Assets less current liabilities | 73,998 | 73,958 | (40) |
| | Total Assets less Liabilities | 62,822 | 62,782 | (40) |
| | GF Balance | (1,271) | (1,231) | 40 |
| | Total Net Worth | (62,822) | (62,782) | 40 |
| Note 22 Analysis of Net Assets Employed | General Fund | 62,972 | 62,932 | (40) |
| | Total | 62,822 | 62,782 | (40) |

Appendix 3: Audit differences (cont)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|--|---|-------------------------|-------------------------|------------------|
| Note 26 Investments | Long Term Capital Funds | 50 | 10 | (40) |
| | Total long term | 14,773 | 14,733 | (40) |
| | Total Investments | 20,642 | 20,602 | (40) |
| <p>The Council is in the process of disposing of the Benwell and Stanwell day centres. They have therefore been transferred from operational to non operational assets. However, in line with the authority's accounting policies this means they should be valued at market value as at 31 March 2008. The adjustments below ensure this is the case, with the valuation being based on the latest agreed price for the properties.</p> <p>This has resulted in an impairment of the Benwell centre of £854k. As we understand that no entries are contained in the revaluation reserve for this property, this is taken through the I&E to the capital adjustment account and an upward revaluation of the Stanwell centre of £597k, which is taken to the Revaluation Reserve.</p> | | | | |
| Income & Expenditure Account | Net cost of services | 16,705 | 17,559 | 854 |
| | Net Operating Expenditure | 15,140 | 15,994 | 854 |
| | Deficit for the year | 3,482 | 4,336 | 854 |
| SMGFB | Deficit for the year | 3,482 | 4,336 | 854 |
| | Amount to be credited to GF | (3,302) | (4,156) | (854) |
| | Decrease in GF balance for year | 180 | 180 | 0 |
| | GF carried forward | (1,231) | (1,231) | 0 |
| Reconciliation statement | Net amount to be credited to GF | (3,302) | (4,156) | (854) |
| | Amounts included in I&E but required to be excluded from GF | (4,728) | (5,582) | (854) |
| | Depreciation and impairment of fixed assets | (1,518) | ((2,372) | (854) |
| STRGL | Deficit on year | (3,482) | (4,336) | (854) |
| | Surplus arising on revaluation of fixed assets | 794 | 1,391 | 597 |
| | Total recognised gains | 2,490 | 3,087 | 597 |
| Balance Sheet | Non operational assets | 14,412 | 14,155 | (257) |
| | Total Fixed Assets | 53,767 | 53,510 | (257) |
| | Total long term assets | 68,760 | 63,503 | (257) |
| | Total Assets | 82,166 | 81,909 | (257) |
| | Total Assets less current liabilities | 73,958 | 73,701 | (257) |
| | Total Assets less Liabilities | 62,782 | 62,525 | (257) |
| | Revaluation Reserve | 0 | 597 | 597 |

Appendix 3: Audit differences (cont)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|---|---|-------------------------|-------------------------|------------------|
| Balance Sheet | Capital Adjustment Account | (53,673) | (52,819) | 854 |
| | GF Balance | (1,231) | (1,231) | 0 |
| | Total Net Worth | (62,782) | (62,525) | 257 |
| Note 1 Service Area Expenditure | Net cost of services | 16,705 | 17,559 | 854 |
| Note 17 Fixed Assets | Non Op assets revaluations | 0 | 597 | 597 |
| | Total Fixed Assets revaluation | 0 | 597 | 597 |
| | Non Op assets impairment | 0 | (854) | (854) |
| | Total fixed asset impairment | (361) | (1,215) | (854) |
| | Non Op Assets NBV 31 March 2008 | 14,412 | 14,155 | (257) |
| | Total Fixed Assets NBV at 31 March 2008 | 53,767 | 53,510 | (257) |
| Note 22 Analysis of Net Assets Employed | General Fund | 62,932 | 62,674 | (257) |
| | Total | 62,782 | 62,525 | (257) |
| Note 41 Capital Reserves | Capital Adjustment Account -transfer to revenue | (3,225) | (4,079) | (854) |
| | Capital Adjustment Account – balance c/fwd | 53,673 | 52,819 | (854) |
| | Total – transfer to revenue | (3,225) | (4,079) | (854) |
| | Total – balance c/fwd | 47,670 | 46,816 | (854) |
| Rental Income was received Surrey County Council transport services . However whilst the cash received has been recognised in the accounts the income has not been posted resulting in a credit balance in debtors. Part of this cash is due to be refunded and so should be included in creditors. The remainder should be recognised as rental income in year. | | | | |
| Income & Expenditure Account | Net cost of services | 17,559 | 17,530 | (29) |
| | Net Operating Expenditure | 15,994 | 15,965 | (29) |
| | Deficit for the year | 4,336 | 4,307 | (29) |
| SMGFB | Deficit for the year | 4,336 | 4,307 | (29) |
| | Amount to be credited to GF | (4,156) | (4,156) | 0 |
| | Decrease in GF balance for year | 180 | 151 | (29) |
| | GF carried forward | (1,231) | (1,260) | (29) |
| STRGL | Deficit on year | (4,336) | (4,307) | 29 |
| | Total recognised gains | 3,087 | 3,116 | 29 |

Appendix 3: Audit differences (cont)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|--|---|-------------------------|-------------------------|------------------|
| Balance Sheet | Debtors | 7,132 | 7,165 | 33 |
| | Total current assets | 13,406 | 13,439 | 33 |
| | Total Assets | 81,909 | 81,942 | 33 |
| | Creditors | (3,246) | (3,250) | (4) |
| | Total creditors | (8,208) | (8,212) | (4) |
| | Total Assets less current liabilities | 73,701 | 73,730 | 29 |
| | Total Assets less Liabilities | 62,525 | 62,554 | 29 |
| | General Fund Balance | (1,231) | (1,260) | (29) |
| | Total Net Worth | (62,525) | (62,554) | (29) |
| Note 1 Service Area Expenditure | Net cost of services | 17,559 | 17,530 | (29) |
| Note 22 Analysis of Net Assets Employed | General Fund | 62,674 | 62,704 | 29 |
| | Total | 62,525 | 62,554 | 29 |
| Note 27 Debtors | General | 1,194 | 1,227 | 33 |
| | Total Debtors | 7,132 | 7,165 | 33 |
| | Total | 7,190 | 7,223 | 33 |
| Note 28 Creditors | General | (2,871) | (2,875) | (4) |
| | Total Creditors | (3,246) | (3,250) | (4) |
| | Total | (5,422) | (5,426) | (4) |
| We identified a number of adjustments to make to correct for errors in the Reconciliation Statement in the Statement of Movement on the General Fund Balance. These are of a presentational nature in the sense that both net assets and income and expenditure are unaffected. | | | | |
| Reconciliation statement | Government grants deferred charges amortisation | (384) | 290 | 674 |
| | Write downs of deferred charges | (1,417) | (1,707) | (290) |
| | Amount by which pension costs calculated in accordance with the SORP (ie in accordance with FRS 17) are different from the contributions due under the pension scheme regulations | (1,409) | 389 | 1,798 |
| | Capital expenditure charged in year to GF balance | 406 | 22 | (384) |
| | Employers contributions payable to SCC Pension Fund | 1,798 | 0 | (1,798) |

Appendix 3: Audit differences (cont)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|---|--|-------------------------|-------------------------|------------------|
| <p>The Council disposed of its commercial trade waste function during the year and received monies of £311k for the sale of its customer information. These receipts were incorrectly credited directly to the usable capital receipts reserve. However, they should be recognised in the net cost of services and retained in the general fund, as below.</p> | | | | |
| Income & Expenditure Account | Net cost of services | 17,530 | 17,219 | (311) |
| | Net Operating Expenditure | 15,965 | 15,654 | (311) |
| | Deficit for the year | 4,307 | 3,996 | (311) |
| SMGFB | Deficit for the year | 4,307 | 3,996 | (311) |
| | Amount to be credited to GF | (4,156) | (4,156) | 0 |
| | Increase in GF balance for year | 151 | (160) | (311) |
| | GF carried forward | (1,260) | (1,571) | (311) |
| STRGL | Deficit on year | (4,307) | (3,996) | 311 |
| | Surplus arising on revaluation fixed assets | 1,391 | 1,080 | (311) |
| | Total recognised gains | 3,116 | 3,116 | 0 |
| Balance Sheet | Usable capital receipts | (4,976) | (4,665) | 311 |
| | GF carried forward | (1,260) | (1,571) | (311) |
| <p>The Council received some unapplied capital receipts, mainly in respect of right to buy housing. This was also taken directly to the usable capital receipts reserve. However, in line with the SORP these receipts should pass through the I&E account and then be transferred to the UCR through the SMGFB.</p> | | | | |
| Income & Expenditure account | Other Income | 0 | (483) | (483) |
| | Net Operating Expenditure | 15,654 | 15,171 | (483) |
| | Deficit for the year | 3,996 | 3,513 | (483) |
| SMGFB | Deficit for the year | 3,996 | 3,513 | (483) |
| | Amount to be credited to GF | (4,156) | (3,673) | 483 |
| | Increase in GF balance for year | (160) | (160) | 0 |
| | GF carried forward | (1,571) | (1,571) | 0 |
| Reconciliation Statement | Amount to be credited to GF | (4,156) | (3,673) | 483 |
| | Other Income | 0 | 483 | 483 |
| STRGL | Deficit for the year | (3,996) | (3,513) | 483 |
| | Surplus arising on revaluation of fixed assets | 1,080 | 597 | (483) |
| | Total recognised gains | 3,116 | 3,116 | 0 |

Appendix 3: Audit differences (cont)

| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|---|--|-------------------------|-------------------------|------------------|
| <p>The Council has correctly concluded that a provision it had in the accounts for the net proceeds of the Spelthorne Lottery should be considered an ear-marked reserve rather than a provision. However, this was adjusted for in the prior period balance sheet. Since this is not a fundamental error requiring a prior period adjustment, it should be made in 2007/08.</p> | | | | |
| Balance Sheet | Provision 2006/07 | (233) | (275) | (42) |
| | Ear marked reserves | (14,795) | (14,753) | 42 |
| Note 26 provisions | Lotteries Fund Balance at 1 April 2007 | 0 | 42 | 42 |
| | Lotteries Fund Payments in year | 0 | (42) | (42) |
| | Total Balance as at 1 April 2007 | 233 | 275 | 42 |
| | Total payments in year | 2 233 | 275 | 42 |
| Note 40 Revenue reserves | Lottery fund b/f 1/4/07 | 42 | 0 | (42) |
| | Lottery fund contributions in year | 2 | 44 | 42 |
| | Total b/f 1/4/07 | 14,795 | 14,753 | (42) |
| | Total contributions in year | 12 | 54 | 42 |
| <p>The Council had disclosed a cash at bank and an overdraft balance for the same bank account on the face of the balance sheet. The overall net position on the account should be disclosed.</p> | | | | |
| Balance Sheet | Cash in Hand | 269 | 37 | (232) |
| | Total current assets | 13,349 | 13,117 | (232) |
| | Total Assets | 81,942 | 81,710 | (232) |
| | Bank Overdraft | (232) | 0 | 232 |
| | Total Creditors | (8,212) | (7,976) | 232 |
| <p>The Council had included business rate and housing benefit overpayment debtors in government debtors in both current and prior year. These should be disclosed in general debtors, or as a separate category of debtor if the Council wishes.</p> | | | | |
| Note 27 Analysis of Debtors | Central Government Debtors 2007/08 | 3,960 | 2,643 | (1,317) |
| | General debtors 2007/08 | 1,227 | 1,317 | 2,544 |
| | Central Government Debtors 2006/07 | 2,468 | 1,739 | (729) |
| | General debtors 2006/07 | 1,810 | 2,539 | 729 |
| <p>The Council had included a receipt in advance for local housing allowance in government creditors. This should be shown as a receipt in advance.</p> | | | | |
| Note 28 Analysis of Creditors | Central government creditors | (374) | (281) | 93 |
| | Receipts in Advance | (2,176) | (2,269) | (93) |

Appendix 3: Audit differences (cont)

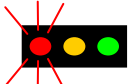
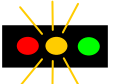
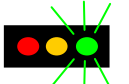
| Note no. | Balance Narrative | Current Balance (£000s) | Correct Balance (£000s) | Variance (£000s) |
|---|-------------------------|-------------------------|-------------------------|------------------|
| The number of assets disclosed in the statement of physical assets was not originally correct per the Authority's supporting records. In addition, Community Assets were not originally disclosed. | | | | |
| Note 19 Statement of Physical Assets | Public Halls | 2 | 5 | 3 |
| | Day / Community Centres | 3 | 5 | 2 |
| | Allotment Plots | 900 | 985 | 85 |
| | Servers | 0 | 47 | 47 |
| | Community Assets | Nil | As disclosed | As disclosed |

Presentation

In addition to the adjustments detailed above a significant number of presentational adjustments were made to the accounts to ensure that they complied with the Statement of Recommended Practice. These included both minor typographic errors and more substantive matters of non-compliance with expected reporting formats. We have not listed these here, but have agreed all with management. This level of adjustments is unusual and we would encourage management to undertake a more comprehensive assessment of the draft accounts against the SORP disclosure checklist prior to audit in future years.

Appendix 4: Accounts recommendations

This appendix summarises our recommendations relating to the accounts production process. We have given each one a risk rating (as explained below) and agreed with management what action they will take.

| Priority rating for performance improvement observations raised | | | | |
|---|---|---|--|----------------------|
| | <p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>  | <p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>  | <p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>  | |
| Number | Risk | Issue and recommendation | Management response | Officer and due date |
| Pension Fund accounting | | | | |
| 1 | ● (two) | <p>The Council does not perform detailed review of the actuarial assumptions that underpin its FRS 17 report from Hymans Robertson and information from Surrey County Council.</p> <p>There is a risk that management would not identify if assumptions inappropriate to Spelthorne are being used which could result in inaccurate pension figures being used. As an example, we identified a possible discrepancy between the number of pensioners per the Council's records, versus those used by Surrey County Council. This had not been identified by management and could not subsequently be explained.</p> <p>Recommendation</p> <p>The Council should review the assumption used by Hymans Robertson to ensure that they are appropriate for Spelthorne.</p> | [TBC] | [TBC] |
| Provisions for Bad Debts | | | | |
| 2 | ● (two) | <p>The Council's bad debt provision methodology for sundry debtors and housing benefit debtors has not been reviewed for some time.</p> <p>There is a risk that the Council overstates the value of its assets.</p> <p>Recommendation</p> <p>The Council should review its bad debt provision methodology going forward to ensure that it is prudent. This should include an analysis of actual cash collection trends over time in order to demonstrate the appropriateness of assumed collection rates.</p> | [TBC] | [TBC] |
| Compliance with the SORP | | | | |
| 3 | ● (two) | <p>A full Statement of Recommended Practice (SORP) checklist had not been completed by management prior to the start of the accounts audit. This resulted in an unusually high level of presentational adjustments being made to the accounts to ensure compliance with the SORP. This created additional audit work and a less efficient audit overall.</p> <p>Recommendation</p> <p>A SORP checklist should be completed prior to the accounts being presented for audit.</p> | [TBC] | [TBC] |

Appendix 4: Accounts recommendations

| # | Risk | Issue and recommendation | Management response | Officer and due date |
|---|------------|---|---------------------|----------------------|
| | | Payroll information | | |
| | | Payroll information presented to us was insufficiently detailed for audit purposes. In particular, a full reconciliation between the CHRIS 21 payroll system and the general ledger was only carried out at year end following an audit request, and analysis of payroll expenditure was limited. | | |
| 4 | ● (two) | Failure to reconcile the payroll and ledger systems promptly on a monthly basis increases the risk of discrepancies between the systems. The lack of detailed analysis of payroll increases the risk of errors in the financial statements and reduces the efficiency of the overall audit. | [TBC] | [TBC] |
| | | Recommendation | | |
| | | A monthly reconciliation between the payroll system and the general ledger should be performed and independently reviewed on a monthly basis. Payroll analysis, as requested in our PBC, should be prepared in advance of our audit and subject to internal review to identify issues that could impact on the audit. | | |
| | | Valuation of assets held for sale | | |
| | | The Council does not currently have in place a process of revaluing fixed assets when they are reclassified as held for disposal. | | |
| 5 | ● (two) | There is a risk that fixed assets are not correctly valued in the balance sheet. In 2007-08, this led to significant adjustments to the financial statements during audit. | | |
| | | Recommendation | | |
| | | Assets should be revalued whenever they are reclassified to ensure that they are valued in the balance sheet in accordance with the authority's accounting policies. | | |
| | | Collection Fund Forecasting | | |
| | | Although there is currently an overall deficit on the Collection Fund of (£1,299K) and has been a deficit since 2005/06, there has been a distribution of surplus on the Fund for the past 3 years. | | |
| 6 | ● (two) | This suggests the Council's process for forecasting the expected year end balance on the Collection Fund could be improved. | | |
| | | Recommendation | | |
| | | The Council should examine its process for forecasting the year end surplus or deficit on the Fund to ensure that it is appropriately distributed or recovered in the following financial year. | | |

Appendix 4: Accounts recommendations

| # | Risk | Issue and recommendation | Management response | Officer and due date |
|---|--------------|---|---------------------|----------------------|
| Completeness of bank information | | | | |
| 7 | ● (three) | <p>During the audit a bank balance of £420.54 was identified that was not reflected in the Council ledger. Whilst this was not material at year end, the failure to reflect this account in the ledger reduces financial control and increases the likelihood of errors in the financial statements.</p> <p>Recommendation</p> <p>The Council should ensure that all bank accounts are captured in the ledger and fully reconciled on a regular basis.</p> | [TBC] | [TBC] |
| Use of our Prepared By Client Request | | | | |
| <p>Prior to the audit, we issue management with a Prepared by Client Request of information required at the outset of the audit. Our fee is based on prompt delivery of this information. There is scope to improve the completeness and format of this information provided to us, in order to improve the efficiency of future year audits.</p> | | | | |
| 8 | ● (two) | <p>Recommendation</p> <p>All information should be provided in the format requested in the PBC. All items should be subject to internal management review prior to the audit. All working papers provided should be fully referenced to our PBC request to demonstrate this.</p> <p>The finance team must also take the lead in obtaining and scrutinising all audit information needed from other parts of the Council in advance of the audit. This will increase the ability to quickly resolve audit queries on these matters.</p> | [TBC] | [TBC] |
| Lease accounting | | | | |
| <p>Records of operating lease expenditure and commitments were not easily obtainable during the audit</p> | | | | |
| 9 | ● (three) | <p>There is a risk that the authority can not identify lease payments and commitments for the purposes of including these in the financial statements. The implementation of IFRS will place increased demands on record keeping in this area.</p> <p>Recommendation</p> <p>The authority should review its lease record keeping system to ensure that necessary information is available</p> | [TBC] | [TBC] |

Appendix 4: Accounts recommendations

| # | Risk | Issue and recommendation | Management response | Officer and due date |
|----|--------------|---|---------------------|----------------------|
| 10 | ● (three) | <p>Fixed asset accounting policies</p> <p>The vast majority of organisations we audit employ a de-minimus limit or cut off in recognising fixed assets. Typically this will mean that items with a value less than £5,000 or £10,000 (depending on the organisation) are not treated as fixed assets. The reason for this is that maintaining adequate accounting records of such items is both administratively inefficient and difficult to robustly demonstrate.</p> <p>Recommendation</p> <p>The authority should review its approach in this area and consider introducing a de-minimus limit for the recognition of fixed assets.</p> | [TBC] | [TBC] |

Appendix 5: Audit reports

A summary of the reports issued in the year to date is set out below.

| Report | Date issued |
|-----------------------------------|------------------|
| Audit Plan, 2007-08 | June 2007 |
| Interim audit findings letter | May 2008 |
| ISA260 Audit Memo (this document) | August 2008 |
| UoR and DQ reports | [September 2008] |

Appendix 6: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2007/08

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

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

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

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

- 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.

Appendix 6: Declaration of independence and objectivity (continued)

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

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

Auditor Declaration

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

Appendix 7: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Council, 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 2008.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by 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 Council and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

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

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

We confirm that we:

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

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

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

Appendix 7: Draft management representation letter (continued)

- 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 04 September 2008.

Yours faithfully

Terry Collier, Assistant Chief Executive

On behalf of the Audit Committee who have delegated this authority



Spelthorne Borough Council

Annual Report & Statement of Accounts 2007-2008



INVESTOR IN PEOPLE

T Collier
Chief Financial Officer

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Financial Review

By the Chief Financial Officer

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 Code of Accounting Practice for 2007 has made several changes to the accounts more into line with generally accepted accounting practice. In particular the Fixed Asset Restatement Reserve has been replaced by a Revaluation Reserve and the Capital Financing Account replaced by the Capital Adjustment Account. New accounting requirements have been introduced for accounting for the valuation of available for sale financial instruments.

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 statements are likewise grouped together.

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 14) 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 (2007-08 deficit of £2.9m) does not necessarily mean that immediate action is needed to cut expenditure or raise council tax. The Income and Expenditure Statement needs to be read in conjunction with the Statement of Movement on General Fund Balance.

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 2007/08 was £14,311,400. The net expenditure approved for services totalled £11,658,500, of which £843,900 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 20**.

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 2008, showing a deficit of £11.0 million for this Authority. 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.

Statement of Movement on General Fund Balance (page 15)

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 15-16**, 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 transfer from reserves was in accordance with the Council's commitment to contain expenditure at the level approved within the Financial Strategy to keep expenditure to a maximum of £0.843m for 2007/08 (within which the element for general support of the overall revenue budget was reduced from £790,000 to £290,000).

The outturn on the General Fund has resulted in a £159k net increase in the balance carried forward of the General Fund Reserve.

The Statement of Recognised Gains and Losses (page 17) 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 18**.

The Cash Flow Statement gives the cash position of the Council for the year and shows that there was a net cash inflow during the year of £681,633 (£354,000 in 2006-07). The Cash Flow Statement is on **page 19**.

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 44**.

This Authority's levy on the Collection Fund was set at £153.80 per Band D property (an increase of 3.95%) after taking account of a transfer of £0.843m from reserves and a transfer of £7,724 from the Collection Fund following higher 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 39**. 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.

The largest single capital scheme undertaken by the Council during 2007-08 was the completion of the final phase 2 of the leisure centres improvements, which resulted in improved wet side facilities and new sports hall flooring. A total of £1.4m was spent on phase 2, bring the total spend on the improvements over the 2006-07 to 2007-08 period to £2.7m. The other large item of capital expenditure in 2007-08 was the £1.1m spent on purchasing and distributing almost seventy thousand wheeled bins as part of the implementation of alternate weekly collection of refuse and recycling materials in September 2007. Following the implementation of alternate weekly collection the Council has raised its recycling rate from 19% to over 30%.

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

| | £000 |
|---|--------------|
| Total Capital Expenditure | 5,268 |
| Financed by: | |
| Capital Grant | 242 |
| Capital Receipts | 4,862 |
| Contributions from external organisations | 142 |
| Revenue Resources & Reserves | 22 |
| Total | 5,268 |

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.

Interest receipts were £260,000 less than we had anticipated at the original budget, largely due to an anticipated capital receipt for the Bridge Street site not being realised during 2007-08.

| Comparison of Actual Expenditure 2007/08 to Budget | | | |
|---|--------------------------------|-----------------------------------|---|
| | Original Budget 2007/08 | Actual Expenditure 2007/08 | Variance Actual to Original Budget |
| | £000 | £000 | £000 |
| Gross Expenditure | 44,133 | 47,293 | 3,160 |
| Income - Government Grants | (22,659) | (24,536) | (1,877) |
| Income - Other | (6,350) | (6,914) | (564) |
| NET SERVICE EXPENDITURE | 15,124 | 15,843 | 719 |
| Asset Management Account | (963) | (2,195) | (1,232) |
| Building Maintenance | 150 | 166 | 16 |
| REVISED SERVICE EXPENDITURE | 14,311 | 13,814 | (497) |
| Interest on Balances | (1,809) | (1,542) | 267 |
| Transfer from Earmarked Reserves | (554) | (472) | 82 |
| Contribution from other Reserves | (290) | (301) | (11) |
| BUDGET REQUIREMENT | 11,658 | 11,499 | (159) |
| Financed by: | | | |
| Revenue Support Grant and Non Domestic Rates | 5,516 | 5,516 | 0 |
| Precept on Collection Fund | 6,142 | 6,142 | 0 |
| BUDGET REQUIREMENT | 11,658 | 11,658 | 0 |

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 2007.

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
- The increasing deficits identified over the Outline Budget period
- That under the Comprehensive Spending Review 2007 future grant settlements were likely to be poor
- The risk of net adverse financial impact on the Council of the extension of concessionary fares from 1st 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. 2007-08 saw the implementation of the Council's alternate weekly collection scheme for refuse and recyclables. Expenditure in 2007-08 includes both revenue implementation costs especially relating to marketing of the new scheme and capital costs relating to the purchase of wheeled bins. As a result of the scheme there has been a step increase in the borough's recycling rate rising from 19% to over 30% which means we have met our current recycling target but we need to work to continue to raise the recycling rate.
- 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, and in 2007-08 relative to 2006-07 reduced by £0.5m in its budget estimates use of general reserves to support the overall revenue budget, and in order to achieve a balanced budget has identified a number of areas where expenditure is to be reduced and income increased. 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
- That a 'profit' target be set for the car parking service
- That the principle of self-management of village halls and bowling greens is supported
- That target efficiency savings to be set across all services which are to be delivered through a rolling programme of business reviews. Reviews undertaken in 2007-08 examined Financial Services; Direct and Environment Services and Chief Executive's and E-Government Services. These reviews whilst incurring initial implementation costs, in part met by use of the Business Restructuring Reserve have identified revenue savings with relatively short payback periods which in all cases are under 5 years.
- That investment opportunities be pursued
- That opportunities for partnering be identified
- That increases in budgets would be carefully considered

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

- To agree a maximum level of expenditure for 2007/08 of £11.658m
- To make a contribution from reserves of an amount not exceeding £843,900
- That Management Team working with the Executive review future years' deficits and consider the way forward
- That the council tax be increased by 3.95%

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 2007-08 reviews were undertaken of Planning, Direct and Environment Services and Financial Services. Of the Reviews that have been fully completed Planning has delivered ongoing revenue savings of £41,000; Financial Services ongoing savings of £30,000 and Chief Executive and E-Government will deliver full year on-going savings of £110,000.

At the beginning of 2007-08 the Council successfully secured £123k of matched grant funding from Salix (financial arm of the Carbon Trust) to enable the Council to begin a programme of energy saving measures to both reduce the Council's carbon footprint and to save energy costs. During 2007-08 additional cavity wall and loft insulation was put in at the Council offices.

During 2007-08 the Council received its annual Use of Resources assessment undertaken by its external auditors for which it achieved scores of 3s (out of a possible 4) across 5 aspects of resource management, which assesses the Council as performing well. For one sub-element External Accountability it increased its score from a 3 to 4. This was largely as a result of publishing a summarised version of the statement of accounts in the autumn borough bulletin which we shall do so again this year.

Summary

Whilst the future financial period is challenging, the overall financial position of the Council remains healthy. The Council has adequate resources to finance its capital programme over the outline budget period. 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 eliminate 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 1% for 2008-09 and by a mere 0.5% per annum for each of the following two years, 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. 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 Financial Officer on 4th September 2008 and post balance sheet events have been considered up to this date.

Further Information

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

Statement of Accounting Policies

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) 2007 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).

1. 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 2008, 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.

2. 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.

The Council operates the following funds under the provisions of the Local Government Act 1989:-

- a) Staines Road – provision for non compliance of a covenant and loss for legal action for unpaid rent. The dispute was resolved and settled in the 2007/08 financial year.
- b) Rodd Industrial Estate – provision for the payment of the other party costs of the legal case. The dispute was resolved and settled in the 2007/08 financial year.

3. 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.

4. 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. 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. Additions since that date are included in the accounts at their cost of acquisition.

- 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 the District 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. In both cases depreciation is provided for in the year of disposal.

- 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.

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

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) **Deferred Charges** - Represent expenditure which may properly be capitalised, but which does not represent a tangible fixed asset. Deferred charges are written off as expenditure to the relevant service revenue account in the year incurred. Where the Council has determined to meet the cost of deferred charges 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.

5. Accounting for Capital – implementation of the Revaluation Reserve

The balance sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve.

The Revaluation Reserve and Capital Adjustment Account replaced the Fixed Asset Replacement Account (FARA) and the Capital Financing Account (CFA).

The debit balance of £1.836m on the FARA and credit balance of £53.593m and CFA respectively at 31 March 2007 have been written into the Capital Adjustment Account with a resulting credit balance of £51.756m.

The closing balance on the Revaluation Reserve at 31 March 2008 only shows revaluation gains since 1 April 2007.

6. 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.

7. 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 contained within agreed Service Level Agreements. 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.

8. 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.

9. Accounting for Value Added Tax (SSAP 5)

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

10. 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.

11. 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. Current legislation does not allow local authorities to do this. Therefore, the Council does not comply with this FRS.

12. 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. The Council does not have 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.

13. 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.

14. 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.

15. 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.

16. Accounting for Pensions (FRS 17)

The authority recognises its liabilities in relation to retirement benefits when the employee earns them rather than when the pension actually becomes payable. 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 2% higher after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 3% 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 15%.

17. 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.
- 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 2008.

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 Financial Officer

Councillor J Packman
Leader of the Council

Date: ** September 2008

Date: ** September 2008

Income and Expenditure Account

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

| 2006/07 Net Expenditure £'000 | | 2007/08 | | |
|--|--|-------------------------------|-----------------|-----------------------------|
| | | Gross Expenditure £'000 | Income £'000 | Net Expenditure £'000 |
| 2,606 | Central Services to the public | 8,468 | 6,004 | 2,464 |
| 8,159 | Cultural, Environmental and Planning services | 12,595 | 4,489 | 8,106 |
| 269 | Highways and Transportation services | 2,377 | 1,885 | 492 |
| 1,465 | Housing services | 20,424 | 19,716 | 708 |
| 1,484 | Adult Social Care services | 2,494 | 608 | 1,886 |
| 2,087 | Corporate and democratic core | 2,435 | 12 | 2,423 |
| 22 | Non Distributed Costs | 42 | 0 | 42 |
| 16,092 | NET COST OF SERVICES | 48,835 | 32,714 | 16,121 |
| 5 | Loss on disposal of fixed assets | | | 0 |
| 21 | Interest payable and similar charges | | | 73 |
| | Contribution of housing capital receipts to Government Pool | | | 5 |
| (1,595) | Interest and investment income | | | (1,616) |
| 21 | Pension interest costs and expected return on pensions assets | | | (69) |
| 14,547 | NET OPERATING EXPENDITURE | | | 14,514 |
| (5,902) | Demand on the Collection Fund | | | (6,142) |
| (914) | General government grants | | | (793) |
| (4,557) | Non-domestic rates distribution | | | (4,723) |
| 3,174 | (SURPLUS) / DEFICIT FOR THE YEAR | | | 2,856 |

.....
T Collier CPFA, CA
Chief Financial Officer

Date:.....

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

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

Statement of Movement on the General Fund Balance

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

| 2006/07 £'000 | | 2007/08 £'000 |
|--------------------------|---|--------------------------|
| 3,174 | (Surplus)/Deficit for the year on the Income and Expenditure Account | 2,856 |
| (3,224) | Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year | (3,015) |
| (51) | (Increase) / decrease in General Fund Balance for the Year | (159) |
| (1,361) | General Fund Balance brought forward | (1,412) |
| (1,412) | General Fund Balance carried forward | (1,571) |

Reconciliation Statement

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

| 2006/07 £'000 | | 2007/08 £'000 |
|------------------|--|------------------|
| (3,224) | Net additional amount required to be credited to the General Fund balance for the year | (3,015) |
| (4,576) | Comprising: 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 | (2,775) |
| (1,004) | Depreciation and impairment of fixed assets | (2,195) |
| (541) | Government Grants Deferred charges amortisation | 290 |
| (1,284) | Write downs of deferred charges to be financed from capital resources | (1,259) |
| (5) | Net loss on sales of fixed assets | 0 |
| (1,742) | Net charges made for retirement benefits in accordance with FRS17 | 389 |
| 1,964 | Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year | 533 |
| 0 | Minimum revenue provision for capital financing | 0 |
| 545 | Capital expenditure charged in-year to the General Fund Balance | 22 |
| (3) | Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool | (5) |
| | Other Income | 516 |
| 1,422 | Employer's contributions payable to the SCC Pension Fund and retirement benefits payable direct to pensioners | - |
| (612) | Transfers to and 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 | (773) |
| (4) | Voluntary revenue provision for capital financing | 0 |
| (608) | Net transfer to or from earmarked reserves | (773) |

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.

| 2006/07 £'000 | | 2007/08 £'000 |
|------------------|---|------------------|
| (3,174) | Deficit for the year on the Income and Expenditure Account | (2,856) |
| 709 | Surplus arising on revaluation of fixed assets | 597 |
| 0 | Surplus/(deficit) on revaluation of available for sale financial assets | 10 |
| (50) | Attributable movement on the Collection Fund | (61) |
| 4,095 | Actuarial gains/(losses) on pension fund assets and liabilities | 5,022 |
| 1,580 | Total recognised gains for the year | 2,712 |

BALANCE SHEET AS AT 31 MARCH 2008

| 2006/07 | | 2007/08 | |
|---------------|--|----------|---------------|
| £'000 | | £'000 | £'000 |
| | FIXED ASSETS (Note 18) | | |
| | Operational Assets | | |
| 38,603 | Other Land and Buildings | 37,932 | |
| 489 | Vehicles, Plant and Equipment | 2,080 | 40,012 |
| | Non-Operational Assets | | |
| 12,275 | Investment Properties | 12,275 | |
| 390 | Surplus Assets held for disposal | 1,880 | 14,155 |
| 51,757 | TOTAL FIXED ASSETS | | 54,167 |
| 14,550 | Long Term Investments (Note 27) | | 9,730 |
| 322 | Long Term Debtors | | 260 |
| 66,629 | TOTAL LONG TERM ASSETS | | 64,157 |
| | CURRENT ASSETS | | |
| 44 | Stocks and Work in Progress | 78 | |
| 15,660 | Short Term Investments (Note 27) | 10,872 | |
| 5,813 | Debtors (Note 28) | 7,178 | |
| 21 | Payments in Advance | 58 | |
| 718 | Cash in Hand | 37 | 18,223 |
| 88,885 | TOTAL ASSETS | | 82,380 |
| | CURRENT LIABILITIES | | |
| (5,574) | Temporary loans | (2,554) | |
| (2,412) | Receipts in Advance | (2,176) | |
| (3,707) | Creditors (Note 29) | (3,262) | (7,992) |
| 77,192 | TOTAL ASSETS LESS CURRENT LIABILITIES | | 74,388 |
| | LONG TERM LIABILITIES | | |
| (16,405) | Defined Benefit Pension Scheme Liability (Note 33) | (10,994) | |
| (233) | Provisions (Note 30) | - | |
| (54) | Deferred Credits | (182) | (11,176) |
| 60,500 | TOTAL ASSETS LESS LIABILITIES | | 63,212 |
| | FINANCED BY: | | |
| | | 597 | |
| - | Revaluation Reserve (Note 43) | | |
| - | Available-for-sale Financial Instruments Reserve | 9 | |
| 51,756 | Capital Adjustment Account (Note 43) | 53,477 | |
| 21 | Deferred Capital Receipts (Note 24) | 15 | |
| 9,010 | Usable Capital Receipts (Note 43) | 4,665 | |
| (16,405) | Pensions Reserve (Note 33) | (10,994) | |
| 14,795 | Earmarked Reserves (Note 42) | 14,022 | |
| 1,412 | General Fund Balance | 1,571 | |
| (89) | Collection Fund Balance | (150) | 63,212 |
| 60,500 | TOTAL NET WORTH (Note 23) | | 63,212 |

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.

| 2006/07 £'000 | | 2007/08 | |
|------------------|--|----------|------------------|
| | | £'000 | £'000 |
| | REVENUE ACTIVITIES | | |
| | Expenditure | | |
| 10,993 | Employment Costs | 11,637 | |
| 10,742 | Other Operating Costs | 11,951 | |
| 18,295 | Housing Benefits | 19,208 | |
| 39,830 | NNDR Payments to Pool | 35,012 | |
| 44,644 | Precepts Paid | 47,104 | |
| 3 | Payments to Capital Receipts Pool | 5 | |
| 124,507 | | | 124,917 |
| | Income | | |
| (802) | Rents (net of Rebates) | (723) | |
| (46,384) | Council Tax Income | (48,598) | |
| (5,443) | National non-domestic rate receipts from National Pool | (4,822) | |
| (39,946) | Non Domestic Rate Income | (34,765) | |
| (907) | Revenue Support Grant | (793) | |
| (22,223) | DWP Rebate Subsidy | (22,876) | |
| (634) | Other Government Grants | (498) | |
| (5,181) | Cash received for Goods and Services | (6,574) | |
| (121,520) | | | (119,649) |
| 2,987 | Deficit from Revenue activities (see Note 40) | | 5,268 |
| | SERVICING OF FINANCE | | |
| 21 | Interest Paid | 71 | |
| (1,595) | Interest Received | (1,027) | |
| (1,574) | Total Servicing of Finance | | (956) |
| 1,413 | | | 4,312 |
| | CAPITAL ACTIVITIES | | |
| | Expenditure | | |
| 1,933 | Purchase of fixed assets | 3,560 | |
| 9,500 | Purchase of long term investments | - | |
| 2,018 | Other | 1,077 | |
| 13,451 | | | 4,637 |
| | Income | | |
| (805) | Sale of fixed assets | (594) | |
| (359) | Capital Grants Received | (274) | |
| (326) | Other Capital Cash Income | (215) | |
| (1,490) | | | (1,083) |
| 13,374 | Net Cash Outflow before Financing | | 7,866 |
| | MANAGEMENT OF LIQUID RESOURCES | | |
| (8,745) | Net decrease in short term deposits | | (10,160) |
| | FINANCING | | |
| 591 | Cash Outflows - Repayment of amounts borrowed | 54,134 | |
| (5,574) | Cash Inflows - New short term loans raised | (51,157) | |
| | | | 2,976 |
| (354) | NET (INCREASE)/DECREASE IN CASH (see Note 40) | | 682 |

Notes to the Core Financial Statements

1. Analysis of major Service Areas Expenditure

The comparative figures for 2007/08 are in accordance with the requirements of the Best Value Accounting Code of Practice.

| 2006/07 Net £'000 | Service Area | 2007/08 Expenditure £'000 | 2007/08 Income £'000 | 2007/08 Net £'000 |
|-------------------------|---|---------------------------------|----------------------------|-------------------------|
| | CENTRAL SERVICES TO THE PUBLIC | | | |
| 281 | Elections and Electoral Registration | 379 | 2 | 377 |
| 489 | General Grants | 394 | 0 | 394 |
| 22 | Local Land Charges | 189 | 201 | (12) |
| (36) | Council Tax Benefits | 5,351 | 5,190 | 161 |
| 481 | Local Tax Collection | 756 | 265 | 491 |
| 342 | Other | 759 | 200 | 559 |
| | | | | |
| | CULTURAL ENVIRONMENTAL AND PLANNING SERVICES | | | |
| 1,838 | Open Spaces | 2,339 | 186 | 2,153 |
| 1,120 | Leisure and Culture | 1,413 | 444 | 969 |
| 785 | Planning and Building Control | 2,019 | 1,204 | 815 |
| 2,723 | Refuse and Recycling | 4,187 | 1,026 | 3,161 |
| 691 | Environment Services | 494 | 0 | 494 |
| 1,020 | Environmental and Public Health | 1,142 | 302 | 840 |
| 132 | Cemeteries | 358 | 195 | 163 |
| 321 | Community Safety | 329 | 1 | 328 |
| (229) | Other | 230 | 690 | (460) |
| | | | | |
| | HIGHWAYS ROADS AND TRANSPORT SERVICES | | | |
| (690) | Parking Services | 1,415 | 1,830 | (415) |
| 680 | Concessionary Fares | 695 | 56 | 639 |
| 24 | Other | 25 | 0 | 25 |
| | | | | |
| | HOUSING SERVICES | | | |
| (58) | Housing Benefits | 18,553 | 18,742 | (189) |
| 940 | Housing and Homelessness | 1,132 | 290 | 842 |
| 253 | Housing Management | 134 | 0 | 134 |
| | | | | |
| | ADULT SOCIAL CARE SERVICES | | | |
| 212 | Community Care Administration | 315 | 7 | 308 |
| 937 | Day Centres | 1,708 | 208 | 1,500 |
| 10 | Meals on Wheels | 184 | 151 | 33 |
| 289 | Spelthorne Accessible Transport | 233 | 64 | 169 |
| (38) | Spelthorne Personal Alarm Network | 123 | 194 | (71) |
| | | | | |
| | CORPORATE AND DEMOCRATIC CORE | | | |
| 1,188 | Corporate Management | 1,578 | 2 | 1,576 |
| 899 | Democratic Representation and Management | 838 | 0 | 838 |
| 3 | Non Distributed Costs | 21 | 0 | 21 |
| | | | | |
| 14,629 | REVENUE NET COST OF SERVICES | 47,293 | 31,450 | 15,843 |

The outturn on the Income and Expenditure Account (I+E) is different from the Net Cost of Services figure because there are substantial differences in what is included within the 2 categories.

The net cost of services figures shown on the previous page relates solely to revenue expenditure. The I+E figure however incorporates additional income and expenditure relating to Capital accounting entries including depreciation and impairments, charges for financing capital expenditure and between the charges for pensions in this account compared to the amount paid to the Pension Fund.

2. Agency Services

The former Highways Agency Agreement with Surrey County Council for highways maintenance was terminated on 1st April 2002.

3. Publicity

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

| | 2006/07 £'000 | 2007/08 £'000 |
|-------------------------|------------------|------------------|
| Recruitment advertising | 20 | 25 |
| Other advertising | 17 | 20 |
| Promotions | 0 | 4 |
| Other Publicity | 24 | 133 |
| TOTAL | 61 | 182 |

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 2007/08 was £423k (£403k in 2006/07).

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 2008 to making payments of £703,085.55 under operating leases in 2008/09, comprising the following elements

| | Other Land and Buildings (2007/08) £'000 | Vehicles, plant and Equipment (2007/08) £'000 | Other Land and Buildings (2006/07) £'000 | Vehicles, plant and Equipment (2006/07) £'000 |
|---|--|---|--|---|
| Leases Expiring in 2008/09 | 0 | 126 | 00 | 70 |
| Leases Expiring between 2009/10 and 2014/15 | 0 | 577 | 0 | 409 |
| Leases Expiring after 2014/15 | 0 | 0 | 0 | 0 |
| | 0 | 703 | 0 | 479 |

Expenditure on operating leases in 2007/08 was £650,339 (2006/07 £455,796). There was no finance lease expenditure 2007/08.

7. Contribution to (from) Reserves

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

| Contribution to (from) Reserves | £'000 | |
|--|-------|------------|
| Contributions from Earmarked Reserves | | |
| New Schemes Fund | 312 | |
| Capital Fund | 301 | |
| Carry Forward Reserve | 75 | |
| Business Improvement Reserve | 140 | |
| Building Maintenance Fund | 166 | |
| Lottery Fund | 22 | 1,016 |
| Interest appropriated to reserves | | (12) |
| Appropriations to Earmarked Reserves | | |
| Interest Equalisation Reserve | 120 | |
| Car Parking Reserve | 111 | |
| | | (231) |
| TOTAL | | 773 |

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 need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in The Local Government Pension Scheme (LGPS), administered by Surrey County Council. This is a funded 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 following transactions have been made in the I and E during the year:

Note 33 to the Balance Sheet contain details of the assumptions made in estimating the figures included in this note.

| Movements in net pension assets / liabilities | Year to 31 March 2007 £'000 | Year to 31 March 2008 £'000 |
|---|--|--|
| Net Cost of Services | | |
| Current Service Cost | (1,605) | (1,432) |
| Curtailments & Settlements | (116) | (46) |
| Net Operating Expenditure | | |
| Interest Cost | (3,574) | (3,878) |
| Expected Return on Assets in the Scheme | 3,553 | 3,947 |
| Amounts to be met from Government Grants and Local Taxation | | |
| Movement on Pensions Reserve | 320 | (389) |
| Actual amount charged against council tax for pensions in the year | | |
| Employers contributions payable to the scheme | (1,422) | (1,798) |

The Current Service cost will increase as members of the scheme approach retirement.

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

As part of an agreement with Apex Housing Association the Council undertook legal work on their behalf relating to right to buy transactions, deeds of variation, freehold reversions, general property advice and debt recovery. The agreement was ceased at the end of 2006/07 and no work was carried out under the provisions of the above Act in 2007/08:

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 | |
|--|---------|---------|
| | 2006/07 | 2007/08 |
| £50,000 - £59,999 | 10 | 12 |
| £60,000 - £69,999 | 3 | 2 |
| £70,000 - £79,999 | 2 | 2 |
| £80,000 - £89,999 | 1 | 1 |
| £90,000 - £99,999 | - | 1 |
| £100,000 - £109,999 | - | - |

11. Members' allowances

Members' allowances of £190,089 (£185,482 in 2006/07) were paid in the year to 31st March 2008.

12. Deferred Charges

Deferred charges arise out of capital expenditure which does not create a fixed asset. The deferred charge is written out in the year of expenditure as a charge to revenue services. This is then financed from the Capital Adjustment Account so that there is no impact on the Council Tax. Analysis of expenditure is as follows: -

| | £'000 |
|------------------------------------|--------------|
| Central Services | 403 |
| Cultural, Environment and Planning | 299 |
| Highways & Transportation | 75 |
| Housing | 467 |
| Social Services | 15 |
| TOTAL | 1,259 |

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 28 and 29 on page 30.

Members of the Council have direct control over the Council's financial and operating policies. During 2007/08 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 2007/08 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.

| Building Regulations Charging Account 2007/08 | Chargeable 2007/08 £ | Non Chargeable 2007/08 £ | Total Building Control 2007/08 £ |
|--|---------------------------------|-------------------------------------|---|
| Expenditure | | | |
| Employee expenses | 155,132 | 146,185 | 301,317 |
| Premises (Office Accommodation) | 16,756 | 8,632 | 25,388 |
| Transport | 5,240 | 2,745 | 7,985 |
| Supplies & Services | 7,909 | 4,075 | 11,984 |
| Central and support service charges | 70,673 | 36,408 | 107,081 |
| Total Expenditure | 255,710 | 198,045 | 453,755 |
| Income | | | |
| Building Regulation Charges | 281,418 | 2,355 | 283,773 |
| Total Income | 281,418 | 2,355 | 283,773 |
| (Surplus)/Deficit for Year | (25,708) | 195,690 | 169,982 |
| 2006/07 | | | |
| Expenditure | 266,047 | 189,706 | 455,753 |
| Income | 286,806 | 3,000 | 289,806 |
| Net | (20,759) | 186,706 | 165,947 |

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 £52,759 has been achieved over the last 3 year period.

15. Disclosure of Audit Costs

In 2007/08, the following payments were made relating to external audit and inspection:

| | 2006/07 £'000 | 2007/08 £'000 |
|---|------------------|------------------|
| Fees payable for external audit services | 69 | 87 |
| Fees payable for statutory inspections | 3 | 6 |
| Certification of grant claims and returns | 22 | 23 |
| TOTAL | 94 | 116 |

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. Assets were revalued as at 1st April 2005.

The total value of impairments in 2007/08 totalled £1,038,243. The most significant impairment related to Benwell Day Centre which accounted for £854,329 of the total.

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:

| Movement in Fixed Assets | Land and Buildings | Vehicles, Plant & Equipment | Total Operational Assets | Non Operational Assets | Total Fixed Assets |
|--|-------------------------------|--|---|---------------------------------------|-----------------------------------|
| | £000's | £000's | £000's | £000's | £000's |
| Book Value at 1 April 2007 | 40,341 | 696 | 41,037 | 12,665 | 53,702 |
| Accumulated Depreciation | 1,738 | 207 | 1,945 | - | 1,945 |
| Net Book value as at 1 April 2007 | 38,603 | 489 | 39,092 | 12,665 | 51,757 |
| Movements during 2007/08 | | | | | |
| Additions | 2,163 | 1,772 | 3,935 | 73 | 4,008 |
| Disposals | - | - | - | - | - |
| Depreciation | (976) | (181) | (1,157) | - | (1,157) |
| Revaluations | 597 | - | 597 | - | 597 |
| Impairments | (1,038) | - | (1,038) | - | (1,038) |
| Reclassifications | (1,417) | - | (1,417) | 1,417 | - |
| Net Book Value at 31st March 2008 | 37,932 | 2,080 | 40,012 | 14,155 | 54,167 |

The main items of capital expenditure and financing are shown on page 39. A statement of future major capital commitments is shown on page 42.

Reconciliation of additions fixed assets to total capital expenditure

| | |
|--|--------------|
| | £'000 |
| Total capital expenditure 2007/08 | 5,268 |
| Less: Capital Expenditure on fixed assets does not increase asset value | (362) |
| Less: expenditure incurred where no asset is owned by the Council or created | <u>(898)</u> |
| Additions to fixed assets | <u>4,008</u> |

19. Deferred Charges

| | Housing Improvements £'000 | General Fund £'000 | Total £'000 |
|---|----------------------------------|-----------------------|----------------|
| Balance at 1.4.07 | - | - | - |
| Expenditure | | | |
| Improvement Grants | 437 | - | 437 |
| Other | - | 822 | 822 |
| Amounts written off: | | | |
| To Net cost of Service in Revenue Account | (437) | (822) | (1,259) |
| Balance at 31.3.08 | - | - | - |

Deferred Charges represents capital expenditure where there is no tangible fixed asset e.g. grants for housing associations and improvements and is included within the Capital Adjustment Account on the Balance Sheet. Deferred charges are written off in the year of expenditure.

20. Statement of Physical Assets

The Council owned the following assets at 31st March 2008:

| Buildings | Land |
|---|--|
| 1 Civic Centre 1 Depot 2 Leisure Centres with Pool 5 Public Halls 5 Day / Community Centres 1 Plant Nursery 1 Museum 1 Resource Centre | 985 Allotment Plots 8 Cemeteries and Burial Grounds 31 Children's Play areas 16 Car Parks (3,600 spaces) 86 Recreation Grounds and Open Spaces (251 Hectares in all) |
| Housing | Vehicles and Equipment |
| The Council does not hold any housing stock, since it was all transferred to Spelthorne Housing Association in 1996. | 4 Lorries 5 Vans 9 Other Vehicles 249 Personal Computers 70 Printers 47 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.

21. Leases

There are no assets funded by means of finance leases.

22. 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 (5th Edition).

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.

23. Analysis of Net Assets Employed

| | As at 31.3.07 £'000 | As at 31.3.08 £'000 |
|-----------------|---------------------------|---------------------------|
| General Fund | 60,601 | 63,362 |
| Collection Fund | (89) | (150) |
| TOTAL | 60,512 | 63,212 |

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.

24. 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.

25. Long Term Borrowing

We have no long term debt.

26. Contingent Liabilities

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

Mortgage Guarantees on 81 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.

A claim against the Council is also being made in respect of Orchard Meadow, Sunbury. The notice of claim has been issued and we are currently awaiting directions from the Lands Tribunal about the necessary preparations for the matter. A decision is unlikely to be reached before the end of 2008.

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.

27. Investments

| | Balance 31.3.07 £'000 | Balance 31.3.08 £'000 |
|----------------------|-----------------------------|-----------------------------|
| Long Term: | | |
| Capital Funds | 50 | 10 |
| Revenue Funds | 14,500 | 9,720 |
| | 14,550 | 9,730 |
| Short Term: | | |
| Temporary investment | 15,660 | 10,872 |
| | 15,660 | 10,872 |
| TOTAL | 30,210 | 20,602 |

28. Analysis of Debtors

| | Balance at 31 March 2007 £'000 | Balance at 31 March 2008 £'000 |
|-------------------------------|---|---|
| Central Government | 1,739 | 2,643 |
| Revenues & Customs | 243 | 206 |
| Council Taxpayers | 1,505 | 1,360 |
| General | 2,539 | 2,557 |
| Precepting Authorities | 677 | 1,149 |
| Less Provisions for Bad Debts | (890) | (737) |
| Total Debtors | 5,813 | 7,178 |
| Payments in Advance | 21 | 58 |
| | 5,834 | 7,236 |

29. Analysis of Creditors

| | Balance at 31 March 2007 £'000 | Balance at 31 March 2008 £'000 |
|------------------------|---|---|
| Central Government | 517 | 281 |
| Inland Revenue | 1 | 1 |
| General | 3,189 | 2,980 |
| Total Creditors | 3,707 | 3,262 |
| Receipts in Advance | 2,412 | 2,176 |
| | 6,119 | 5,438 |

30. Provisions

| | Balance at 1 April 2007 | Increase in year | Decrease in year | Balance at 31 March 2008 |
|------------------------|----------------------------|---------------------|---------------------|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| ADC Debenture | 23 | | 23 | - |
| Lottery Fund | 42 | | 42 | - |
| Charitable Rate Relief | 100 | | 100 | - |
| Staines Road West | 60 | - | 60 | - |
| Rodd Industrial Estate | 50 | - | 50 | - |
| TOTAL | 275 | - | 275 | 0 |

A statement as to the purpose of provisions is included within Accounting Policy No. 2.

The Lottery fund provision has now been reclassified to reflect the SORP and is now shown within the Earmarked Reserves (note 42) on page 40.

31. 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 minimising the effect of such risks. 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 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. Investments and deposits are made with banks and financial institutions that have high credit quality. The Council uses Fitch ratings to assess the creditworthiness of its counter-parties and also has strict limits on the amounts that can be placed with any one institution at any one time. No formal assessment 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 following analysis summarises the Council's potential exposure to credit risk based on current market conditions:

| | | Amount as at 31 March 2008 £000's |
|--|-------|--|
| Deposits with banks and financial institutions | | |
| Fitch rating – AA, F1, B,1 | 5,081 | |
| Fitch rating - AA-, F1+, A/B, 2 | 1,028 | |
| Fitch rating – AA-, F1+, B, 1 | 5,230 | |
| Fitch rating - AA-, F1+, B, 2 | 3,223 | |
| Fitch rating – AA-,F1+, B/C, 1 | 1,027 | |
| | | 15,589 |
| Euro-sterling Bonds Rated AAA | | 5,003 |
| Customers | | 7,132 |

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 borrowing facilities 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. Treasury advisors are used 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 originally purchased in 2004 to be held 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 AFS) 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 ranging from 5.15% to 5.93% for loans and receivables, dependant on the term remaining and market rates for similar investments as at 31st March 2008.

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.

| 31March 2007 | 31March 2007 | | 31March 2008 | 31March 2008 |
|------------------------------|----------------------|---------------------------|------------------------------|----------------------|
| Carrying Amount £000's | Fair Value £000's | | Carrying Amount £000's | Fair Value £000's |
| | | Financial Liabilities | | |
| 5,574 | 5,574 | Short Term Borrowing | 2,553 | 2,553 |
| 3,707 | 3,707 | Trade and Other Creditors | 3,246 | 3,246 |
| | | Financial Assets | | |
| | | Loans and Receivables | | |
| 14,550 | 14,550 | Long Term Investments | 9,720 | 9,784 |
| 15,660 | 15,660 | Short Term Investments | 5,869 | 5,613 |
| 718 | 718 | Cash and Bank Balances | 37 | 37 |
| | | Available For Sale Assets | | |
| 5,000 | 5,000 | Euro-Sterling Bonds | 5,003 | 5,003 |

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

The fair value of investments is higher than the carrying amount because 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. The fair value of short-term borrowing is the same as the carrying amount because of the short remaining duration on these loans.

32. Euro Costs

The Authority is monitoring the position in regard to the Euro. All the financial computer systems are multi-currency. No significant expenditure has been incurred to date.

33. Net Pension Assets and Liability

Note 8 to the Income and Expenditure contain details of the Authority's participation in the Local Government Pensions Scheme (administered by Surrey County Council).

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

| Net Pension Assets at | 31 March 2007 £'000 | 31 March 2008 £'000 |
|-------------------------------------|------------------------------|------------------------------|
| Estimated Liabilities in the scheme | (72,218) | (63,186) |
| Estimated Assets in the scheme | 55,813 | 52,192 |
| Net Asset / (Liability) | (16,405) | (10,994) |

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £10.994m 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 decreased by £5.411m.

The actuarial gains identified as movements in the Pension Reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March:

| Analysis of Actuarial Gains and Losses | Year to 31 March 2007 | | Year to 31 March 2008 | |
|--|-----------------------|-----|-----------------------|------|
| | £'000 | % | £'000 | % |
| Differences between the expected and actual return on assets | (1) | 0.0 | (5,785) | 11.1 |
| Differences between actuarial assumptions about liabilities and actual experience | 374 | 0.5 | 1,916 | 0.7 |
| Changes in the financial assumptions used to estimate liabilities | 3,722 | | 8,891 | |
| Actuarial (Gain) / Loss Recognised in Statement of Total Recognised Gains and Losses | 4,095 | | 5,022 | |

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 2007 % | 31 March 2008 % |
|---|-----------------|-----------------|
| Rate of inflation | 3.20 | 3.60 |
| Rate of increase in salaries | 4.70 | 5.10 |
| Rate of increase in pensions | 3.20 | 3.60 |
| Rate for discounting scheme liabilities (NB based on 3.5% real) | 5.40 | 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:

| Assets (Employer) | Long Term Return at 31 March 2007 % p.a. | Assets at 31 March 2007 £'000 | Long Term Return at 31 March 2008 % p.a. | Assets at 31 March 2008 £'000 |
|------------------------------|---|--|---|--|
| Equities | 7.80 | 41,309 | 7.70 | 37,075 |
| Bonds | 4.90 | 9,945 | 5.70 | 9,993 |
| Property | 5.80 | 3,484 | 5.70 | 3,810 |
| Cash | 4.90 | 1,075 | 4.80 | 1,314 |
| Total | 7.10 | 55,813 | 7.10 | 52,192 |

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 2008 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 2007.

34. Post Balance Sheet Events

There are no post balance sheet events relevant to the 2007/08 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:

35. 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.

36. 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.

37. 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.

38. 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.

39. Financing

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

40.

| Reconciliation of Net Revenue Deficit to Net Cash Flow | | |
|---|--------------|--------------|
| | £'000 | £'000 |
| General Fund Deficit | 2,856 | |
| Collection Fund Deficit | 61 | |
| | | 2,917 |
| Non-Cash Transactions | | |
| Depreciation and Impairments | (2,195) | |
| Loss on Sale of Fixed Assets | - | |
| Net Contributions to/from Reserves | 389 | |
| Net Provision Set Aside and applied | 232 | |
| | | (1,574) |
| Items on an Accrual Basis | | |
| Decrease in Creditors | 1,321 | |
| Decrease in Stock | 35 | |
| Increase in Debtors | 1,480 | |
| | | 2,836 |
| Items in Another Classification | | |
| Servicing of Finance | 956 | |
| Management of Liquid Resources | 587 | |
| Capital Expenditure Financed from Revenue | (454) | |
| | | 1,089 |
| Net Cash Outflow from Revenue Activities | | 5,268 |

| Reconciliation of Movement in Cash to Movement in Net Debt | | | |
|---|----------------|----------------|-----------------|
| | 31.3.07 | 31.3.08 | Movement |
| | £'000 | £'000 | £'000 |
| Cash at bank/(overdraft) | 364 | (232) | (596) |
| Cash in hand | 355 | 269 | (86) |
| Increase/(Decrease) in cash and cash equivalents | 719 | 37 | (682) |
| Debt due within one year (short term borrowings) | (5,574) | (2551) | 3,023 |
| Debt due after one year | - | - | - |
| Total Debt | (5,574) | (2551) | 3,023 |
| Current Asset Investments (short term deposits) | 15,660 | 5,500 | (10,160) |
| Long Term Investments (over one year) | 14,550 | 14,550 | - |
| Total Investments | 30,210 | 20,050 | (10,160) |
| Net Funds/(Debt) | 25,355 | 17,536 | (7,819) |

| Reconciliation of Financing and Management of Liquid Resources | | | |
|---|----------------|----------------|-----------------|
| | 31.3.07 | 31.3.08 | Movement |
| | £'000 | £'000 | £'000 |
| Current Asset Investments (short term deposits) | 15,660 | 5,500 | (10,160) |
| Debt due within one year (short term borrowings) | (5,574) | (2,551) | 3,023 |
| Net Funds/(Debt) | 10,086 | 2,949 | (7,137) |

| Government Grants and Contributions | |
|--|---------------|
| Revenue Grants | £'000 |
| NNDR Redistribution Grant | 4,822 |
| Revenue Support Grant | 793 |
| Housing Benefits Subsidy | 22,756 |
| Business rate Collection | 147 |
| Concessionary Fares | 56 |
| Planning Delivery Grant | 202 |
| Other | 93 |
| | 28,869 |
| Capital Grants | |
| Specific Grant - Disabled Facilities | 250 |
| DEFRA - Contaminated land | 24 |
| | 274 |
| TOTAL GOVERNMENT GRANTS | 29,143 |

41. Capital Expenditure and Financing

| Summary of Capital Expenditure | | 2006/07 £'000 | 2007/08 £'000 | |
|---------------------------------------|--|--------------------------|--------------------------|------------|
| Housing | Improvement Grants | 429 | 437 | |
| | Feasibility Studies and Capital Salaries | 134 | 30 | |
| | | 563 | 467 | |
| Leisure | Public Halls | 20 | | |
| | Memorial Gardens | 49 | 32 | |
| | Parks and Recreation Grounds | 99 | 85 | |
| | Leisure Facilities | 39 | 366 | |
| | Leisure Centres | 1,349 | 1,521 | |
| | Allotments | 22 | 6 | |
| | Museum | 94 | 1 | |
| | | 1,672 | 2,011 | |
| Community Care | Day Centres | 135 | 163 | |
| | Community Alarm System | 26 | 31 | |
| | | 161 | 194 | |
| Highways and Transportation | Depot | - | 93 | |
| | Car Parks | 91 | 163 | |
| | | 91 | 256 | |
| Environmental Services | Refuse Collection & Recycling | - | 1,132 | |
| | Critical Ditches | 74 | 43 | |
| | Environmental Initiatives | 261 | 279 | |
| | Air Quality Monitoring | 5 | - | |
| | Cemeteries | 14 | - | |
| | Public Conveniences | 17 | 45 | |
| | Community Safety/CCTV | 49 | 7 | |
| | Street Cleansing | 185 | - | |
| | | 605 | 1,506 | |
| Other | Loans/Grants to Voluntary Organisations | 89 | 47 | |
| | Computer Developments | 526 | 407 | |
| | Knowle Green | 94 | 122 | |
| | Feasibility Studies and Capital Salaries | 241 | 258 | |
| | | | 950 | 834 |
| | | | 950 | 834 |
| TOTAL CAPITAL EXPENDITURE | | 4,042 | 5,268 | |

| | 2006/07 £'000 | 2007/08 £'000 |
|-------------------------------------|--------------------------|--------------------------|
| Summary of Capital Financing | | |
| Borrowing (Short Term) | - | - |
| Capital Receipts | 3,497 | 4,862 |
| Specific Government Grants | 239 | 242 |
| Reserve and Other Funds | 306 | 164 |
| TOTAL CAPITAL FINANCING | 4,042 | 5,268 |

42. Revenue Reserves

| <u>Fund</u> | <u>Bal</u> <u>B/fwd</u> <u>1/4/07</u> <u>£'000</u> | <u>Surplus/</u> <u>Deficit</u> <u>£'000</u> | <u>Conts in</u> <u>lieu</u> <u>of</u> <u>Interest</u> <u>£'000</u> | <u>Conts from/</u> <u>(to) other</u> <u>funds</u> <u>£'000</u> | <u>Financing</u> <u>£'000</u> | <u>Bal</u> <u>C/fwd</u> <u>31/3/08</u> <u>£'000</u> |
|-------------------------------|---|---|--|---|----------------------------------|--|
| Insurance Risk Management | 10 | | | | | 10 |
| Capital Fund | 1,842 | | | | (301) | 1,541 |
| Housing Initiatives | 1,150 | | | 6,517 | | 7,667 |
| Social Housing Fund | 7,117 | | | (7,117) | | 0 |
| Lottery Fund | 42 | | 2 | | (22) | 22 |
| New Schemes Fund Rev | 2,813 | | | | (312) | 2,501 |
| Good Causes Fund | 3 | | | | | 3 |
| Investment Valuation | 47 | | | | | 47 |
| Car Parks reserve | 0 | | | | 111 | 111 |
| Building Maintenance | 180 | | 10 | | (166) | 24 |
| Interest Equalisation Reserve | 773 | | | | 120 | 893 |
| Insurance Reserve | 150 | | | | | 150 |
| Business Improvement Reserve | 243 | | | 600 | (140) | 703 |
| PDG Reserve | 150 | | | | | 150 |
| Carry Forward Reserve | 275 | | | | (75) | 200 |
| Sub total | 14,795 | 0 | 12 | 0 | (785) | 14,022 |
| General Fund | 1,412 | | | | 159 | 1,571 |
| Collection Fund | (766) | | | | (533) | (1,299) |
| Total | 15,440 | 0 | 12 | 0 | (1,159) | 14,294 |

43. Capital Reserves

| <u>Fund</u> | Balance B/fwd 1/4/07 £'000 | Transfer to Revenue £'000 | Capital Movements £'000 | Unrealised Gains £'000 | Financing £'000 | Balance C/fwd 31/3/08 £'000 |
|----------------------------|-------------------------------------|------------------------------------|-------------------------------|------------------------------|--------------------|--------------------------------------|
| Capital Adjustment Account | 51,757 | (3,455) | | | 5,175 | 53,477 |
| Revaluation Reserve | - | | | 597 | | 597 |
| Deferred Capital Receipts | 21 | | (6) | | | 15 |
| Usable Capital Receipts | 9,010 | | 517 | | (4,862) | 4,665 |
| Pension Reserve | (16,405) | | 5,411 | | | (10,994) |
| | 44,383 | (3,455) | 5,922 | 597 | 313 | 47,760 |

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:

44. 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 – Required following changes to capital accounting that came into effect from 1st April 2007. The account 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.

45. 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.

General Fund Contingency – To finance future General Fund schemes.

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.

46. Capital Commitments

| Project | Estimated Total Cost £'000 | Payments to 31.3.08 £'000 | Future Capital Commitment | | |
|---|-------------------------------------|------------------------------------|---------------------------|------------------|------------------|
| | | | 2008/09 £'000 | 2009/10 £'000 | 2010/11 £'000 |
| Other Services | | | | | |
| Leisure Centre Refurbishment | 2,713 | 2,665 | 48 | 0 | 0 |

47. Disclosure of Involvement in a Local Area Agreement

Spelthorne Borough Council is a participant in an LAA – a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. In 2007/ 08, the LAA has completed the final year of its three-year agreement.

The purpose of the LAA is:
 to form an agreement between the Surrey Strategic Partnership, Government (represented by Government Office South East), and other external agencies,
 to ensure that together we achieve the 2020 vision in the Surrey Community Strategy,
 to agree specific outcomes and targets that will be achieved each year for the three years of the agreement,
 to improve the effectiveness and efficiency of public services in Surrey by pooling and aligning funding streams.

The LAA partners are:
 local government bodies – Surrey County Council, Epsom & Ewell Borough Council, Elmbridge Borough Council, Guildford Borough Council, Mole Valley District Council, Reigate & Banstead Borough Council, Runnymede Borough Council, Tandridge District Council, Spelthorne Borough Council, Surrey Heath Borough Council, Waverly Borough Council, Woking Borough Council.

- external agencies - South East England Development Agency
- community protection authorities – Surrey Policy Authority, Surrey Probation Service
- health bodies – Surrey Primary Care Trust
- learning bodies – Learning and Skills Council
- voluntary organisations – Surrey Community Action, Surrey Economic Partnership, Surrey Chambers of Commerce

Surrey County Council acts as the accountable body for the LAA. This means that they are responsible for managing the distribution of grant paid by the Government Office to the partners involved, but the council does not determine which bodies are due payments – this is determined either by the Government Office or the partnership. In this context, the council acts as an agent to the partnership and has therefore not recognised the full amount of LAA Grant in its financial statements, but only that part to be spent by the council in providing services.

The total amount of LAA Grant received by the Surrey Strategic Partnership in 2007/08 was £10.98m. Spelthorne Borough Council received £154,368 of this total to fund its own services.

48. Trust Funds

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

| | As at 31.3.07 £ | As at 31.3.08 £ |
|--|-----------------------|--------------------|
| Lord Mayor’s National Flood Distress Fund | 4,999 | 5,188 |

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

Collection Fund

| 2006/07 £'000 | | 2007/08 | |
|------------------|--|---------|----------------|
| | | £'000 | £'000 |
| | Income | | |
| 46,251 | Income from Council Tax | 48,435 | |
| 4,459 | Council Tax Benefits | 4,515 | 52,950 |
| 40,166 | Income from Business ratepayers | | 35,482 |
| 90,876 | Total Income | | 88,432 |
| | Expenditure | | |
| 50,490 | Precepts and demands from County and Police Business Rate | | 53,238 |
| 39,830 | - Payment to the National Pool | | 35,012 |
| 147 | - Costs of Collection | | 147 |
| 7 | - Discretionary Rate Relief Bad and Doubtful Debts | | (59) |
| 308 | - Bad debts written off | | 694 |
| 38 | - Increase in bad debt provision | | (134) |
| 485 | Distribution of Surplus | | 67 |
| 91,305 | Total Expenditure | | 88,965 |
| (337) | Balance brought forward 1st April 2007 | | (766) |
| (429) | Movement in Fund | | (533) |
| (766) | Balance carried forward 31st March 2008 | | (1,299) |

| | | |
|--------------|-----------------------------------|----------------|
| (89) | Balance due from SBC | (150) |
| (677) | Balance due from Other Preceptors | (1,149) |
| (766) | | (1,299) |

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 2007/08 the following calculation was made:

| Band | Number of Chargeable Dwellings | Ratio | Equivalent Band D Dwellings | Estimated Yield at £1,334.69 (Band D) £'000 |
|--|--------------------------------|-------|-----------------------------|---|
| A | 285 | 6/9 | 190 | 254 |
| B | 1,310 | 7/9 | 1,019 | 1,360 |
| C | 6,766 | 8/9 | 6,014 | 8,027 |
| D | 12,422 | 9/9 | 12,422 | 16,580 |
| E | 8,885 | 11/9 | 10,859 | 14,494 |
| F | 4,155 | 13/9 | 6,001 | 8,010 |
| G | 1,891 | 15/9 | 3,152 | 4,205 |
| H | 91 | 18/9 | 182 | 243 |
| Total | 35,805 | | 39,839 | 53,173 |
| Allowance for Losses on Collection and Appeals | | | 49 | 65 |
| Council Tax Base and Expected Yield | | | 39,888 | 53,238 |

The Actual Yield for the year was £52,949,976 the difference of £288,539 being attributable to the change in the numbers of properties in each Band between the initial calculation in November 2006 and the final figures in March 2008.

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 2008 was £102,272,438 and the multiplier for the year 2007/08 was 0.444.

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 |
|---|---------------|
| Gross amount payable for 2007/08 | 43,694 |
| Less: Adjustments for Transition | (57) |
| Less: Debit Adjustments made in year for empty properties, revaluation including prior years etc. | (5,743) |
| Less: Reliefs and write offs | (2,411) |
| Net sum collectable | 35,483 |
| Less: Allowance for collection | (147) |
| Less: Bad Debt Provision | (324) |
| Payment to National Pool for 2007/08 | 35,012 |

3. Precepts and Demands

| Precepts and Demands | 2006/07 £'000 | 2007/08 £'000 |
|-----------------------------|--------------------------|--------------------------|
| Surrey County Council | 38,194 | 40,272 |
| Surrey Police | 6,450 | 6,831 |
| Spelthorne BC | 5,846 | 6,135 |
| | 50,490 | 53,238 |

4. Distribution of Surplus

| Distribution of Surplus | 2006/07 £'000 | 2007/08 £'000 |
|--------------------------------|--------------------------|--------------------------|
| Surrey County Council | 371 | 50 |
| Surrey Police | 58 | 9 |
| Spelthorne BC | 56 | 8 |
| | 485 | 67 |

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 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 2008 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). 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 Executive 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 Portfolio Holders, 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 Executive 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 Executive 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 has an effective complaints procedure. The Council will be reviewing its corporate complaints process in the coming year to ensure that it can respond to the ever increasing expectations of the public for excellent public and customer service.

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 which will address all areas of the Council on a 3 year rolling programme.

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 2007/08 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 an 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 to review the Council's governance arrangements and to assess them against the six CIPFA/SOLACE core principles underpinning the new Code of Corporate Governance framework issued by CIPFA/SOLACE. The six principles are:

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

An officer working group consisting of Head of Audit Services, Head of Corporate Governance and Head of Finance and Resources have supplemented the work of the Task Group by completing a detailed assessment of the Council's position against the criteria set out in the eight objectives underpinning the Code of Governance framework. 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.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Code Corporate Governance Task Group, see report to Performance Management and Review Committee 4th March 2008, and there is a plan to address weakness and ensure continuous improvement of the system is in place. The plan will particularly focus on:

- the governance of partnerships.
- a review of the staff code of conduct
- a review of the corporate complaints procedure

Significant governance issues

The overall opinion of the Head of Audit Services is that the Council’s internal control environment is adequate and effective. 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:

- The Corporate Management Team (MAT) should continue to review the Council’s entire programme of projects and consider the level (capacity and skills) of resources available to deliver effectively.
- Service Plans should be updated promptly and targets aligned to corporate priorities.
- The authority should ensure service critical business continuity plans are fully communicated, tested and updated regularly.
- Protocols/agreements for all significant partnerships should be reviewed ensuring that roles and responsibilities of each party are clear and risks assessed. Outcomes should be monitored against expected targets/ objectives.

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.

Signed:
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 2008 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 Housing Revenue Account, 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 Director of Resources 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 me with sufficient evidence to give reasonable assurance that the Authority statement of accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Authority statement of accounts and related notes.

Opinion

In our opinion:

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

KPMG LLP

Chartered Accountants

London

11 September 2008

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 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 24 October 2007. 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 2008

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 FINANCING 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.

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.

DEFERRED CHARGES

Deferred charges 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.

FIXED ASSET RESTATEMENT ACCOUNT

The account created to allow assets to be included in the accounts at their current value.

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.

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.

External Audit Interim Audit 2007- 08 Report

Audit Committee: 4 September 2008

Report of the Chief Finance Officer

Resolution required

Executive Summary

Purpose of Report

To inform Members of the outcome of the External Auditor's 2007-08 interim audit report.

Key Issues

- Interim Audit report undertaken as initial audit preparation for the audit of the Statement of Accounts.
- The auditors conclude that they can place a high degree of reliance on the work of the Internal Audit team.
- The auditors have made 10 recommendations of which one was high priority and which was actioned immediately.
- Three of the recommendations are considered to be of medium priority. These focus on improvements to IT controls associated with the financial ledger and other key systems
- Six are best practice recommendations which will help you bring the controls already in place in line with best practice, for example through clearer documentation of their operation.

Options

There are none

Financial Implications

There are none, in terms of additional financial resources

Corporate Priority

All Priorities

Officer Recommendations

The Audit Committee is asked to note the External Auditor's 2007/08 interim audit report recommendations. (Appendix A).

Contact: Terry Collier, Chief Finance Officer 01784 446296

Portfolio Holder: Councillor Michel Bouquet

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 the Statement of Accounts. In order to do this they first need to assess the underlying financial systems of control and procedures by undertaking an interim assessment ahead of the main audit. Much of this assessment is based on the work of the internal audit team who audit the financial systems.
- 1.2 Attached as **Appendix A** is the KPMG 2007/08 interim audit report.

2. KEY ISSUES

- 2.1 KPMG state (pleased to report that we were able to place a high level of reliance on the work of the Internal Audit department.
- 2.2 KPMG make 10 recommendations of which only one is assessed as high priority. This related to ensuring that journals (the double entry by accountants of accounting transactions within the financial system) with a value of more than £20,000 are authorised by a second officer. 18 journals were found not to have been authorised. On this being highlighted the Chief Accountant retrospectively reviewed and authorised these journals. Officers have put in place a review process which KPMG are satisfied with. The need to obtain a second signature has been re-emphasised to the Accountancy team and the Chief Accountant is regularly reviewing and authorising such journals.
- 2.3 Of the remaining recommendations, three are considered to be of medium priority. These focus on improvements to IT controls associated with the financial ledger and other key systems, see recommendations 2,3 and 4 in the appendix. Note that the new functionality referred to in the response to recommendation 4 re checking for duplicate payments has now been implemented. In addition the creditors' team are reviewing the potential of additional software to further reinforce controls with regard to this aspect.
- 2.4 The remaining six (recommendations 5 to 10 in Appendix A) are best practice recommendations which will help bring the controls already in place in line with best practice, for example through clearer documentation of their operation.

3. PROPOSALS

- 3.1 That the Internal Audit and the Chief Finance Officer regularly monitor and review the implementation of the recommendations made by KPMG.

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



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Terry Collier
Assistant Chief Executive
Spelthorne Borough Council
Council Offices
Knowle Green
Staines
TW18 1XB

30 July 2008

Dear Terry,

2007/08 Interim Audit: Findings and Recommendations

I am writing to provide an update on the work performed during our Interim Audit at Spelthorne Borough Council during March and April 2008, and would like to take this opportunity to thank you and your staff for the co-operation and assistance shown to my team during the work.

I am pleased to report that we were able to place a high level of reliance on the work of the Internal Audit department. As agreed with Internal Audit, their work on Fixed Assets was completed prior to our visit for the Final Accounts, and we have now reviewed this work and placed reliance on it in a similar manner.

We have noted the recommendations raised by your Internal Auditors and would advocate the implementation of them. We have also attached in Appendix A to this letter an additional ten recommendations we consider worthy of your attention based on our work. Of these, only one has been rated as a high priority (priority one) matter, relating to weaknesses in the operation of journal authorisation controls. Of the remaining recommendations, three are considered to be of medium priority. These focus on improvements to IT controls associated with the financial ledger and other key systems. The remaining six are best practice recommendations which will help you bring the controls already in place in line with best practice, for example through clearer documentation of their operation.

In addition to these recommendations it is clear that one of the key challenges facing the finance team in preparing the accounts will be addressing the requirements of SORP 2007. If you require any additional guidance on specific difficulties and your proposed solutions, please feel free to contact either myself, Ian Joynson (020 7311 6535) or Michael Duff (020 7311 6496).

Yours sincerely

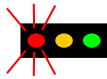


Neil Thomas
Director - KPMG LLP

cc Deanna Harris, Head of Internal Audit

Appendix A

Performance Improvement Observations

This appendix summarises the performance improvement observations that we have identified while performing our interim audit. We have given each of our observations a risk rating, as explained below. We will follow up these performance improvements as part of our final accounts audit work.

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

| # | Risk | Issue and performance improvement observation | Management response | Officer and due date |
|---|------------|--|--|--|
| 1 | ● (one) | <p>Journals Authorisation</p> <p>Of 45 tested journals over £20K 18 had not been authorised by a second officer in accordance with your procedures.</p> <p>The Council should ensure that journal authorisation procedures are adhered to at all times.</p> <p>This will reduce the risk of misstatements in the financial ledger</p> <p>As a result of our findings the Chief Accountant will perform a retrospective review and authorisation of journals prior to our financial statements audit. Reliance on journal authorization controls is a key element of our approach to auditing your financial statements.</p> | <p>Accepted</p> <p>The journals identified have all been reviewed and retrospectively authorised by the Chief Accountant.</p> <p>Accountancy staff have been reminded of the requirements for journals over £20K to be authorised.</p> | <p>David Lawrence</p> <p>Chief Accountant</p> <p>Completed</p> |

| # | Risk | Issue and performance improvement observation | Management response | Officer and due date |
|---|------------|--|--|--|
| 2 | ● (two) | <p>One-sided journals</p> <p>There is currently a problem with Integra, the general ledger system, that results in the interface between itself and the purchase ledger occasionally failing, resulting in one sided journals being created. These must then be identified and corrected by the systems accountant.</p> <p>This results in a risk that information obtained from the ledger is incorrect.</p> <p>The 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>Terry Collier Assistant Chief Executive Ongoing</p> |
| 3 | ● (two) | <p>Duplicate Payments</p> <p>Duplicate transaction reports are run retrospectively rather than prior to the pay run being processed.</p> <p>Duplicate transaction reports should be produced and reviewed prior to the payment run being processed.</p> <p>This will reduce the risk that payments are made twice or to two suppliers.</p> | <p>Accepted</p> <p>There is new functionality on the system which will do a check for duplicate payments before the run has taken place.</p> <p>This is currently being tested in the hope of being rolled out as soon as possible</p> | <p>Jodie Hawkes Financial Support Services Assistant 31/7/08</p> |

| # | Risk | Issue and performance improvement observation | Management response | Officer and due date |
|---|--------------|--|--|---|
| 4 | ● (two) | <p>IT Firewall Testing</p> <p>The Authority does not currently carry out penetration testing of its firewalls.</p> <p>In line with best practice the Authority should carry out annual penetration testing of its firewalls.</p> <p>This will reduce the risk that there are unidentified deficiencies in the Authority's firewalls.</p> | <p>Accepted</p> <p>The Council is required to carry out penetration testing within a year of connection to GCSx. This will be done by the end of the year.</p> | <p>Helen Dunn</p> <p>IT Services Manager</p> <p>31/12/08</p> |
| 5 | ● (three) | <p>Access to IT systems</p> <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>Helen Dunn</p> <p>IT Services Manager</p> <p>Ongoing</p> |
| 6 | ● (three) | <p>Staff Nominal Rolls</p> <p>Whilst staff nominal rolls [establishment lists] are periodically circulated, and managers required to confirm the accuracy of these lists records of this exercise are not maintained.</p> <p>Records of this exercise should be kept in order to maintain a clear audit trail.</p> <p>This will reduce the risk that payments are made to staff who have left the Authority's service.</p> | <p>Accepted</p> <p>In future a record of manager responses to will be kept.</p> | <p>Jan Hunt</p> <p>Head of Human Resources</p> <p>Ongoing</p> |

| # | Risk | Issue and performance improvement observation | Management response | Officer and due date |
|---|--------------|--|--|---|
| 7 | ● (three) | <p>Aged Debt Monitoring</p> <p>Aged debtor reports are produced on a monthly basis by the Debtors Officer. These reports are subsequently reviewed by the Finance Support Services Manager. However this review is not evidenced. Aged debt reports should be evidenced as reviewed. This will reduce the risk that aged debts are not monitored on a regular basis.</p> | <p>Accepted</p> <p>Aged debtors monitoring reports are emailed to the Head of Finance and Resources who reviews these reports and emails queries if required. He will ensure that going forward there is a record kept of this monitoring process every month</p> | <p>Terry Collier Assistant Chief Executive Ongoing</p> |
| 8 | ● (three) | <p>Password Access</p> <p>Passwords for the revenues & benefits system Academy and the payroll system CHRIS 21 do not specify minimum lengths. In addition passwords on CHRIS 21 do not have to be periodically changed. The Academy and CHRIS systems should be programmed to force users to use passwords that contain both numbers & letters and that are minimum 6 characters. Passwords should require changing on a periodic basis. This will ensure that secure access to operational systems is in line with best practice.</p> | <p>Accepted</p> <p>The minimum length for Academy passwords has been increased. CHRIS 21 does not have the capacity for the setting of minimum character lengths or the periodic changing of passwords. However, reminders will be sent out advising users to set passwords at a minimum 6 characters and to periodically change their passwords</p> | <p>Linda Norman Revenues Manager 23/5/08</p> <p>Debbie O'Sullivan Human Resources Officer Ongoing</p> |

| # | Risk | Issue and performance improvement observation | Management response | Officer and due date |
|----|--------------|---|---|---|
| 9 | ● (three) | <p>Data Back-up</p> <p>Back-up tapes are not routinely tested for data loss.</p> <p>Back-up tapes should be tested on a regular basis for any data loss.</p> <p>This will reduce the risk of the Authority failing to identify instances of lost data and taking appropriate steps.</p> | <p>Accepted</p> <p>In order to read off back-up tapes requires another instance of NetVault (the software used to manage the Council's back-ups) on another server. This is something that is currently being arranged.</p> | <p>Helen Dunn</p> <p>IT Services Manager</p> <p>Ongoing</p> |
| 10 | ● (three) | <p>Reconciliations</p> <p>A range of reconciliations are performed on a monthly basis across the Council between the general ledger and feeder systems such as the payroll, council tax and benefits systems.</p> <p>However, reconciliations are not regularly signed and dated by officers preparing and reviewing the reconciliations to demonstrate that these controls are operating.</p> <p>All reconciliations that are undertaken should be signed and dated by the officers preparing and reviewing the reconciliations.</p> <p>This will ensure that reconciliations between the general ledger and feeder systems are performed in a timely manner, promote accountability and provide a clear audit trail.</p> | <p>Accepted</p> <p>Most reconciliations are signed and dated by the officers preparing and reviewing.</p> <p>However, officers will be reminded of the need for all preparing and reviewing of reconciliations to be evidenced.</p> | <p>Ian Buddery</p> <p>Financial Support Services Manager</p> <p>Ongoing</p> |

**AUDIT SERVICES REPORT
FOR THE PERIOD APRIL 2008 – JUNE 2008**

Audit Committee: 4 September 2008

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 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 2008 – June 2008.

Key Issues

- Financial systems
- Corporate Risk Management
- Internal Audit Partnership

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 2008 – June 2008.

Contact: Terry Collier, Chief Finance Officer, 01784 446296

Portfolio Holder: Councillor Michel Bouquet

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.

2. KEY ISSUES

2.1 Financial Systems

- 2.2 Recommendations relating to the audit of all the Council's financial systems reported to the last committee were agreed with management and reports issued. Management is responsible for implementing agreed recommendations and Audit will report progress in due course. Audit liaised with and provided support to KPMG in their review of this work.

2.3 **Corporate Risk Management**

- (a) Corporate Risk Register – see separate report
- (b) Project Management – the corporate risk template has been attached to the authority's project initiation documents to strengthen the risk assessment process on projects.
- (c) Risk Based Audit – review of risk based auditing process and introduction of further guidance for auditors.

- 2.4 **Internal Audit Partnership** – The audit partnership with Surrey Heath continued to provide financial savings, efficiencies from joint working and greater resilience. Examples of joint working during the period included IT security, Main Accounting Systems, Cash Collection and Banking, debt management, procurement, Asset Management and managed audit testing.

- 2.5 The Head of Audit has been involved in preparations for extension of the partnership to Elmbridge Borough Council. This has included obtaining member approval, staff consultation, attendance at various staff, management and member meetings at Elmbridge, restructuring plans and recruitment. The partnership has been approved for a six month trial and is due to commence 1 September 2008.

- 2.6 **IT Security** – Audit attended Information Security Review Group monthly meetings with IT service and Steria staff. Advice has been given on various IT security related matters and Audit has been updated on disaster recovery testing arrangements.

- 2.7 **Parking Services** – Audit completed an operational risk assessment, tested financial systems, provided advice on various matters including collection of unpaid penalty charge notices and write off procedures. Audit advised the Deputy Chief Executive (support) regarding the need for a business case to support the replacement of pay on foot car park machines.

- 2.8 Audit reviewed overtime claims and advised management on improvements in the control, authorisation and monitoring of overtime payments in this area.

- 2.9 The draft audit report and a number of issues concerning compliance with contract standing orders and quality of management information are currently being discussed with senior management. Agreed recommendations will be reported at the next committee meeting.

- 2.10 **Procurement** – Risk assessment and testing of procurement commenced at Spelthorne. The same audit documentation and process is also being used at Surrey Heath. Initial assessment indicates that contract management skills and experience in service departments needs to be strengthened through regular training to ensure compliance with Council regulations and value for money.
- 2.11 **Human Resources** – Advice given regarding risks and controls associated with potential outsourcing of HR functions.
- 2.12 **Audit Committee** – Preparation of reports, attendance at committee, assistance and advice to chairman on a number of risk related issues.
- 2.13 **Annual Governance Statement (AGS)** – Finalised document with Assistant Chief Executive and Head of Corporate Governance. AGS reported to previous Audit Committee.
- 2.14 **Asset Management** - Audit provided advice to the Head of Corporate Governance and Deputy Chief Executive (Support) /Assistant Chief Executive on a number of issues relating to Asset Management.
- 2.15 Audit advised that new contract work arising (not variations to existing work) should not be added on to existing contracts unless there is evidence that this represents best value for the authority, there is a clear specification and the Council's position protected against contractual disputes.
- 2.16 Audit also advised that the planned maintenance budget and associated contract should relate to planned, programmed maintenance rather than work identified annually or on an ad hoc basis.
- 2.17 A risk assessment of the service commenced.
- 2.18 Audit advised on the use of Constructline as a means of selecting tenderers and made recommendations to management regarding tendering procedures.
- 2.19 **Customer and Office Services** – Audit completed a service risk assessment and tested systems. A draft Audit Summary has been prepared recommending corporate promotion of the Civica system; scope to consider a more formal tender process for external printing services; the Head of Planning and Head of Customer & Office Services to carry out periodical analysis in order to assess whether the anticipated savings and benefits identified under the BIP review are being realised; to remove user profiles of leavers from the Civica and Artemis systems; that fees and charges input onto the Artemis bookings system are independently checked for accuracy against committee approved fee's and charges; any continuing discounts on bookings should be justified and formally approved before applying; management review of exception reports showing discounts awarded; Service Heads should inform Customer Services of issues that are likely to generate calls from the public with agreements drawn up for any significant work areas; annual review of the incident register and reminders to staff outlining correct procedures to follow; that terms and conditions for the 'Shred on site' contract be promptly agreed with Legal.
- 2.20 **Corporate Governance** - Audit completed a service risk assessment (legal function) and tested some systems. A draft Audit Summary has been issued recommending periodical reminders be issued to Service heads on the need to pass draft contracts to Legal; to reconsider further drawing up and applying standard terms and conditions of contract; to consider how the system of contract

management could be strengthened; to ensure current practices on information sharing comply with best practice; periodical review of the Projects register by MAT to consider limited capacity within Legal.

- 2.21 **Green Cones** – Advice given regarding the contract and sale of kitchen waste composters. Officers were advised to seek approval to waive Contract Standing Orders in the letting of the contract due to the lack of alternative suppliers. Audit were unable to locate a formal contract agreement with the company to cover arrangements with the company for delivery, loss of goods, storage, provision etc only email exchanges. It was recommended that a contract file be set up and all correspondence be collated and kept in the file, all approvals gained should be in writing, as a minimum.
- 2.22 **Housing** – Advice given on new cash incentive scheme to encourage occupiers to move to smaller properties. Ongoing risk assessment and testing. Risk assessment relating to new IT system is currently being updated and controls tested.
- 2.23 **GIS/CAPS** – Attendance at user group meetings, advice to users and management regarding operational and system implementation issues.
- 2.24 **Direct Services / Independent Living** – Ongoing risk assessment and testing. Advice has been given in a number of areas to improve control. There are no specific issues to report to members at this stage.
- 2.25 **Business Improvement Programme**
- 2.26 The Head of Audit is a member of the Programme sponsors' Board which oversees individual service reviews. This will cease on commencement of the Elmbridge Audit partnership.
- 2.27 **National Fraud Initiative** - The Audit Commission compares data from each local authority to identify potential 'matches', for example benefit claimants receiving payments from more than one authority or duplicate creditor payments. Although the exercise identifies several thousand potential matches, further investigation usually provides a valid explanation. Occasionally, frauds are detected and these would be investigated accordingly.
- 2.28 Due to the expansion of the audit partnership, the role of Key Contact has been transferred to the Chief Finance Officer.
- 2.29 **Advice** - Advice has been requested from all directorates on various risk and control issues including partnering fees and charges, retention of audit logs, control over postal income, process improvements relating to Section 106 planning agreements and potential for maximising income; sale of kitchen waste composters, retention of documents within Customer Services, letting of Contracts within Planning, compliance with the gifts and hospitality policy. Approximately 20% of audit time is taken providing advice.
- 2.30 **Miscellaneous** – Meetings (staff performance clinics/team/departmental/manager's briefings, client/Deputy Chief Executive), training, Audit Committee reports/issues, liaison with external audit, budget monitoring, processing contract payment certificates, Service Planning, work planning, corporate risk management group, grading review working party, CX induction training for new staff and various other tasks.
- 2.31 **Audit recommendations** – A new system has been designed to improve monitoring of outstanding audit recommendations by Management Team.

3. OPTIONS ANALYSIS

3.1 There are none.

4. PROPOSALS

4.1 To approve the Audit Services' Report for the period April 2008 – June 2008.

.5. BENEFITS AND SUSTAINABILITY

5.1 N/A.

6. FINANCIAL IMPLICATIONS

6.1 There are none.

7. LEGAL IMPLICATIONS / OTHER CONSIDERATIONS

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

Significant risks associated with individual audits are set out 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

N/A.

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

Background Papers: There are none

CORPORATE RISK MANAGEMENT
Audit Committee: 4 September 2008
Report of the Chief Finance Officer
Resolution required
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.
- Further actions have been proposed in the register to mitigate risks as far as possible.

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 are asked to note and accept the contents of the Corporate Risk Register.

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

Lead Member: Councillor Jack Pinkerton

Portfolio Holder: Councillor Michel Bouquet

MAIN REPORT

1. BACKGROUND

- 1.1 The Council's Risk Management Policy/Strategy was approved by the Executive in 2002.
- 1.2 The 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.
- 1.3 The Audit Committee is responsible for considering the effectiveness of the authority's risk management arrangements, and receives regular reports on risk issues.
- 1.4 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.

- 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). Some progress has been made in areas such as updating of service plans with reference to the Council's new priorities; monthly review of the Council's programme of projects; IT security penetration testing scheduled for the end of the year; desk top testing of Business Continuity plans; drafting specific plans for Emergency Planning (pandemic influenza and flooding); project set up to address health and safety responsibilities where assets leased; monitoring and reporting arrangements in place for the Biodiversity Action plan.

Service Heads have assessed the significance of partnership arrangements using CIPFA guidance and findings will be incorporated in the Use of Resources self assessment and action planning process.

In some of these areas further actions have been proposed to improve controls further.

- 2.3 The following areas have not been fully addressed:
 - (a) Risk assessment for contaminated land (Environment risk). Please see part 7 of the detailed register.
 - (b) Testing of the Emergency plan and briefing session for staff (Environment risk). Please see part 6 of the detailed register.
 - (c) Technology/infrastructure/operational risks:
 - i) Security protocol for the depot not formally documented. Please see part 4 of the detailed register
- 2.4 A number of new actions have been proposed in the corporate risk register aimed at improving contract management across the authority (see Partner/Contractor/Commercial risk category 9).

2.5 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

3.1 There are two options:

- (a) 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.
- (b) To recommend amendments to the Corporate Risk Register for consideration by the Corporate Risk Management Group.

4. PROPOSALS

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

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 There are none.

8. RISKS AND HOW THEY WILL BE MITIGATED

8.1 If actions outlined in the Corporate Risk Register are endorsed by MAT 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.

**SPELTHORNE BOROUGH COUNCIL
CORPORATE RISK REGISTER – 2008/09 QUARTER 2**

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

Corporate Priority themes are referred to in the risk register.

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

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|--|---|----------------------|----------------------|--|------------------|---------------------------------------|-----------------|
| 1. Technology/ Infrastructure /Operations | Failure to align service objectives to corporate aims | All | 3 | <p>Controls:</p> <ul style="list-style-type: none"> • Service plans are derived from Community and Corporate Plans. • New Corporate priorities communicated. <p>Action: All Service Plans should be updated annually and reflect new corporate priorities.</p> <p>Progress at Aug 08: Environmental Health & Building Control service plans remain outstanding as awaiting outcome of the BIP review.</p> | Service Heads | Oct 07 (Revise to Feb 2008) | Some |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|--|--|---------------|---------------|---|--------------------------|----------------|-------------------|
| 2. Technology/ Infrastructure /Operations | Failure of projects due to poor project management and overstretched resources. | All | 3 | <p>Controls:</p> <ul style="list-style-type: none"> • Master list of projects reviewed by Management team to assess resources/skills/capacity to deliver • Agreed project management methodology overseen by Project Sponsors. • Programme boards issue progress/exception reports to MAT on projects within their programme <p>Action: MAT should continue to review the Council's entire programme of projects and consider the level (capacity and skills) of resources available to deliver effectively.</p> <p>Progress at Aug 08: MAT continues to review the Corporate Projects matrix on a monthly basis.</p> | MAT | Ongoing | Actioned/On going |
| 3. Technology/ Infrastructure /Operations | 3i. Security breaches/system failure/ loss of data 3ii. Failure to meet the | All | 3 | <p>Controls:</p> <ul style="list-style-type: none"> • Back up and continuity arrangements managed by Steria and tested by Service Heads. • IT security policies, contractual responsibilities of Steria. • IT security group assess ongoing risks • IT disaster recovery test conducted successfully in April 08. <p>Controls:</p> <ul style="list-style-type: none"> • COCO review group assess compliance | Steria/HD/ Service heads | | |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|--|---|------------------|---------------|---|-----------|-----------------------------|----------|
| | minimum security requirements of the new Government Code of Connection resulting in termination of connection to any other government sites/data. | | | <p>with the Code of Connection.</p> <p>Actions: Penetration testing should be undertaken during 2008/09. The Review Group should report regularly to the Assistant Chief Executive (Chief Finance Officer) to confirm compliance with the Code of Connection.</p> <p>Progress at August 08:</p> <ul style="list-style-type: none"> • Penetration testing will be conducted by the end of 2008; • The ICT Manager will report progress to the Assistant Chief Executive via the ICT Service and Improvement Group. | HD/TC | Dec 2008 | Some |
| 4. Technology/ Infrastructure /Operations | Breaches in security of buildings | Community Safety | 3 | <p>Controls:</p> <p><u>Knowle Green:</u></p> <ul style="list-style-type: none"> • Offices alarmed and entry controlled. CCTV, sensors connected to alarms. • Security protocol documented <p><u>Depot:</u></p> <ul style="list-style-type: none"> • CCTV and controlled entry access. <p><u>Other Buildings:</u></p> <p>Access controlled by key held by authorised staff.</p> <p>Action: Security protocol for satellite buildings should be documented setting out responsibilities.</p> <p>Progress at Aug 2008:</p> | SC/LB/DP | Dec 07 (Revise to Jan 2008) | None |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|---|--|---------------|---------------|--|--|---|-------------|
| | | | | <p><i>Day Centres – previously documented. Depot - not documented. (NB recent diesel thefts at depot) Current review of ‘out of hours’ access to council buildings in the event of fire or intruder alarm.</i></p> | | | |
| <p>5. Technology/ Infrastructure/ Operations</p> | <p>Disaster in Council buildings / Lack of continuity planning within services and reliance on individuals/systems</p> | <p>All</p> | <p>3</p> | <p>Controls:</p> <ul style="list-style-type: none"> • Assistant CX (Bob Coe) responsible for chairing the ‘Gold’ corporate group in the event of an incident where business continuity plans need to be invoked. • Assistant CX (BC) currently responsible for co-ordinating business continuity plans. <p>Action: The authority should ensure the plans are fully communicated, tested and updated regularly.</p> <p>Progress at Aug 08: Business continuity plans have been updated. BCM training was held on 23.7.08 for Service Heads and MAT in the form of a desk top test. An action plan is being prepared based on issues arising from the test.</p> | <p>Service Heads/MAT</p> <p>BC/Service Heads</p> | <p>Dec 07 (Revise to Feb 2008)</p> | <p>Some</p> |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|----------------|---|---------------|---------------|---|-----------|---|----------|
| 6. Environment | Disaster- major in borough, e.g. pandemic influenza, resulting in inability to provide services | Environ ment | 4 | <p>Controls:</p> <ul style="list-style-type: none"> • Emergency plan has been reviewed and circulated annually • Risk assessments completed • Advice from Local Resilience forum <p>Action: <i>Plan should be fully communicated, tested and updated regularly. Staff briefing sessions should reinforce responsibilities for coordinating, reviewing and testing both the Emergency Plan and Business Continuity plans, clarify differences between business continuity and Emergency Planning and highlight when these plans should be invoked.</i></p> <p>Progress at Aug 08: <i>The Emergency plan is currently being updated to reflect the new management structure. The Deputy CX has attended a Gold exercise in relation to pandemic influenza and fed back to the emergency planning team to incorporate into the revised emergency plan. Specific plans have been drafted for 'Pandemic flu' and 'flooding'. This will be followed by testing of the plan (scheduled to commence Nov 08), and a briefing session for staff. N.B. Business Continuity Management test held on 23.7.08 covered some elements of emergency planning such as flooding.</i></p> | NL/SM | Dec 2007 <i>(Revise to Feb 2008)</i> June 2008 | Some |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|------------------------------|---|--------------------|---------------|--|--------------|---|-------------|
| | | | | <p><i>Further action at Aug 08: Consideration should be given to carrying out a desk top testing exercise for emergency planning (such as that conducted for BCM), in order to assess arrangements in place and highlight scope for improvement.</i></p> | NL/SM | Oct 08 | |
| <p>7. Environment</p> | <p>Uncertainty surrounding the financial /other consequences of contaminated land</p> | <p>Environment</p> | <p>4</p> | <p>Controls:</p> <ul style="list-style-type: none"> • Legal duty to inspect land and prioritise action • Progress reports issued to MAT outlining financial and some risks <p>Action: A separate risk assessment is required to address contractual, financial/resources and legal/regulatory risks. Controls to reduce risks associated with potential lack resources to undertake further detailed site investigations should be identified.</p> <p>Progress at Aug 08: Authority waiting for the government to publish revised soil guideline values against which contaminated sites are assessed. Little progress has been made in re risk-rating sites of potential concern due to priority</p> | <p>LB/LO</p> | <p>Dec 2007 (Revise to Jan 2008)</p> | <p>None</p> |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|---|--|---------------|---------------|--|----------------------------|-----------------|-------------|
| | | | | <p><i>given to the work on the current investigation area. Awaiting confirmation of grant funding. In light of these issues and update provided to the Audit Committee on 24.6.08, the Head of Environmental Health feels it is not appropriate to undertake a full risk assessment at this time.</i></p> | | | |
| <p>8. Regulation/ Legal / Litigation</p> | <p>Health and Safety failing resulting in death or serious injuries to staff/public and legal action against the Council</p> | <p>All</p> | <p>4</p> | <p>Controls:</p> <ul style="list-style-type: none"> • Managers responsible for conducting regular risk assessments • Induction training for staff and policies clarify responsibilities • Health and Safety Officer in post and reports relevant issues/legislation e.g. Corporate Manslaughter act and associated risks were reported to Executive, MAT, CRMG, all staff, during June/July 2008. • Contract let to manage Legionella and progress reported to AMG and MAT as appropriate. <p>Action: Procedure document required to clarify health and safety responsibilities/ arrangements where the authority leases out assets.</p> | <p>All staff</p> <p>DP</p> | <p>Jan 2008</p> | <p>Some</p> |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|--|---|---------------|---------------|---|---|-------------------|-------------|
| | | | | <p><i>Progress at Aug 08: The Head of Asset Management attended the Audit Committee on 24.6.08 to advise Members of the latest position, and set out timescales for this project, with a proposed completion date of June 2009 (due to the size of the project, other priorities and resource limitations). The general procedure document will be drawn up at project completion stage.</i></p> | | | |
| <p>9. Partner/ Contractor/ Commercial</p> | <p>Allegations that contracts have not been awarded fairly and failure to obtain best value for money for the authority.</p> <p>Poorly drafted contract agreements leading to contractual disputes and potential claims.</p> <p>Contracts are entered into on the supplier's terms and conditions, increasing the likelihood of contract disputes</p> <p>Weak contract monitoring resulting in Contractors/partners failing to deliver expected</p> | All | 3 | <p>Controls:</p> <ul style="list-style-type: none"> • Performance measures in place and contractual safeguards - Management responsibility. • Work being conducted on review of strategic and internal partnerships • New Use of Resources and Comprehensive Area Assessments will have more focus on partnership governance arrangements. • Contract guidelines (simplified version of CSO'S) are being drafted <p>Action 1 : Managers should formalise protocols/agreements for all <u>significant</u> partnerships, ensuring that roles and responsibilities of each party are clear and risks identified. Outcomes should be monitored against expected targets/objectives.</p> | <p>Service Heads</p> <p>Service Heads</p> | <p>March 2008</p> | <p>Some</p> |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|--|---|---------------|---------------|---|---------------|----------------|----------|
| 9. Partner/ Contractor/ commercial | outcomes (cost and quality). See above | All | 3 | <p>Progress at Aug 08: Most service Heads have assessed partnerships in their areas for relative significance using criteria set out by CIPFA. The Head of Financial Services is pursuing one outstanding return. Findings will be incorporated in the Use of Resources self assessment and action planning process.</p> <p>Action 2 – Aug 08 :</p> <ul style="list-style-type: none"> • Relevant staff should be encouraged to attend training regarding the tendering, selection, awarding and monitoring of contracts, and apply to the management of contracts. (NB Procurement training has been provided and Corporate Governance are organising further contract training for relevant officers). • Staff should be reminded of the requirement to comply with CSOs 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) | Service Heads | Dec 2008 | |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|-----------------------------|---|-----------------------------------|---------------|--|----------------------|----------------|----------|
| | | | | <ul style="list-style-type: none"> 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 AM. | | | |
| 10. Economic/ Social | Service planning difficulties due to changes in economic and social conditions beyond Council's control | Environment /Economic Development | 3 | Controls: <ul style="list-style-type: none"> Long term strategic planning Corporate and community plans linked to service plans New corporate priority themes | BC/Service Heads/MAT | Ongoing | |
| 11. Environment | Failure to deliver sustainable community strategy | Environment | 3 | Controls: <ul style="list-style-type: none"> Climate change strategy Environmental impact assessments completed. HOES will be issuing draft sustainable strategy to MAT shortly with action points <p>Action May 08: Annual review of strategy and monitoring of action plans.</p> <p>Progress at Aug 08 : The Biodiversity action plan was approved at Executive on 15.7.08, and the Biodiversity Officer</p> | SM/BC | Aug 08 | Some |

| Risk Category | Risk / Consequences | Corp Priority | Level Of Risk | Control / Action | Ownership | Target Date(s) | Progress |
|---------------|---------------------|---------------|---------------|--|-----------|----------------|----------|
| | | | | | | | |
| | | | | <i>will be reporting upon progress annually. The sustainability strategy is at consultation stage.</i> | | | |

Reviewed August 2008

WORK PROGRAMME 2008 – 2009

AUDIT COMMITTEE - 4 SEPTEMBER 2008

Resolution Required

1. Work Programme

- 1.1 This report covers the Work Programme for the remainder of the 2008/09 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 two remaining meetings of this Committee scheduled in the Council's Diary of meetings for 2008-09 are:-
 - 27 November 2008
 - 26 March 2009

2.3 Details of the Work Programme for these meetings are as follows:

| 27 November 2008 | | |
|---|---|---|
| Quarterly Audit and Risk Report | Head of Audit Services | Report for period July 08 to October 08 |
| Corporate Risk Register | Head of Audit Services | Review |
| Confidential Reporting Code (Whistleblowing Policy) | Head of Audit Services | Review |
| Corporate Risk Register | Head of Service - as appropriate | Updates on target dates missed |
| Committee's Work programme | Head of Audit Services/ Chief Finance Officer / Audit Committee | Report |
| 26 March 2009 | | |
| Annual Audit and Inspection Letter | External Audit and Audit Commission Relationship Manager | |
| Quarterly Audit and Risk Report | Head of Audit Services | Report for period November 08 to Feb 09 |
| Corporate Risk Register | Head of Audit Services | Review |
| Corporate Risk Register | Head of Service - as appropriate | Updates on target dates missed |
| Anti Fraud and Corruption Policy | Head of Audit Services | Review |
| Annual Audit Plan | Head of Audit Services | Report |
| Committee's Work programme | Head of Audit Services/ Chief Finance Officer /Audit Committee | Report |

Agenda Item: 9

- 2.5 Any topics identified during consideration of the business at this meeting, will need to be included in the above Work Programme.
- 2.6 Other issues may be included in the Work Programme at any stage during the remainder of the municipal year.
- 2.7 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.
- 2.8 Managers may be required to attend the Committee, similarly to that resolved in Minute No. 227/06, to explain why they have not implemented the recommendations of the Head of Audit Services. It is not possible to predict these circumstances but they will be dealt with as and when they arise either by incorporating into the Work Programme or appearing on the agenda as appropriate.

3. Resolution

The Committee is asked to consider and approve the Work Programme as submitted.

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