Approval of the 2014/15 Financial Statements and to receive the External Auditor's Report (ISA260) for 2014/15

Portfolio	Finance
Ward(s) Affected:	All

Purpose

To approve the audited Financial Statements for 2014/15 and to receive the External Auditors Report (ISO260) for 2014/15.

Background

1. Statutory regulations require that unaudited financial statements are published by the 30th June and the audited financial statements by the 30th September each year. Only the audited financial statements need to be formally approved by members.

2. The unaudited financial statements were published on the Council's website on the 8th July 2015 and it is the audited financial statements that are now being presented to this committee for approval.

Financial Statements

3. The Financial Statements set out the Council's financial performance for the year ended 31st March 2015 and are attached to this agenda as a separate document.

ISA260 Audit Report

4. The Audit Commissions Code of Audit Practice requires the auditor to summarise the work they have carried out to discharge their statutory audit responsibilities together with any Governance issues identified. They are charged with reporting these to those charged with governance (The Audit and Standards Committee) at the time the final financial statements are considered. This report must also comply with the requirements of the International Auditing Standard 260 with regard to 'Communication of audit matters to those charged with governance'.

5. The auditors will be presenting their report at the meeting and it can be expected to cover the following areas:

   - Proposed opinion on the financial statements, annual governance statement and audit differences
   - Critical accounting matters
   - Value for Money approach
   - Key issues and recommendations arising from the audit

6. Members will have an opportunity to question the auditors about their report at the meeting.

Key Issues

7. The Council introduced a new financial system on the 1st April 2014. Although the system was introduced successfully in terms of transactions there were a number of issues on the accountancy side. These were:

   a. The bank reconciliation did not work for most of the year because of issues around the interfacing of other systems with the finance system. Despite many conversations with Civica this was not resolved until late February 2015. Consequently a significant amount of finance staff time was used trying to resolve the bank reconciliation when staff should have been working on the final accounts. The bank reconcilliation is now works properly and all the bank reconciliations are up to date.

   b. The budget monitoring reports did not reflect accurate profiling of budgets and there were issues around the way that support costs were calculated. This meant that services were asked to look at their actuals to date and estimate their variance to final outturn – this was the process followed for several years before. Some services were more successful at this than others and the auditor has highlighted this in their report. Clearly any form of estimation looking forward is going to be difficult hence for the 2015/16 budget we have accurately profiled the budget and services are required to compare actuals with budget to date rather than making a yearend predication.

   c. Resources for the implementation of the new finance system with hindsight were insufficient thus putting strain on the finance team.

8. In addition as a result of the transition to the new financial system it came to light that the way the Collection Fund (the fund which includes Council Tax and Business Rates collected and then passed on to preceptors) had not been accounted for correctly for a number of years nor picked up through the audit process. In particular there were issues around the ways that “payments in advance” were treated over many years which had not come to light before. This meant that the council had to engage outside expertise, which added to the delay, to correct this and this has resulted in a prior year adjustment to the 2013/14 accounts. Full details are included within the financial statements.

9. All of the problems above led to extra pressure on staff and thus increased sickness within the team thereby increasing the pressure on the remaining staff and adding to the problems encountered.

10. Due to the delays caused by the items above in order to try and meet the 30th June deadline (or at least close to it) the financial statements were compiled without the checks and review that has been carried out in previous years. As a result not only did they contain a large number of presentational errors but also a number of technical errors such as the correct accounting of asset valuations. There was also confusion around the way some items, such as investments, were described. This resulted in a large number of adjustments and several versions of the accounts prior to the one you see here. This level of adjustments is unprecedented for Surrey Heath when compared to previous years where there were virtually no changes at all arising out of the audit. These changes are all symptomatic of issues with capacity within the finance team and of the very thorough audit that we were subjected to. The adjustments are all detailed in the ISA260 report

11. All of the problems above led to extra pressure on staff and thus increased sickness within the team thereby increasing the pressure on the remaining staff and adding to the problems encountered.

12. As a result the publication of the draft accounts did not meet the statutory deadline of 30th June and instead were published on the 8th July and were not able to be presented to you before the 30th September but are being presented now.

13. As the audit could not be completed within the allotted time there have been many changes in audit staff and this has resulted in a lot of work being repeated and poor communication as to what was required. In addition due to the errors described the auditors decided to conduct a very through audit, checking each section several times, which has also led to delays and duplication of work with the auditors going through numbers several times with different staff. This has meant that the process has been extended far longer than was actually necessary.

14. The auditor has decided to give an “Except for” Qualification on the “value for money” judgement in the accounts. The “value for money” judgement is required by statute. The qualification has been made as in the judgement of the External auditor there are issues around the capacity and capability of the finance team leading to problems with the accounts. This will be addressed in the coming months and in the mean time we have taken on additional staff to assist with the 2015/16 year end process. In all other respects the Council did make proper arrangements to secure the economy, efficiency and effectiveness in its use of resources. Members should however take in to account that the Council did satisfy the other 60 parts that make up the criteria for judging “value for money”. In addition they auditors are not saying that Surrey Heath provides bad value for money but rather there were issues with the accounts production process.

15. In order to ascertain whether there should be any changes made the Executive Head of Finance commissioned an independent consultant to prepare a report on potential improvements to the accounts process and this has been attached to this report as Annex A together with actions taken.

16. In addition a number of other changes have been made this year which should prevent a recurrence of the events of this year. These are:

    a. The bank reconciliation now functions correctly and should present no problems at the year end
    b. Last year the processing of the asset valuations was delayed due to staff working on the bank reconciliation. This year the work should be completed before the year end
    c. The calculation of management costs and recharges was delayed last year due to issues with the new financial system. These problems have been addressed and these will be completed before the year end
    d. Last year there was a lack of expertise within the finance team in respect of the collection fund. This has been addressed through training and the use of external advisors
    e. There was a great deal of confusion as to what the auditor’s requirements were and this lead to a lot of wasted and duplicated work. This is being addressed by us seeking to have a planning meeting prior to the commencement of the audit.
    f. The financial statements are prepared on a word document interlinked with Excel tables. This became increasing unstable during the accounts process and was prone to crash. This has been addressed by having the entire document re written

g. There were issues with staffing capacity during the year. To provide support during the accounts process additional staff with the relevant expertise have been taken on and the department will be restructured once the accounts for 2015/16 have been completed.
h. Our 2014/15 audit has been so detailed and thorough that it is highly unlikely that there is anything else that is going to "jump out of the woodwork" and cause concerns

17. Members should note that the delays in agreeing the 2014/15 accounts may have an impact on the production of the 2015/16 accounts. Whilst everything is being done to avoid late submission of the 2015/16 accounts members should note that they will not be submitted until complete checks and reviews have been carried out.

18. The new financial system has brought great challenges during the year but it is anticipated that with the knowledge gained through the year things should go much more smoothly next year.

Other Matters

19. The Committee is asked to consider the Draft Letter of Representation required by the auditors which is included in the ISA260 and comment as appropriate. Members will be advised at the meeting if the auditors wish to make any changes

20. Final copies of the Financial Statements are on the council's website and will be available at the meeting.

Options

21. The committee can accept or reject the auditor's report and the comments contained within it, the accounts and/or the Letter of Representation as it sees fit. However these actions may have implications in respect of the auditor signing off the Council's financial statements

Resources Implications

22. The only resource implication arises due to audit fees. The successor to the audit commission (PSAA) set the audit fees for 2014/15 at £55,000 for the year. There has been a lot of downward pressure on fees as a result of the audit commission tender process. For example in 2010 the fees were £98,000. There is no doubt that the issues arising from the new system and staffing has meant that the auditors have had to spend more time on the Surrey Heath audit than was originally budgeted for however they too have not mitigated costs by auditing sections of the accounts several times. This has certainly been the most thorough audit KPMG has ever done at Surrey Heath. As a consequence of this KPMG will request an additional fee. This will be submitted to the regulator (Public Sector Audit Authority) who will make a judgement as to the merits of the claim and we are then required to comply with that. For information the scale fee for 2015/16 has been set at £41,900 and Council's in 2017 will be given the opportunity to tender for audit services themselves from an approved list of firms.

Recommendation

23. The Committee is advised to RESOLVE that the Executive Head of Finance be authorised to sign the Letter of Representation on behalf of the Council;

24. The Committee is advised to RECEIVE the audited financial statements for 2014/15 and RESOLVE that the Chairman of the Committee APPROVES the financial statements on behalf of the Council

Background Papers: None

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1. **Increasing in-year assurance**

Area of work	Weakness in 2014-5 closedown process	Recommendation	Implementation Date	Comments from Exec head of Finance
Collection Fund	The Collection Fund was not completed accurately as part of the 2014-5 accounts submission. Problems with the Collection Fund were not identified until very late in the accounts compilation process and were so fundamental that the audit opinion on the Council's Accounts was put at risk. The Council has incurred significant cost in additional audit fees and external consultancy time in order to rectify these issues.	The Collection Fund must be produced in full, including any supporting notes, twice a year going forward. - Month 9, to be completed for review by Executive Head of Finance by 31 January each year - Year-end to be completed for review by by Executive Head of Finance by 30 April each year External Audit should be invited to carry out an audit of the month 9 Collection Fund as part of interim audit checks, and this assurance banked for the final accounts audit.	Essential for 2015/6 Accounts	The Collection Fund will be completed by 30th April and will be balanced on a more regular basis in future years
Collection Fund	There are a number of general ledger codes relating to the Collection Fund that are not reconciled to records from the revenues system on a regular basis. It is important that **all** general ledger codes relating to the Collection Fund are reconciled to the revenues system on a regular basis.	A full review of reconciliation processes for Collection Fund cost centres on the general ledger should be carried out by the Finance Department. This review must ensure all cost centres on Civica Financials required for the production of the Collection Fund are fully reconciled back to the Revenues system on at least a quarterly basis.	To be implemented from 1.4.2016 in year.	This will be implemented in 2016/17
Bank Reconciliation	The bank reconciliation process did not work effectively throughout the whole of 2014-5, due to problems in the way it had been configured by Civica. Whilst these issues were resolved in time for the compilation of the statement of accounts, this issue had serious resource implications for the Finance Team.	The bank reconciliation process is generally working well now. However, this must not be allowed to slip, and the bank reconciliation must be completed and reviewed within 15 days of each month end. Any difficulties in meeting this target must be reported to the Executive Head of Finance.	Essential for 2015/6 Accounts	The bank reconciliation is regularly reviewed and is currently working well

Opening Balances	The opening balances loaded on to Civica Financials were not subject to independent check by Internal Audit.	The check of opening balances is a check that should be done early in the financial year. Opening balances should be loaded on to the general ledger as soon as the statement of accounts for the previous year has been signed off by the auditors. Internal Audit should then carry out a fully documented check of all opening balances and make this available to external audit at their interim audit visit.	Essential for 2015/6 Accounts	Internal audit have been advised that this check is required once the 2014/15 accounts have been finalised
Trial Balance - Accounts Mapping	KPMG complained that there was no clear trail between the statement of accounts and the Council's finance system. This is a basic requirement of any external audit team. Failure to provide such a trail will result in difficulties in getting accounts cleared by audit, and will result in an increased audit fee.	Trail Balance to accounts map should be maintained as a standing document by the Finance Department. Changes to GL structure should result in the mapping document being amended. Internal Audit should carry out a fully documented check of the trial balance to statement of accounts, once the draft accounts have been submitted. This should be made available to KPMG. This work can be completed before year end.	Essential for 2015/6 Accounts	Civica has been structured to ensure that there is a direct correlation between the accounts and the ledger system.

Trial balance – reconciliation procedures	Regular reconciliation of all control accounts is essential to ensure any posting or processing errors are identified promptly, and rectified before year end. Whilst key control accounts such as debtors / cash / creditors are reconciled regularly, other control accounts on the trial balance are not reviewed until year end. Examples include - reserve accounts - collection fund accounts - fixed asset accounts	A review of all ledger codes on the Council's trial balance should be carried out, and decisions made as to the nature of each ledger code - Income and expenditure - no reconciliation needed, but ensure reviewed via budget monitoring procedures - Balance sheet – regular transactions – balance must be reconciled to supporting documents monthly - Balance sheet irregular transactions - balance sheet – regular transactions – balance must be reconciled to supporting documents quarterly The complete trial balance must be covered by one of the above processes.	Essential for 2015/6 Accounts	Control accounts are reconciled on a monthly basis.
In year balance sheet and financial accounts	The Council should look to improve financial reporting going forward by producing a draft income and expenditure account and draft balance sheet on a half yearly basis. The Council now has a fully operational purchasing system, and is planning to implement the fixed assets module of Civica financials.	Production of a half yearly balance sheet and income and expenditure account direct from the general ledger would significantly reduce the risk of error in the year end statement of accounts: - It would be possible to identify significant accounting issues in year, rather than waiting until year-end - External audit would be able to enhance the interim audit, enabling year end testing to be reduced.	To be implemented from 1.4.2017	This will be built in to the program for 2016/17
Corporate Budget Monitoring	The 2014-5 audit process identified a number of material classification errors on the Council's Consolidated Income and Expenditure Account. In addition, the Finance Team had difficulty in	Corporate Budget Monitoring Processes should be reviewed to ensure that reconciliation to financial accounting records is included as part of the process.	To be implemented from for 2015/6	This will be done as part of the 2015/16 accounts closure process

	explaining a number of variances identified by the external auditor's analytical review.	It is essential that as part of the year end process for 2015-6, reconciliation is carried out to explain any differences between the Consolidated Income and Expenditure statement and variances identified as part of Corporate Budget Monitoring.		

2. Reduce Year-end Journals and associated workload

Area of work	Weakness in 2014-5 closedown process	Recommendation	Implementation Date	Executive Head of Finance comments
Fixed Assets	The Council has not yet implemented the fixed assets module in Civica Financials. This accounting module would significantly reduce the workload at year end, as a large number of processes currently carried out manually would be automated.	Implement the assets module before year end 2015/6 and use this to prepare fixed asset balances in the statement of accounts. This is however a complicated exercise that will need to be thoroughly tested.	Essential for 2015/6 Accounts	The asset module will be implemented in July as a result of a software upgrade. Manual calculation of assets will be completed mid april for 2015/16 accounts
Fixed Assets	Fixed asset accounting is dependent on work carried out by external valuers, who are relied on to revaluation and impairment figures that need to be entered on to the asset register.	It is recommended that external valuers compete valuations and impairment reviews and deliver reports to SHBC by the end of November each financial year This should be input to the finance system by the end of December each year. The Finance Team will only need to update the system with details of additions and disposals of assets in the last three months of the year at year end.	To be implemented from 1.4.2016 in year.	Valuations received and being processed before the 31st March 2016. For 2016/17 valuations will be done earlier in the year
Fixed Assets	Internal Audit no longer checks fixed asset accounts as part of the Council's financial year end process. It is better that any errors and adjustments needed are identified by the Internal Audit Team. This helps keep the external audit fee under control.	Internal Audit should carry out substantive testing of fixed asset balances as reported in the accounts as soon as practicable after year end.	Essential for 2015/6 Accounts	Internal audit advised that checks will be required
Accruals and Cut – off	The Final Accounts project plan set out clear deadlines for receipt of accrued income and	It is essential that deadlines are adhered to. Requests from Service Departments to make	Essential for 2015/6 Accounts	Services advised of deadlines and

	expenditure transactions. All accruals were to be sent to Finance by 10 April. However, accruals were still being processed by the Finance Department in late May.	accruals after the agreed deadline must be rejected unless material to the accounts. This will reduce the number of year-end journals.		finance staff going round departments to ensure adhered to
Accounting for year-end journals	Month 12 was not closed promptly in 2014-5. As a consequence a significant number of year-end manual journals were posted to period 12 on the general ledger. This made period 12 reconciliations on the main control accounts for transactions systems very difficult.	It is important that period 12 is closed promptly after 31 March in line with pre-agreed timetables. All year end journals should then be posted to period 13. If this is not done, reconciliation of year-end figures on the main transactions control accounts becomes difficult, and increased numbers of journals are required to correct period posting errors.	Essential for 2015/6 Accounts	Month 12 will be closed on the 31st March and all post year end journals put in to period 13

3. Management of the Final Accounts Project Plan

Area of work	Weakness in 2014-5 closedown process	Recommendation	Implementation Date	Executive head of Finance comments
Final Accounts Project Plan	The Finance Department has a final accounts project plan in place. However, this failed to produce a sound set of accounts by the statutory deadline of 30 June 2015. Consequently, the project plan must be replaced as existing arrangements have failed.	A full review of the final accounts project plan should be carried out light of the failure to meet statutory deadlines in for the 2014/5 statement of accounts. This must be a result of an honest assessment of current arrangements by the Finance Team. A new project plan must aim - to identify bottlenecks in the 2014/5 final accounts process and plans to deal with them - to fully implement recommendations made by KPMG - to ensure adequate resources are in place to deliver the accounts and that these resources are properly allocated to tasks to be delivered. - to incorporate recommendations in this report	March 2016	A simplified plan has been put in place to ensure deadlines are met
Monitoring of Progress	Regular meetings were held by officers in the Finance Team to monitor progress against the project plan. However: - certain officers, notably the Head of Finance, key to the accounts process were not involved in these meetings: - Progress meetings failed to identify that there were problems with aspects of the accounts and ensure these issues were appropriately escalated.	The process for monitoring progress against the final accounts project plan must be changed. Above all, an honest appraisal of progress against the plan must be carried out on a weekly basis. This must involve the Head of Finance, all senior accountants and all financial accounts staff.		Monitoring meetings will focus on issues and problems so that these can be addressed quickly
Annual Leave	Annual leave arrangements did not work satisfactorily. Key members of staff were on leave during the final accounts process.	Annual leave arrangements should be reviewed, this should ensure that annual leave in the finance department is minimised from 1 April to 30 June.		Leave has been restricted in the period to 30th

				june 2016
Structure of Final Accounts Team	KPMG have raised justifiable concerns about the structure of the Finance Team in production of the annual accounts. KPMG note that it was rare for a single officer to have full responsibility for any specific accounts area, meaning that there were delays due to input being required from multiple members of the finance team	It is recommended that individual members of the Finance team have clear personal responsibility for control over specific sections of the statement of accounts. This provides a clear point of contact for KPMG.	Essential for 2015/6 Accounts	Tasks have been delegated to staff. Additional resource has been brought in to assist with the final accounts process. A restructure after the final accounts will deal with any remaining structural issues in the tea,
Use of Internal Audit	SHBC Internal Audit had very little input into the final accounts process in 2014/5. There is considerable scope to utilise Internal Audit to check the accuracy of financial statements before submission of the Accounts to the external auditors. Much of this work can be done independently of the Finance team. Suggested areas for Internal Audit support include: • Opening balances • Accruals raised through purchasing system • Fixed Assets • Investments • Review of chart of accounts to trial balance mapping	More use should be made of internal audit in the final accounts process. Areas where internal audit can provide assurance should be identified as part of the final accounts planning process, and this work added to the internal audit annual plan. It is better for SHBC if errors or omissions are identified by Internal Audit rather than KPMG – this potentially saves external audit fees.	Essential for 2015/6 Accounts	Internal audit have been asked to provide assurance work in connection with the 2015/16 accounts

4. Format of the Accounts

Area of work	Weakness in 2014-5 closedown process	Recommendation	Implementation Date	Executive head of Finance comments
Content of the Accounts	The format of the Statement of Accounts and Foreword has not been subject to a full review for a number of years. Failure to review the format of the accounts may result in disclosure that is not required and the risk of unnecessary error and audit fee.	Review of the format of the statement of accounts should be carried out with the aim of stripping out all unnecessary disclosure. Consideration should be given to commissioning peer review from another Council with strong financial reporting controls.	To be implemented from 1.4.2016 in year.	A review will be carried out for the 2015/16 accounts and the auditors consulted on what they consider to be best practice
Statement of Accounts Workbook	The Statement of Accounts is derived from a complex excel worksheet which has been used for a number of years. However, this workbook is reaching the end its useful life – there are some bugs in the document and links within the accounts do not always work.	The Statement of Accounts workbook must be rebuilt for future accounting periods. Consideration should be given to taking advice from local councils where year-end processes work well. Where possible, the new workbook must link directly to Civica Financials, be fully tested , which have properly working links between the accounts and supporting notes.	To be implemented from 1.4.2016 in year.	The statement of accounts is being retyped in to a word document which should resolve these issues. Discussions are being had with other Civica councils with a view to automation but this will not be until the 2017 year end

Control over amendments to the Statement of Accounts	Control over amendments to the Statement of Accounts is not adequate at present. Too many officers have access to the Statement of Accounts workbook, meaning that amendments were made with no clear trail of: - Who made amendments to the Accounts - Reason for amendments This caused much frustration for the auditors and is a key reason why the audit fee had to be increased.	- Access to the Statement of Accounts workbook must be password restricted and access only given to those officers who need access - All changes to the Statement of Accounts must result in the creation of a new version of the accounts workbook. Details of any changes made must be documented and reasons set out in a working paper, which must be included in the Statement of Accounts workbook.	Essential for 2015/6 Accounts	Access to the statement of accounts will be restricted to one officer who will also make all of the amendments as required

5. Managing Expectations

Area of work	Weakness in 2014-5 closedown process	Recommendation	Implementation Date	Executive head of Finance comments
Audit start date	A draft statement of accounts was produced on 8 July 2015. This was 1 week after the statutory deadline of 30 June 2015. However, these accounts were not ready for audit at this point and it would have been more sensible for the accounts to be submitted for audit at a later date. This would have given the Finance Team a better opportunity to finalise the accounts, and make them ready for audit review. This would have enabled the KPMG audit to progress more smoothly and given the Council better control on the final accounts audit fee.	Whilst SHBC should improve final accounts processes with the aim of meeting audit deadlines, it is essential that audit work does not commence until the accounts are in a fit state to be audited. If this is not achieved, it is likely that the audit will not be successful and audit fees will rise. Timetables must allow adequate time for the accounts to be fully checked before they are submitted. If the accounts have not been completed by the due date agreed with KPMG, the Head of Finance should contact KPMG and delay the start of the audit until the accounts are ready. It is also the role of the Head of Finance to manage member expectations if such a situation arises. **But revised final accounts processes must aim to produce auditable accounts by statutory deadlines.**	Essential for 2015/6 Accounts	Agreed.
KPMG - Prepared by Client (PBC) Schedule	The Council failed to supply everything required on the KPMG PBC schedule. Failure to meet PBC requirements leads to a guaranteed increase in external audit fee.	- Liaison with KPMG must improve. It is essential that a meeting is held with KPMG before the interim audit commences to ensure both sides understand what is required by the PBC issued by the auditors	Essential for 2015/6 Accounts	Agreed and meeting requested

	However, the Council must improve liaison with the external audit team, to ensure that KPMG demands are not excessive and are clearly understood.	- SHBC must then ensure that the requirements of the PBC are met in full before the auditors commence work. Failure to meet this requirement is certain to result in extra audit fees and a difficult audit cycle.		

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SURREY HEATH LETTERHEAD

Neil Hewitson
KPMG LLP
15 Canada Square
London
E14 5GL

Date

Dear Neil

This representation letter is provided in connection with your audit of the financial statements of Surrey Heath Borough Council ("the Authority"), for the year ended 31 March 2015 for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2015 and of the Authority's expenditure and income for the year then ended;

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority as at 31 March 2015 and of the Authority's expenditure and income for the year then ended;

   ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

5. In respect of the restatement regarding reclassification of items from cash to Collection Fund debtors and creditors, made to correct a material misstatement in the prior period financial statements of a value of £1.5m, the Authority confirms that the restatement is appropriate.

Information provided

6. The Authority has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

7. All transactions have been recorded in the accounting records and are reflected in the financial statements.

8. The Authority confirms the following:

   i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

   ii) The Authority has disclosed to you all information in relation to:

      a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
         - management;
         - employees who have significant roles in internal control; or
         - others where the fraud could have a material effect on the financial statements; and
      b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

   In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

12. The Authority has included in its financial statements Property, Plant and Equipment (PPE) of £52.7m, of which £48.4m relates to land and buildings. The Authority includes within its financial statements Investment Properties of £12.5m. The Authority underwent a revaluation of its land and buildings as at 1 April 2014 as part of its five year rolling programme. The Authority confirms that these valuations are accurate and that the value of land, buildings and investment properties reported in the financial statements as at 31 March 2015 does not differ materially from the market value of those land and buildings at this date.

13. The Authority has recognised within its financial statements s106 income of £325k, relating to the "Suitable Alternative Natural Green Space" project ("SANGS"). The Authority confirms that it has disclosed the full amount of s106 reciepts and payments in year to us, and the full amount of recognisable income in 2014/15.

14. The Authority has reported a reconciling difference of £176k between the Movement in Reserves Statement ("MiRS") and the other prime financial statements, and a reconciling difference of £83k between the Cashflow Statement and the other prime financial statements. The Authority confirms that these reconciling differences are immaterial in 2014/15.

15. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

16. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) *Employee Benefits.*

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

- statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- funded or unfunded; and
- approved or unapproved,

have been identified and properly accounted for; and

b) all planned amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 31 March 2016.

Yours faithfully,

[Signatory]

Appendix to the Authority Representation Letter of Surrey Heath Borough Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period
- A Balance Sheet as at the end of the period
- A Movement in Reserves Statement for the period
- A Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is 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.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.

iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
vi. The entity is controlled, or jointly controlled by a person identified in (a).
vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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KPMG

cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Surrey Heath Borough Council

31 March 2016

Contents

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Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Surrey Heath Borough Council ('the Authority') in relation to the Authority's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, issued in March 2015, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place principally in July and August 2015, and then in December 2015 – February 2016.

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

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

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

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages;
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority; and
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2. The detailed listing of audit adjustments is included in Appendix 3.

Acknowledgements

We thank officers and Members for their continuing help and cooperation throughout our audit work.

Headlines

This table summarises the headline messages for the Authority. The remainder of this report provides further details on each area.

Context to the 2014/15 external audit	2014/15 has been a challenging year for the Authority's finance team. A new Civica ledger was implemented on 1 April 2014. There have been significant difficulties and delays with the implementation and establishing a 'business as usual' state. The introduction of the new ledger created additional resourcing pressures on the finance team. These challenges are in part reflected in the timeliness and quality of the Authority's draft 2014/15 financial statements. The Authority submitted its draft financial statements for audit on 8 July 2015, missing the submission deadline of 30 June 2015. In addition, the Authority submitted its draft Whole of Government Accounts ("WGA") pack on 29 July 2015, missing the Department of Communities and Local Government ("DCLG") deadline of 10 July 2015. The Authority was unable to provide sufficient supporting evidence for material balances within the financial statements, before the 30 September DCLG accounts audit submission deadline. As a result, the Authority missed this deadline. Subsequent to this, the Authority also missed the WGA submission deadline on 2 October 2015. We have identified a higher number of errors in the accounts than in previous years. A key contributor to this was the reduced level and robustness of quality assurance over the draft financial statements.
Financial statements proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 31 March 2016. We will also report that the Annual Governance Statement complies with guidance issued by CIPFA / SOLACE in June 2007. This is review and satisfactory conclusion of testing over the MiRS, Cashflow Statement and supporting notes to the accounts, and subject to completion of our final quality and review procedures.
Audit adjustments	Our audit identified a total of 41 significant audit adjustments, of which 20 are material, covering both ledger and disclosure amendments. Of these 41 adjustments, 20 impact on the prime financial statements. The net impact of these on the financial statements is: ▪ General Fund: £1,058k decrease ▪ Surplus on the provision of services: £166k increase We have included a full list of significant audit adjustments at Appendix 3. The majority of these have been adjusted by the Authority. There are two unadjusted errors, we are satisfied these are immaterial to the financial statements. We have raised recommendations in relation to the matters highlighted above, which are summarised in Appendix 1.
Accounts production and audit process	The Authority's process for the production of the 2014/15 financial statements was not as strong as in previous years, as evidenced by the considerably higher volume of errors. Working papers produced by the finance team to support the draft accounts were not of sufficient quality to support the balances and disclosures made in the draft accounts and were not made available in a timely fashion. As a result our work was not completed within the original agreed timescales. Given the challenges faced we are required to submit a fee variation request to the Public Sector Audit Appointments Limited ("PSAA") to cover the additional costs of undertaking this year's audit. We have raised a high priority recommendation regarding implementing a more robust quality assurance process over the production of the financial statements, full details are included within Appendix 1.

Headlines

Key financial statements audit risks	We review risks to the financial statements on an ongoing basis. We identified three financial statement audit risks in our 2014/15 external audit plan: ▪ Management override of controls: Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud due to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. ▪ The Authority implemented a new Civica general ledger system on 1 April 2014, during which existing balances were transferred from the old Oracle system to the new Civica system. There is a risk therefore that information has not been migrated over accurately or completely, which could result in the misstatement of opening balances. ▪ Valuation of land and buildings: This was because of the materiality of the value and the judgment involved in determining the carrying amounts of property assets. In addition, auditing standards require us to make a rebuttable presumption of a risk of fraudulent revenue recognition. We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures. However we keep our rebuttal of this risk under review throughout the audit. We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. Matters arising from this work are reported in Appendix 1.

Control environment	We have reviewed the overarching key controls the Authority has in place over budget monitoring, bank reconciliations and journals amendments. Our audit identified the following discrepancies: ▪ Budget monitoring: The Authority was not able to profile its budgeted expenditure correctly using the new Civica ledger system in 2014/15. As a result, the Authority was unable to undertake monitoring of budget vs actuals in year. Instead, the Authority undertook monitoring of service level actuals vs year end forecast outturn. This type of budget monitoring had been undertaken in prior years, and we have previously recommended this monitoring be undertaken on a real time actuals basis. ▪ Bank reconciliations: The Authority was unable to produce a monthly bank reconciliation until February 2015, as the new bank reconciliation module of the Civica ledger could not be correctly applied. However, this bank reconciliation did not agree to underlying records and did not appropriately reconcile the bank account balance to the general ledger. The Authority undertook a year end exercise to prepare the year end bank reconciliation in June 2015, and this has been found to appropriately reconcile the bank to the ledger. This fundamental control did not operate effectively during 2014/15. ▪ Journals authorisation: The Authority has a two stage journals authorisation process in place; all journals are required to be authorised by an officer separate to the preparer. All journals over £20k are required to be second authorised by the Head of Finance. Our detailed testing found that out of 18 journals over £20k tested, 7 had not been second authorised. We are satisfied that effective segregation of duties is in place, however note that the Authority's own internal policy has not been adhered to in these cases. ▪ The draft financial statements submitted for audit required a significant number of material amendments, and working papers were not always of appropriate quality for audit purposes. This indicates a breakdown in the quality of the accounts production process and highlights concerns over the overall control environment. The implementation of the new Civica general ledger system during 2014/15 has contributed to this overall weakening of arrangements, due to the additional pressure on staff time. ▪ Our audit work identified discrepancies between the opening trial balance per the new Civica ledger system and the prior year audited financial statements. These discrepancies were initially identified by an external consultant at the beginning of the year, however amendments were not made. As such corrections were identified and required during our audit, despite assurance work having been carried out in this area by an independent consultant. ▪ Our sample testing of cut-off controls and non-pay expenditure within the Comprehensive Income and Expenditure Statement ("CIES") identified three transactions totalling £260k which had been included in the incorrect year. We have previously raised recommendations regarding the cut off of transactions where transactions were identified as having been recorded in the incorrect accounting period. We undertook significant additional testing and from this are satisfied that we have materially quantified the extent of errors. The Authority has amended these items. *Continued overleaf*

Control environment (cont.)	▪ Testing of Property, Plant and Equipment ("PPE") and Investment Properties, identified that the Authority had not undertaken an exercise to satisfy itself that the fair value of assets valued at 1 April 2014 was not materially different to their carrying values as at 31 March 2015. This is required by the Code of Practice on Local Authority Accounting. The Authority engaged its external valuer to provide this review during the audit, which resulted in a further revaluation increase of £1.4m. As a result of the above items we have raised a total of ten recommendations in response to each of these items, of which six are high priority. Full details of these items are given in Appendix 1.
Completion	At the date of this report our audit of the financial statements is substantially complete, except for completion procedures and testing over the Whole of Government Accounts ("WGA") submission. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

VFM conclusion and risk areas	We consider two criteria in determining our Value for Money conclusion as specified by the Audit Commission: arrangements to secure financial resilience; and arrangements to secure economy, efficiency and effectiveness. Within these two criteria there are 64 risk triggers specified by the Audit Commission, for which we review the Authority's arrangements and consider if they indicate an increased risk requiring additional audit attention. Two of these risk triggers are lack of capacity within the finance team, and poor management of capital projects. As a result of matters identified throughout the year, we identified these items as significant risks to the Value for Money conclusion, and undertook additional audit procedures as appropriate. **Inconsistent application of core elements of the financial control environment** The Authority faced a number of challenges following the introduction of a new financial ledger system on 1 April 2014. It had a detrimental impact on the consistency with which fundamental financial controls were applied in year. For example, no bank reconciliations were performed during 2014/15 and there were significant delays in the preparation of the year-end bank reconciliation as at 31 March 2015. The ledger implementation also meant that the regular monitoring of actual expenditure against budgets did not take place during 2014/15. **Capacity, capability and structure of the finance function** The draft financial statements were submitted late on 8 July 2015, missing the DCLG submission deadline of 30 June 2015. In addition, the WGA DCT pack was submitted late on 29 July 2015, missing the DCLG submission deadline of 10 July 2015. The draft accounts submitted for audit contained a large volume of significant audit adjustments, and the primary statements did not reconcile to one another. During the audit process, audit working papers were not always of appropriate quality to support accounts disclosures and there were delays in receiving key working papers and evidence, which delayed the audit process. External consultants were required to review and revise certain accounts figures from those presented in the draft financial statements. The Authority was unable to provide sufficient supporting evidence for material balances within the financial statements, before the 30 September DCLG accounts audit submission deadline, or the 2 October WGA submission deadline. As a result, the Authority missed these deadlines. There was not an appropriate level of quality control review of the draft financial statements and there was not an appropriate plan in place to ensure that the finance team structure and resources could be utilised effectively to meet statutory responsibilities. These capacity and capability issues are compounded by pressures within the resource model of the finance function, the structure of which is under review. On this basis we cannot satisfy ourselves that the capacity of its finance team in 2014/15 were sufficiently robust to ensure financial control, or to ensure efficiency and productivity. In light of the above we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure financial resilience in 2014/15, except for in regard to the capacity of the finance team. We anticipate issuing a qualified (except for) VFM conclusion by 31 March 2016. Further details are given in section four.

Public Interest Reporting (not discussed further in this document)	In auditing the accounts we must consider: ▪ whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit, in order for it to be considered by Authority or brought to the attention of the public; and ▪ whether the public interest requires any such matter to be made the subject of an immediate report rather than at the conclusion of our audit. There are no matters in the public interest that we wish to raise at this time.

Financial Statements: proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 31 March 2016.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA / SOLACE in June 2007.

Our audit has identified a total of 41 significant audit adjustments.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Performance and Audit and Standards Committee on 31 March 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. There are no uncorrected audit differences.

We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level for this year's audit was set at £450k. See Appendix 5 for more information on materiality. Audit differences below £45k are not considered significant.

Our audit identified a total of 41 significant audit adjustments, which we set out in Appendix 3. The most significant of these are summarised below. It is our understanding that these will be adjusted in the final version of the financial statements and we will confirm that they have been processed before issuing our audit opinion.

Of the audit adjustments we have identified, 20 impact on the prime financial statements. For example:

- Reduction of an impairment charge made to the CIES by £1,412k, increasing the surplus by this amount.
- Misclassification of several investments items within the Balance Sheet between Short-term and Long-term Investments, amounting to £9,624k in total.
- Adjustment of £283k of income from Housing Services to Adult Social Care within the CIES.
- Inclusion of £420k in additional expenditure and removal of £246k in income within Central Services to the Public in the CIES.
- Reclassification of £876k from expenditure to income for Cultural, Environmental and Planning Services.
- Movement of £8,123k from Available for Sale Financial Assets in current investments to long-term investments within Note 34.

In addition we identified presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing all of these.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Financial Statements: proposed opinion and audit differences

Our audit has identified a total of 41 significant audit adjustments. Of these, all are material to the financial statements and 20 impact on the prime financial statements.

The impact of these adjustments is to:

- **Decrease the balance on the general fund at 31 March 2015 by £1,058k; and**
- **Increase the surplus on the provision of services for the year by £166k.**

Comprehensive Income and Expenditure Statement for Year Ending 31 March 2015

£'000	Pre-Audit Expenditure	Post-Audit Expenditure	Pre-Audit Income	Post-Audit Income	Pre-Audit Net	Post-Audit Net	Audit Adjustment
Central services to the public	1,516	1,936	(622)	(868)	894	1,068	174
Cultural, environmental & planning services	11,621	9,822	(5,861)	(5,160)	5,760	4,662	(1,098)
Highways, roads & transportation	1,480	1,480	(2,569)	(2,569)	(1,089)	(1,089)	0
Housing services	19,596	19,596	(17,527)	(17,244)	2,069	2,352	283
Adult social care services	2,315	2,315	(1,330)	(1,613)	985	702	(283)
Corporate & democratic core	2,335	2,429	(42)	(42)	2,293	2,387	94
Non distributed costs	0	0	0	0	0	0	0
Other operating income and expenditure	0	0	0	0	0	0	0
Cost of services	**38,863**	**37,578**	**(27,951)**	**(27,496)**	**10,912**	**10,082**	**(830)**
Other operating expenditure							
Parish precepts					509	509	0
Payments to Government housing capital receipts					0	0	0
pool					**509**	**509**	**0**
Financing and Investment Income and Expenditure							
Pensions interest cost and expected return on pensions assets					1,348	1,348	0
Interest receivable and similar income					(241)	(241)	0
Income and expenditure in relation to investment properties and change in their fair value					(2,459)	(2,633)	(174)
					(1,352)	**(1,526)**	**(174)**
(Surplus) or deficit on discontinued operations					**0**	**0**	**0**
Taxation and non-specific grant income							
Council tax income					(7,756)	(7,756)	0
Non domestic rates					(1,990)	(1,152)	838
Non-ringfenced government grants					(2,591)	(2,591)	0
Capital grants and contributions					(283)	(283)	0
					(12,620)	**(11,782)**	**838**
(Surplus)/deficit on provision of services					**(2,551)**	**(2,717)**	**(166)**
(Surplus) or deficit on revaluation of PPE					(9,328)	(9,251)	77
Actuarial (gains)/losses on pension assets/ liabilities					5,699	5,699	0
(Surplus) or deficit on revaluation of available for sale financial assets						(144)	(144)
Other comprehensive income and expenditure					**(3,629)**	**(3,696)**	**(67)**
Total comprehensive income and expenditure					**(6,180)**	**(6,413)**	**(233)**

Financial Statements: proposed opinion and audit differences

Balance Sheet as at 31 March 2015			
£'000	**Pre-audit**	**Post-audit**	**Audit Adjustment**
Total property, plant & equipment	**51,371**	**52,796**	**1,425**
Heritage Assets	334	334	0
Investment property	12,534	12,534	0
Long term investments	1,999	11,623	9,624
Long term debtors	320	320	0
Long term assets	**66,558**	**77,607**	**11,049**
Short term investments	12,300	2,676	(9,624)
Inventories	34	34	0
Short term debtors	6,771	6,513	(258)
Cash and cash equivalents	8,276	9,264	(988)
Current assets	**27,381**	**18,487**	**(8,894)**
Short term creditors	(9,568)	(11,376)	(1,808)
Current liabilities	**(9,568)**	**(11,376)**	**(1,808)**
Long term creditors	(136)	(136)	0
NDR Provision for Appeals	(1,280)	(1,280)	0
Other long term liabilities – Pensions	(38,310)	(38,310)	0
Long term liabilities	**(39,726)**	**(39,726)**	**0**
Net assets	**44,645**	**44,992**	**347**
General Fund balance	(3,761)	(2,703)	1,058
Capital receipts reserve	(903)	(809)	94
Government grants Unapplied	(14)	(14)	0
Earmarked reserves	(16,955)	(16,622)	333
Usable reserves	**(21,633)**	**(20,148)**	**1,485**
Revaluation reserve	(25,372)	(25,385)	(13)
Capital adjustment account	(37,300)	(38,712)	(1,412)
Deferred capital receipts	(23)	(23)	0
Available for sale financial instrument reserve	(144)	(144)	0
Pensions reserve	38,310	38,310	0
Collection fund adjustment account	1,382	975	(407)
Accumulated absences account	135	135	0
Unusable reserves	**(23,012)**	**(24,844)**	**(1,832)**
Total reserves	**(44,645)**	**(44,992)**	**(347)**

Financial Statements: proposed opinion and audit differences

Cash Flow Statement for Year Ending 31 March 2015		
£'000	**Pre-audit**	**Post-audit**
Net (surplus) or deficit on the provision of services	2,551	(2,717)
Adjust net surplus or deficit on the provision of services for noncash movements	686	(2,143)
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(751)	2,632
Net cash (inflows)/outflows from operating activities	**2,486**	**(2,228)**
Investing activities	(6,068)	9,792
Financing activities	(3,378)	(39)
Net (inflows)/outflows in cash and cash equivalents	**(6,960)**	**7,525**
Cash and cash equivalents at the beginning of the reporting period	15,236	16,789
Cash and cash equivalents at the end of the reporting period	**8,276**	**9.,264**
Movement in cash	**(6,960)**	**7,525**

Financial Statements: proposed opinion and audit differences

Movement in Reserves Statement for Year Ending 31 March 2015 (Pre-audit)

£'000	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
Opening balance	**(2,415)**	**(16,522)**	**(2,063)**	**(14)**	**(21,014)**	**(17,467)**	**(38,481)**
(Surplus) or deficit on provision of services	(1,886)	0	0	0	(1,886)	0	(1,886)
Other comprehensive income and expenditure	0	0	0	0	0	(3,539)	(3,539)
Total comprehensive income and expenditure	**(1,886)**	**0**	**0**	**0**	**(1,886)**	**(3,539)**	**(5,425)**
Adjustments between accounting basis & funding basis under regulations	772	0	1,160	0	1,932	(2,006)	(74)
Net (increase)/ decrease before transfers to earmarked reserves	**(1,114)**	**0**	**1,160**	**0**	**46**	**(5,545)**	**(5,499)**
Transfers (to)/ from earmarked reserves	(447)	447			0		0
(Increase)/ decrease in year	**(1,561)**	**447**	**1,160**	**0**	**46**	**(5,545)**	**(5,499)**
Closing balance	**(3,976)**	**(16,075)**	**(903)**	**(14)**	**(20,968)**	**(23,012)**	**(43,980)**

Movement in Reserves Statement for Year Ending 31 March 2015 (Post-audit)

£'000	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserves	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
Opening balance	**(2,415)**	**(16,522)**	**(2,063)**	**(14)**	**(21,014)**	**(17,740)**	**(38,754)**
(Surplus) or deficit on provision of services	(2,717)	0	0	0	(2,717)	0	(2.717)
Other comprehensive income and expenditure	0	0	0	0	0	(3,696)	(3,696)
Total comprehensive income and expenditure	**(2,717)**	**0**	**0**	**0**	**(2,717)**	**(3,696)**	**(6,413)**
Adjustments between accounting basis & funding basis under regulations	2,154	0	1,254	0	3,408	(3,408)	0
Net (increase)/ decrease before transfers to earmarked reserves	**(563)**	**0**	**1,254**	**0**	**691**	**(7,104)**	**(6,413)**
Transfers (to)/ from earmarked reserves	100	(100)	0	0	0	0	0
(Increase)/ decrease in year	**(463)**	**(100)**	**1,254**	**0**	**691**	**(7,104)**	**(6,413)**
Other CIES	**176**	**0**	**0**	**0**	**176**	**0**	**176**
Closing balance	**(2,702)**	**(16,622)**	**(809)**	**(14)**	**(20,147)**	**(24,844)**	**(44,991)**

Financial Statements: significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on the significant risk identified.

In our External Audit Plan 2014/15 we identified significant risks affecting the Authority's 2014/15 financial statements. The table below sets out our detailed findings in respect of these significant audit risks.

Significant audit risk: changing the general ledger	
Issue	**Findings**
A new Civica general ledger system went live on 1 April 2014, during which existing balances were transferred from the old Oracle system to Civica. There is a risk therefore that information was not migrated over accurately or completely, which could result in the misstatement of opening balances.	We undertook the following procedures in response to this risk: • We reviewed the assurance report which the Authority's external consultant produced over the transition of balances onto the new ledger. This report only reviewed net total balances from Oracle to Civica, not the full balance sheet on a line by line level. • We reconciled the opening balances recorded on Civica on 1 April 2014 to the 2013/14 audited financial statements to ascertain if balances had been brought over correctly onto the new ledger. We identified that cash and investments balances totalling £12.4m had been misclassified when they were brought over to the new ledger. This was because Civica had more general ledger codes than previously, and hence now investments were split out between cash equivalent, short term investment, and long term investment in the general ledger. Previously these were all recorded together and then manually split out into their respective accounts lines as part of the year end accounts production process. This change led these transactions to be erroneously misclassified in the new ledger. These errors have been identified during the audit process and adjusted by the Authority. The full details of these are given in Appendix 3. We have raised a recommendation regarding the robustness of the assurance process undertaken over the new ledger implementation in Appendix 1.

Financial Statements: significant risks and key areas of audit focus

Significant audit risk: valuation of land, buildings and investment properties	
Issue	**Findings**
In 2013/14 the Authority reported that it owned land and buildings valued at £36.1m and Investment Properties of £10.3m. Local Authorities exercise judgment in determining the fair value of different asset classes held and the methods used to ensure that the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgment involved in determining the carrying amounts of assets, we identified through our audit fieldwork that the valuation of land, buildings and investment properties should be a significant audit risk for 2014/15. At 31 March 2015 the Authority reported in its draft financial statements that it owned land and buildings valued at £48.4m and Investment Properties of £12.5m.	In 2014/15, the Authority commissioned Wilks, Head and Eve (WHE) LLP to undertake a revaluation exercise on a selection of its land and buildings as at 1 April 2014, in line with its accounting policy to ensure that all assets are revalued over a five year period. The total revalued value of land and buildings in the draft financial statements was £25.8m, and investment properties was £12.5m, valued as at 1 April 2014. We considered the independence and experience of WHE. We were satisfied that the valuer was appropriately qualified to undertake the valuation, and that it was conducted in accordance with RICS principles and the Authority's accounting policies for Property, Plant and Equipment and Investment Properties, and the instructions provided. We have also undertaken a review to confirm that the valuation bases adopted for each class of assets are in line with appropriate industry bases. We have reviewed the revaluation instructions provided to the Authority's external valuers, Wilks Head and Eve, and the revaluation report received by the Authority confirming the properties revalued, the type of properties, the valuation bases and the property information used. We reviewed the accounting entries made by the Authority to confirm that the valuations provided by WHE were correctly recorded in the financial statements. Here we identified that the Authority had incorrectly charged the full value of an impairment of £1.6m for Camberley Theatre to the Comprehensive Income and Expenditure Statement (CIES). This asset had a corresponding balance in the revaluation reserve of £1.4m, therefore this impairment should have been charged against the revaluation reserve first, before the remaining £200k was charged to the CIES. This error has been amended by the Authority in the revised financial statements. We also considered the Authority's arrangements for assessing the potential for material changes in valuation of property between the valuation date (1 April 2014) and the Balance Sheet date (31 March 2015). In response to an audit request, the Authority commissioned an impairment and valuation review be undertaken by their external valuer. This confirmed that there had not been a material impairment to the Authority's asset portfolio between the valuation date and the balance sheet date. It also confirmed that there had been no significant increase in value in investment properties. WHE's analysis of the property market for land and buildings which had been revalued determined with reference to publicly available indices, that there had been a material increase in the value of these properties between the valuation date and the balance sheet date. In order to meet the *Code of Practice on Local Government Accounting in the UK 2014/15* requirement that the fair value of revalued assets are not materially different to their carrying value, the Authority therefore uplifted the value of these revalued assets by 7.9%, totalling £1.4m. We have raised a recommendation regarding this matter in Appendix 1.

Financial Statements: significant risks and key areas of audit focus

Significant audit risk: management override of controls	
Issue	**Findings**
Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud due to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. Our audit methodology incorporates the risk of management override as a default significant risk for 2014/15.	In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.

Financial Statements: accounts production and audit process

The Authority's finance team experienced challenges in preparing the draft accounts in 2014/15, and this is reflected in the quality of draft accounts produced.

Accounts production and audit process

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

Element	Commentary
Accounting practices and financial reporting	The Authority's financial reporting processes faced challenges this year, in particular as a result of the new Civica ledger which was implemented on 1 April 2014. As a result, financial reporting processes were not as strong as would have been required in order to produce draft financial statements of an appropriate quality. We have identified a higher number of errors in the accounts than in previous years, and in some areas of the accounts, for example Note 11 Property, Plant and Equipment; Financial Instruments; Cash; the Movement in Reserves Statement; and the Cashflow Statement, changed substantially during the course of audit fieldwork. We consider that accounting practices are generally appropriate, however the larger than expected volume of errors has distorted the presentation of these in the draft financial statements.
Completeness of draft accounts	The deadline for draft accounts to be submitted for audit was 30 June 2015 as set by the DCLG. The Authority did not meet this deadline as we received the draft accounts on 8 July 2015. The Authority also missed the deadline for the first cycle submission of the WGA on the 10 July 2015 as set by the DCLG. This was submitted by the Authority on the 29 July 2015. The Authority was not able to provide to audit sufficient supporting evidence for some balances reported in the draft financial statements. This resulted in the Authority missing the DCLG audit accounts submission deadline of 30 September 2015, and the WGA audit submission deadline of 2 October 2015.
Quality of supporting working papers	The quality of working papers provided did not consistently meet the standards specified in our PBC request list. In several cases, including payroll, financial instruments, cash and debtors, supporting working papers did not reconcile to the financial statements.
Response to audit queries	Officers made significant efforts to address audit queries in a timely fashion. However, a more timely response was not possible due to staff sickness and annual leave during the audit. Moreover, the structure of the finance team; whereby it was rare for a single officer to have full responsibility for any specific accounts area, meant that there were delays due to input being required from multiple members of the finance team.
Prior year recommendations	As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in previous years' ISA 260 reports. The Authority has implemented two out of seven recommendations raised in our 2013/14 and 2012/13 ISA 260 Reports. Appendix 2 provides further details.

Financial Statements: completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Surrey Heath Borough Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Surrey Heath Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

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

Other matters

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

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

VFM conclusion

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

We have concluded that overall the Authority has not made proper arrangements to ensure financial resilience and to secure economy, efficiency and effectiveness in its use of resources due to a lack of staff capacity in the finance team and in the management of major capital projects.

Background

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

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

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

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

Work completed

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

We keep this risk assessment continually under review. During audit, we identified a significant risk to our VFM conclusion in relation to the capacity and capability within the finance function, leading to the inconsistent application of core elements of the financial control environment.

This was identified through interim fieldwork which identified that key financial controls had not taken place throughout 2014/15. Moreover, receipt of the draft financial statements in July 2015 identified significant a large volume of audit adjustments, and the financial statements and WGA were submitted late. The Authority was unable to provide sufficient supporting evidence for some balances reported in the draft financial statements, and as a result the Authority missed the DCLG accounts submission deadline of 30 September 2015, and the WGA submission deadline of 2 October 2015. Therefore in line with the audit approach as directed by the Audit Commission, we identified staff capacity within the finance team and the application of core elements of the financial control as significant risks to the VFM conclusion, and undertook additional work in this area as appropriate.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure financial resilience in 2014/15, except for capacity in the finance team and the application of core elements of the financial control environment. These have resulted in the inconsistent application of key financial controls during the year, and in the production of financial statements which did not meet statutory deadlines or audit quality standards.

Specific VFM risks

We identified a specific VFM risk during the course of our audit in relation to capacity in the finance team and in regard to the application of core financial controls.

We undertook additional testing procedures in response. From the outcome of this testing we were unable to conclude that the internal controls provide sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

Work completed

In line with the risk-based approach set out on the previous page and in response towards a risk concerning budget monitoring identified during the audit process, we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work on the Authority's budget monitoring procedures.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for the identified specific risk. This work is now complete and we also report on this below.

Key VFM risk: capacity of the finance team and inconsistent application of core financial controls	
Issue	**Findings**
On 1 April 2014 the Authority implemented a new Civica general ledger. Discussions with officers has identified that this project was not planned or resourced sufficiently to ensure project success and when issues arose, they were not resolved in a timely fashion to ensure the impact was minimised. This, in addition to structural and capacity issues within the finance team, has meant that "business as usual" could not continue throughout the implementation phase, and implementation difficulties impacted on the application of core financial controls throughout 2014/15.	We reviewed the project plan for the Civica implementation and held discussions with senior officers. We also undertook detailed testing of core financial controls during year, specifically bank reconciliations and budget monitoring. We identified that the Authority was not able to correctly reconcile the General Ledger to the bank during 2014/15. The first month where the bank reconciliation was undertaken correctly was for March 2015, undertaken in June 2015. Moreover, the Authority was unable to correctly profile its budgeted expenditure across the year. As a result, budget monitoring could not be undertaken on a budget vs actuals basis, but rather departments were asked to predict if their year end balance would vary from budget by £10k or more. Implementation difficulties meant that these key financial controls could not be appropriately undertaken in year, and that "business as usual" could not continue throughout the implementation phase. We also reviewed the Authority's closedown plan for producing the annual accounts. It was similar to previous years' plans, however did not take account of the ledger implementation difficulties or the staff resources which were required to address these, rather than prepare the annual accounts. The plan also did not take account of staff leave during the accounts production process. *(Continued overleaf)*

Specific VFM risks (continued)

Key VFM risk: capacity of the finance team and inconsistent application of core financial controls (continued)

Findings

The draft financial statements and WGA DCT pack were submitted late, missing the DCLG deadlines. The draft financial statements contained a large volume of errors, and the primary statements did not reconcile to one another. Discussions with officers has identified capacity and structural difficulties within the finance team which put at risk their ability to deliver their statutory responsibilities.

This underlines that the finance team lacked an appropriate level of quality control review of the draft financial statements, and that there was not an appropriate plan in place to ensure the finance team structure and resources could be utilised effectively to meet statutory responsibilities. The structure of the finance team is also currently under review.

As a result of this, we were not able to gain the assurance sought to mitigate the risk identified over the lack of capacity within the finance team and the inconsistent application of core financial controls. Recommendations regarding these matters have been raised in Appendix 1.

In light of the above we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure financial resilience in 2014/15 except for in regard to capacity within the finance team and the application of core financial controls, which has impact on the Authority's financial control and efficiency and productivity in 2014/15.

As a result of the issues described above, our opinion on the Authority's Use of Resources conclusion will be:

In considering the Authority's arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness we identified the following matters:

- ***Inconsistent application of core elements of the financial control environment:*** *The Authority faced a number of challenges following the introduction of a new financial ledger system on 1 April 2014. It had a detrimental impact on the consistency with which fundamental financial controls were applied in year. For example, no bank reconciliations were performed during 2014/15 and there were significant delays in the preparation of the year-end bank reconciliation as at 31 March 2015. The ledger implementation also meant that the regular monitoring of actual expenditure against budgets did not take place during 2014/15.*
- ***Capacity, capability and structure of the finance function:*** *The submission deadlines for the unaudited draft accounts and the Whole of Government Accounts (WGA) pack were not met by the Authority. Once received, the draft accounts required a significant number of material adjustments to be made which corrected the outturn position of the Authority. These capacity and capability issues are compounded by pressures within the resource model of the finance function, the structure of which is under review.*

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Surrey Heath Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Appendix 1: Key issues and recommendations

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

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations. We will formally follow up these recommendations next year.

Priority rating for recommendations		
1 ***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.	2 ***Priority two***: issues that have an important effect on internal controls but don't need immediate action. You may still meet a system objective in full or in part or mitigate a risk adequately but the weakness remains in the system.	3 ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No	Risk	Issue and recommendation	Management response / responsible officer / due date
1	1	**Accounts production quality assurance framework** In the draft financial statements submitted for audit, 44 significant errors were identified, of which 21 were material. Of the 44 errors, 25 impacted the prime financial statements. A key contributor to this was the reduced level and robustness of quality assurance over the draft financial statements in 2014/15 than in previous years. Moreover, the Authority submitted its draft financial statements for audit on 8 July, missing the submission deadline of 30 June. The Authority submitted its draft Whole of Government Accounts ("WGA") pack on 29 July, missing the Department of Communities and Local Government ("DCLG") deadline of 10 July. The Authority was unable to provide sufficient supporting evidence for some balances reported in the draft financial statements, and as a result the Authority missed the DCLG accounts submission deadline of 30 September 2015, and the WGA submission deadline of 2 October 2015. **Recommendation** The Authority should develop a more robust quality assurance framework for the production of its financial statements. This should include a built in timetable for the production of the accounts, which is adhered to, with key individuals allocated responsibility for specific items to ensure accountability. This should be designed to ensure that there is contingency and cover available in the event that team members are unavailable for any reason. This should also include layers of appropriate quality review to ensure the draft accounts are of appropriate quality before they are submitted for error. This should help to ensure that the volume of errors and presentational amendments identified are resolved and do not reoccur.	**Agreed** As in previous years an accounts preparation timetable was prepared for 2014/15. This allocated individual tasks to staff for areas of the financial statements and there were regular meetings held to monitor progress. However due to operational issues the timetable slipped and the deadline was missed. We will ensure that for next year the timetable is adhered to fully to ensure that the accounts are produced on time. This will include sufficient time to enable a quality review to be done to highlight any potential errors before publication. Where possible contingency cover will be identified however this may not be possible for all areas given the size of the finance department. **Responsible Officer** Kelvin Menon, Executive Head of Finance **Due Date** 30 June 2016

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	1	**Budget monitoring** Our review of the Authority's budget monitoring arrangements identified that the Authority was not able to profile its budgeted expenditure correctly using the new Civica ledger system in 2014/15. As a result, the Authority was not able to undertake budget monitoring of budget vs actuals in year. Instead, the Authority undertook monitoring of actuals vs year end forecast outturn at a service level. This type of budget monitoring had been undertaken in prior years, and KPMG had previously raised a recommendation that this monitoring should be undertaken on a real time actuals basis. **Recommendation** We recommend that the Authority undertakes budget monitoring comparing actual income and expenditure against budgeted income and expenditure. This analysis should be regularly reported to the Executive so they have an accurate and up to date understanding of the Authority's financial position.	**Agreed** In 2014/15 all the budgets were profiled in 12ths as part of the setup for the new computer system. This meant that monitoring actuals to budget could not be relied upon to give an accurate picture. For 2015/16 Budget Monitoring is being performed by comparing budget to date v actuals as in the recommendation. Service Heads have been tasked with ensuring that budgets for the year have been profiled correctly so as to ensure that the monitoring reports are accurate. Executive Members receive copies of all the monitoring reports produced by Civica each month showing service variances with significant variances, which may have an impact on outturn, being reported formally to Executive every quarter. **Responsible Officer** Kelvin Menon, Executive Head of Finance **Due Date** Implemented

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	1	**Cut-off testing** From our initial cut-off sample testing, we identified one receipt of £188k in March 2015 incorrectly coded to April in the 2015/16 financial year. Also we identified a further two cut-off related errors, amounting to a gross value of £72k from our CIES non-pay expenditure testing whereby these transactions had been posted to the incorrect financial year. **Recommendation** Our analysis does not indicate that this could lead to a material misstatement, however we recommend that the Authority reinforces its process for accruing income and expenditure transactions appropriately at year end and ensures there is a robust process in place for posting relevant transactions to the correct financial year.	**Agreed** The Council operates a very short window to process prior year transactions before the month is closed. This means that invoices arriving late have to be accrued. Next year we will put in processes to ensure that income and expenditure is recognised in the correct period. The transactions team has reviewed the procedures to check periods covered on supplier invoices were quoted to ensure that accruals and prepayments are picked up and adjusted for. In addition procedures have been updated to check that invoices received after year end to ensure that expenditure is accounted for in the correct period. **Responsible Officer** Sarah Parmenter, Senior Accountant **Due Date** 30 June 2016

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
4	1	**Bank reconciliations** Due to issues around the configuration and interfacing of the bank reconciliation module within Civica the first time the Authority could reconcile its bank to the General Ledger in 2014/15 was for the month of February 2015. However, this bank reconciliation did not agree to underlying audit trails and did not appropriately reconcile the bank account balance to the general ledger. The Authority then undertook a year end exercise to prepare the year end bank reconciliation in June 2015, and this has been found to appropriately reconcile the bank to the ledger. However, this key control did not operate effectively throughout 2014/15. **Recommendation** Regular reconciliations of the bank account to the general ledger are an essential internal control which enables any discrepancies with regards to cash to be identified and resolved in a timely manner. We therefore recommend that management perform bank reconciliations on a monthly basis, to ensure that any discrepancies are identified and resolved in a timely manner. These bank reconciliations should be separately prepared and authorized to ensure sufficient segregation of duties.	**Agreed** Discussions began with Civica in May 2014 when it was discovered that the bank reconciliation module did not function as expected. This was due to issues around the interfaces with various other computer systems. Despite protracted discussions with Civica it took until April 2015 for the issue to be resolved sufficiently for a bank reconciliation to be done. In 2015/16 the bank has been satisfactorily reconciled every month up to the 31 August and no errors identified. **Responsible Officer** Sheena Adrian, Capital Accountant **Due Date** Implemented

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
5	1	**Assurance over opening balances** On 1 April 2014, the Authority transitioned to a new Civica ledger system, from the former Oracle ledger system. In June 2015, the Authority commissioned a piece of assurance work by an external consultant over the integrity and accuracy of balances transferred from the old to the new ledger. This reviewed all balance sheet items, though only at a net balance level, balances were not mapped on a line by line basis. We undertook detailed testing of the balances transferred to the new ledger, by mapping balances on Civica on 1 April 2014 back to the 2013/14 audited financial statements. We identified that there were misclassifications between debtors and creditors, and cash and investments balances, on the opening ledger on 1 April 2014. These were due to mapping differences between Oracle and Civica; previously these items would have required a year end off ledger adjustment to classify them appropriately in the financial statements. Civica provides the functionality to record these appropriately. Discussions with officers confirms that these reclassifications were identified by the assurance work undertaken however these were not amended on the ledger. This resulted in errors in the 2014/15 draft financial statements. **Recommendation** We recommend that when there is a data migration exercise in any system, the data is initially migrated on a like-for-like basis and assurance work performed over the data transferred, before any subsequent reclassifications are undertaken. This will reduce the likelihood of misclassifications arising during the data migration exercise not being readily identifiable. Moreover, we recommend that any work performed by consultants or other experts are subject to review at a higher level of detail, to ensure that any arising discrepancies are identified and can be actioned in a timely fashion. This will help to ensure that the Authority utilizes their expertise appropriately and ensures value for money for the services paid for.	**Agreed** We note your recommendation and will ensure that balances are transferred on an individual basis were we to transfer to a new financial system in the future. **Responsible Officer** Kelvin Menon, Executive Head of Finance **Due Date** Immediate

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
6	1	**Movement in Reserves Statement and Cashflow Statement** The revised financial statements produced by the Authority include a MiRS and a Cashflow Statement which contain variances between these statements and the balance sheet and CIES. We are satisfied that these balances are not material, however these do represent significant differences between the primary statements. We have raised these as unadjusted differences in Appendix 3 of this report. **Recommendation** We recommend that when preparing the 2015/16 financial statements, the Authority ensures it prepares all the primary statements in line with the *Code of Practice on Local Authority Accounting 2015/16*, to ensure that all statements reconcile correctly. Appropriate time should be set aside as part of the closedown process to ensure that all the statements can be prepared correctly, and all staff involved in the process are sufficiently familiar with the technical accounting requirements of the *Code of Practice on Local Authority Accounting 2015/16*, to ensure a high quality set of financial statements.	**Agreed** Staff have undertaken training on the changes to the Code of Practice on Local Authority Accounting and we have employed additional resources to assist with the preparation of accounts and to ensure that they meet the required standard. We will work closely with the auditors at an early stage on complex technical accounting issues so as to ensure that our interpretation aligns with theirs thereby reducing differences. **Responsible Officer** Kelvin Menon, Executive Head of Finance **Due Date** 30 June 2016
7	2	**Documenting budget monitoring** The Authority's budget monitoring process during 2014/15 involved asking service areas to compare actuals vs year end forecast outturn on a quarterly basis. However, some budget monitoring discussions undertaken between finance staff and officers in service areas is not documented. Rather, it is done through conversation only. This raises the risk that crucial budgeting information or explanations are not retained, with no record or audit trail to refer back to at a later date. **Recommendation** We recommend that all budget monitoring discussions are formally documented. A standard template could be developed for this to ensure that all pertinent details are always recorded in meetings, to ensure that information is retained in a complete and consistent manner.	**Agreed** Budget monitoring arrangements and discussions will be documented going forward. **Responsible Officer** Kelvin Menon, Executive Head of Finance **Due Date** 30 April 2016

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
8	2	**Revaluations of property, plant and equipment, and investment properties** The Authority revalued land and buildings in line with their five year rolling revaluation programme, and all investment properties as at 1 April 2014, as part of the rolling programme of revaluations. The *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')* requires that Authorities satisfy themselves that where there has been a revaluation, that the difference between the carrying value of the assets on the balance sheet, and their fair value, is not materially different. The Authority did not undertake an exercise to satisfy itself that there was not a material difference in the value of assets between the valuation date of 1 April 2014, and the balance sheet date of 31 March 2015. When requested by KPMG, the Authority's external valuers, Wilks Head and Eve, carried out a year end market review, and then subsequently undertook analysis against market indices to ascertain if the value of revalued assets had materially increased during the year. This led to an audit adjustment of £1.078m for land and buildings; there was not change in the valuation of investment properties. **Recommendation** We recommend that each year, as part of the accounts production process, the Authority should undertake both an impairment review, and analysis to ascertain the impact of any market increase, between the valuation date and the balance sheet date. This will ensure that revalued assets are valued at a materially appropriate value within the financial statements.	**Agreed** The Council will commission and impairment and market revaluation review from its valuers as part of the annual property valuation process **Responsible Officer** Sheena Adrian, Capital Accountant **Due Date** 30 June 2016

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
9	2	**Debriefing major projects to identify lessons learnt** The Authority implemented the new Civica ledger system on 1 April 2014. Full functionality was not implemented within the original timescales and this has resulted in a delay in implementing a 'business as usual' state. This increased pressure on the finance team's already challenging resource model and impacted on the quality of outputs, as the finance team had to concurrently manage both ledger implementation difficulties and day to day tasks. **Recommendation** We recommend that the finance team undertake a debrief workshop to learn lessons from the Civica implementation, to ensure that opportunities to improve future project implementations are identified and taken forward appropriately. This should be undertaken within an appropriate timeframe, with sufficient time to have lapsed between the end of the project and the debrief, to allow for staff reflection and consideration before the workshop. Such debrief workshops should be held after all significant project implementations to ensure that all such opportunities for learning are identified to enhance the Authority's project management and delivery arrangements.	**Agreed** The finance team will undertake this debrief for the Civica implementation project, and further debriefs will be undertaken at the end of major projects. **Responsible Officer** Kelvin Menon, Executive Head of Finance **Due Date** 30 April 2016

Appendix 1: Key issues and recommendations

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
10	3	**Journal authorization** The Authority has a two stage journals authorisation process in place; all journals are required to be authorised by an officer separate to the preparer. All journals over £20k are also required to be second authorised by the Head of Finance. Our detailed testing found that out of 18 journals over £20k tested, 7 had not been second authorised. We note that the journals we tested appeared reasonable and each had adequate supporting evidence. We are also satisfied that effective segregation of duties is in place, as the journals had been authorised by an officer separate to the preparer in all cases. However, the failure to adhere to this policy increases the risk that erroneous or incorrect amendments might be made in the ledger without detection. **Recommendation** We recommend the Council review its procedures for the authorisation of journals. If it is determined that the current process is appropriate for the Authority's operations, then this should be appropriately communicated to all relevant staff to ensure this policy is complied with going forward.	**Agreed** The policy will be reviewed to ensure that only major journals, over £100k, need to be countersigned by the Executive Head of Finance. **Responsible Officer** Kelvin Menon, Executive Head of Finance **Due Date** 30 April 2016

Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2013/14 and 2012/13.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14 and 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	2013/14	2012/13
Included in original reports:	1	6
Implemented or superseded:	0	3
Remain outstanding or reoccurring in 2014/15 (re-iterated below):	1	3

No.	Risk	Issue and recommendation	Status as at March 2016
1	3	**Cut off testing (2013/14)** For four items in our cut-off testing sample, all relating to car parking income, we identified that cash had been collected on the last day of the financial year, but had not been banked and posted to the ledger until the first day of the new financial year. The total value was slightly above the threshold that the Authority considers for making accruals at the year end. Our analysis does not indicate that this could lead to a material misstatement, however, we recommend that the process for accruing for income and expenditure that is greater than the threshold value that the Authority has set is re-enforced and applied for future accounting periods.	**Reoccurring in 2014/15** Our 2014/15 audit has identified three errors in cut off. These errors are from different areas of the accounts and range in value from £11k to £188k. However, all are above the Authority's threshold for accruing income and expenditure.

Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2013/14 and 2012/13.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Status as at March 2016
2	2	**Agreement of the financial statements to the ledger (2012/13)** The Authority did not prepare an adequate working paper to map the Balance Sheet and Comprehensive Income and Expenditure Statement to the ledger. As a result additional work was required during the audit by both the Council and the audit team to agree the financial statements to the ledger. The Authority should prepare and retain working papers that show how the financial statements have been derived from the ledger, providing an audit trail tracking the ledger balances, manual adjustments, and financial statements entries. This should be prepared as part of the closedown process prior to the audit commencing and should be subject to quality review.	**Reoccurring in 2014/15** In both 2013/14 and 2014/15, there was a delay in obtaining a working paper that adequately mapped the Balance Sheet and Comprehensive Income and Expenditure Statement to the ledger. This resulted in additional work during the audit by both the Council and the audit team to agree the financial statements to the ledger.
3	2	**Journal authorisation (2012/13)** Our audit work had identified that not all journals are authorised in line with the Authority's authorisation procedures, and there was a lack of documentation retained to support and explain the rationale for some journals. Without strong disciplines concerning the raising and authorisation of journals, there is an increased risk of errors in the financial statements. The journal process should be strengthened by: • reviewing a journal listing report of all high value journals to ensure they have been appropriately authorised; and • retaining documentation for all journals to explain the purpose of the journal.	**Reoccurring in 2014/15** We undertook journals controls testing during 2014/15, and out of 18 journals over £20k tested, 7 had not been second authorised in line with the Authority's policy. This recommendation has been raised in 2014/15, see Appendix 1.

Appendix 2: Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2013/14 and 2012/13.*

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

No.	Risk	Issue and recommendation	Status as at March 2016
4	2	**Budgetary control (2012/13)** Our review of budgetary control noted that: • Finance reports to the Executive compare the forecast year end position against the budget. There is no detail of actual spend to date which would allow better to challenge the forecast; and • Budget variance explanations from service heads are not always received in a timely manner, meaning explanations are sometimes rolled forward from the prior month without update. Without strong financial management disciplines there is an increased risk of unforeseen overspends, particularly as funding cuts take effect. We recommend that finance reports to the Executive should detail actual spend to date as well as the forecast outturn. The Authority should also require all service heads to provide updated budget variance commentary on a monthly basis.	**Reoccurring in 2014/15** In 2013/14 this was reported as having been superseded in light of the new Civica ledger. It was considered that this would improve the quality of internal budget monitoring and reporting. However, as is detailed in Appendix 1, the Authority was not able to profile its budgeted expenditure correctly using Civica in 2014/15. As a result, the Authority was not able to undertake budget monitoring of budget VS actuals in 2014/15. We understand from Management that in Q1 of 2015/16, this profiling of expenditure has been resolved, such that real time monitoring reports are able to be produced. However, this was not possible during 2014/15.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

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

Uncorrected audit differences

Our audit has identified the following unadjusted errors:

	Impact
No.	**Disclosure**
1	The Cashflow Statement contains an audit difference of £83k. This is because the non cash adjustments line within the Cashflow Statement contains the value of revaluations to Other Land and Buildings. The value of this as the financial statements is £196k, however the value inserted into the Cashflow Statement for this item is £279k. This represents an unadjusted audit difference of £83k, which is immaterial to the financial statements.
2	The Movement in Reserves Statement contains a reconciling variance of £176k between the figures stated in the MiRS and the other primary statements and notes to the financial statements. This represents an unadjusted audit difference of £176k, which is immaterial to the financial statements.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

Corrected audit differences

The following table sets out the significant audit differences identified by our audit of Surrey Heath Borough Council's financial statements for the year ended 31 March 2015.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Reserves**	**Description of audit difference**
1	Dr Income £47k	Cr Short Term Debtors £47k			An invoice for £47k was incorrectly raised during 2014/15 in respect of work that had not yet been performed. The debtor was issued with a credit note for this work in July 2015 for the full amount. KPMG have confirmed that this was an isolated error.
2	Cr Depreciation, Amortisation & Impairment £1,412k			Dr Revaluation Reserve £1,412k	The land element of one asset (Camberley Theatre) was impaired by £1,612k. This asset had a carried forward value in the Revaluation Reserve of £1,412k, however, the full impairment was charged directly to the CIES. This impairment should, however, have initially reduced the Revaluation Reserve to nil, with the remaining £200k subsequently being charged to the CIES.
3	Dr Non Domestic Rates Income £857k	Cr Short Term Debtors £857k			The NNDR Safety Net accrual was overstated in short term debtors within the draft financial statements, representing an error of £857k.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Reserves**	**Description of audit difference**
4	Dr Central Services Expenditure £420k Cr Central Services Income £246k Cr Income and Expenditure in relation to Investment Properties £174k				A ledger code was erroneously excluded from the Central Services accounts line. This resulted in an understatement of both income and expenditure, with the Central Services line within Net Cost of Services. The net balance of £174k impacts Income and Expenditure in relation to Investment Properties within the CIES.
5	Cr Cultural Services Expenditure £876k Dr Cultural Services Income £876k				A ledger code was erroneously double counted in both income and expenditure within Cultural Services in the CIES. Therefore both income and expenditure are overstated by this amount of £876k.
6	Dr Cultural, Environmental and Planning Services Income £1,190k Cr Cultural, Environmental and Planning Services Expenditure £923k		Cr Short Term Creditors £267k		Within the CIES, we identified £1,190k of Suitable Alternative Natural Green Space (SANGS) income that should not have been recognised by the Council and should therefore be removed from the accounts. The corresponding Expenditure and Creditors entries also require reversing to remove these from the CIES and Balance Sheet.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Reserves**	**Description of audit difference**
7		Dr Plant, Property and Equipment £1,438k		Cr Surplus/Deficit on Revaluation of Non Current Assets £1,438k	A year end impairment and revaluation exercise undertaken by property valuers Wilks Head and Eve identified a revaluation increase in non-current assets of £1,438k. This represents the increase in the valuation of revalued properties between the carrying value as at 1 April 2014 (the revaluation date) and the fair value at the balance sheet date.
8		Dr Long Term Investments £9,624k Cr Short Term Investments £9,624k			£9,624k of investments were erroneously recorded as short-term investments, however testing identified that these assets were long-term investments.
9		Dr AUC Disposals £94k Cr AUC Additions £161k Dr Other Land and Buildings Additions £59k Dr Vehicles, Plant and Equipment Additions £8k			In Note 11, the Assets Under Construction (AUC) balance brought forward from prior year were re-allocated to other asset categories. However, these transfers were incorrectly netted off against additions (£963k), showing additions incorrectly at £802k. Transfers out of the AUC category to other PPE categories should be presented in a separate line within the Note. As £94k of AUC was written off during the year, this should be treated as a disposal for nil proceeds. The remainder of the balance (£67k) should be included in a separate line to the effect of 'Reclassifications within PPE' split between Other land and buildings and Vehicles, plant and equipment, and shown as a positive balance in the categories that assets have been transferred to.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Reserves**	**Description of audit difference**
10		Dr Short Term Debtors Central Government £352k Dr Short Term Debtors Other Local Authorities £352k Cr Cash and Cash Equivalents £704k			A debtors balance of £704k relating to NNDR had been erroneously recoded to cash and cash equivalents, resulting in an overstatement of cash and an understatement of debtors.
11		Dr Short Term Debtors Central Government £123k Dr Short Term Debtors Other Local Authorities £123k Cr Cash and Cash Equivalents £246k			A debtors balance of £246k relating to Council Tax had been erroneously recoded to cash and cash equivalents, resulting in an overstatement of cash and an understatement of debtors.
12	Cr Non-Domestic Rates Income £76k	Dr Cash and Cash Equivalents £189k	Cr Short Term Creditors Central Government £94k Cr Short Term Creditors Other Local Authorities £19k		£189k of business rates income for 2014/15 had been accounted for in 2015/16 and so had been incorrectly excluded from the draft accounts. The full value is held as cash, and therefore the income must be appropriately apportioned between SHBC, Surrey County Council and Central Government.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Reserves**	**Description of audit difference**
13	Dr Housing Services Income £283k Cr Adult Social Care Income £283k				Within the CIES, we identified that a £283k Disabled Facilities Grant included as income within Housing Services should have been coded to Adult Social Care.
14			Cr Short Term Creditors £333k	Dr Earmarked Reserves £333k	Per the draft financial statements, £333k held in the SANGS reserves requires reclassification as a short-term creditor as it relates to a credit balance owed to Hampshire County Council at the 2014/15 year end.
15	Cr Non Domestic Rates £129k		Dr Short Term Creditors Other Local Authorities £13k Dr Short Term Creditors Central Government £64k	Dr Collection Fund Adjustment Account £52k	Non-domestic rates income was understated by £129k in the draft CIES due to a miscoding of 2013/14 Transitional Protection income (176k) and Safety Net income (-£47k). This income must be apportioned to SHBC, Surrey County Council and Central Government in accordance with the appropriate percentages, and therefore adjustments to Income, Creditors, and the Collection Fund Adjustment Account are required.
16	Dr Non Domestic Rates £186k			Cr Collection Fund Adjustment Account £186k	Reversal of £186k adjustment that was made between v2 of the draft accounts and the final revised account. This related to SHBC share of the Collection Fund deficit for 2014/15.

Appendix 3: Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

	Impact				
No.	**Income and Expenditure Statement**	**Assets**	**Liabilities**	**Reserves**	**Description of audit difference**
17		Dr Cash and Cash Equivalents £134k	Cr Short Term Creditors £134k		In the 2013/14 financial statements, £134k of cash held on behalf of a Trust in relation to Frimley Gravel and Sand had been omitted, and should have been included as both cash and a short-term creditor.
18		Dr Cash and Cash Equivalents £62k	Cr Short Term Creditors £62k		In the 2013/14 financial statements, £62k of cash held on behalf of the BIDS Collectively Camberley scheme had been omitted, and should have been included as both cash and a short-term creditor.
19		Dr Cash and Cash Equivalents £1,553k Cr Short Term Debtors £300k	Cr Short Term Creditors £976k	Cr Collection Fund Adjustment Account £277k	As at year end 2013/14, there was a negative cash contra item in respect of NDR within the cash balance that required reversing (£2,379k). Additionally, an amount relating to Council Tax owed to SHBC (£855k) that was netted off against this contra item also required reversing.

Appendix 3: Audit differences (Disclosure Amendments)

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

	Impact	Basis of audit difference
No.	Disclosure	
20	The NNDR income figure changed from £33,666k to £34,131k between versions 1 and 2 of the accounts, reflecting a material difference of £465k.	The NDR income figure has changed materially between versions 1 and 2 of the accounts as a result of updated reconciliations undertaken during audit fieldwork.
21	In the draft accounts, Note 5 Assumptions and Estimates Made About the Future stated the sundry debtors balance at £2,400k. However, Note 20 Short Term Debtors stated that sundry debtors were £1,069k. This is a difference of £1,331k.	Within the final accounts, Note 5 should be updated to reflect the final values per Note 20 Sundry Debtors.
22	In Note 29, Related Parties, an error was identified in the 'Transactions with Members' section. The accounts stated that there was a total of £22k of transactions with Members, but on review of the supporting breakdowns this figure was shown to be £85k.	Transactions with members should be increased from £22k to £85k.
23	In Note 28, External Audit Costs, an error was identified within the 'fees payable for the certification of grant claims' line. This figure for 2014/15 should be £15k instead of the £11k reported in the draft financial statements. Consequently, the total for this Note should be £71k.	Fees payable for the certification of grant claims within Note 28 should be increased from £11k to £15k, and the total accordingly adjusted to £71k.
24	Within Note 30 Prior Period Adjustments, the narrative included a description of a change to the depreciation policy for officers' cars. This is not a material change and therefore does not meet the criteria for a Prior Period Adjustment under IAS 8.	The note regarding the change to depreciation policy should be removed from Note 30.
25	The wording per Note 17.5 of the draft accounts is incorrect as it does not make reference to non-domestic rates income.	Note 17.5 is to be revised so as to include non-domestic rates income per the Code of Practice on Local Authority Accounting.
26	Note 17.5 requires amending following revision of the Collection Fund accounts with respect to the Collection Fund Adjustment Account share of the revised deficit.	Note 17.5 is to be updated to reflect the Collection Fund Adjustment Account share of the revised Collection Fund deficit, after the required audit changes have been made.

Appendix 3: Audit differences (Disclosure Amendments)

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

No.	Impact Disclosure	Basis of audit difference
27	Within the draft financial statements, the value of leases held by the Council were incorrectly stated. This is because the draft note contained the equivalent value of 1 year's lease payment per lease, in the year in which the lease would expire. However, the Local Government Code requires that the future minimum value of lease payments, apportioned between the time periods in which the payments will be made, are presented. The following disclosures should therefore be made within Note 18.2: *2013/14* Not Later than 1 year: £172k 2-5 Years: £636k 5+ Years: £2,031k *2014/15* Not Later than 1 year: £232k 2-5 Years: £674k 5+ Years: £1,877k This Note also requires a narrative description regarding the Atrium and the nature of the contract, including the 2014/15 income (£240k) and the 2013/14 income (£174k), further stating that the contract is expected to continue for the foreseeable future.	Several disclosures need to included within Note 18.2 under both 2013/14 and 2014/15. A narrative description regarding the Atrium is also required.
28	The Surplus on provision of services per the Movement in Reserves Statement (MiRS) in the draft financial statements was £1,886k; in the CIES this figure was stated as £2,551k. This is a material difference of £665k.	Discrepancy between the Surplus on provision of services balance stated in the CIES to that stated in the MiRS.
29	In the CIES, Other Comprehensive Income and Expenditure was stated at £3,629k but listed as £3,539k within the MiRS, a difference of £90k. This variance was due to a transposition error in the CIES, where the surplus on the revaluation of PPE assets was entered as £9,328k as opposed to £9,238k.	Other Comprehensive Income and Expenditure per the CIES should be amended from £3,629k to £3,539k in order to remain in line with the values stated within the MiRS and Note 11 PPE.
30	In Note 34 Financial Instruments, it was identified that £8,123k of the Loans and Receivables balance within Long Term Investments of £11,623k related to Long Term Available for Sale Financial Assets.	Reduction of £8,123k from the Loans and Receivables balance within Long Term Investments.

Appendix 3: Audit differences (Disclosure Amendments)

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

	Impact	Basis of audit difference
No.	Disclosure	
31	In Note 34, it was identified that the above £8,123k balance had been double counted and also included within 'Current Available for Sale Financial Assets.' This balance should be removed from this accounts line.	Reduction of £8,123k from the Current Available for Sale Financial Assets line within Note 34.
32	In Note 34, it was identified that a Current Loans and Receivables balance of £6,771k had been omitted from Note 34 in error. This balance should be included within this note.	Increase of £6,771k to Current Loans and Receivables in Note 34.
33	In Note 34, it was identified that a balance of £9,568k relating to 'Current Financial Liabilities Carried at Contract Amount' had been omitted from Note 34 in error. This balance should be included within this note.	Increase of £9,568k to Current Financial Liabilities Carried at Contract Amount in Note 34.
34	In Note 9 Adjustments Between Funding Basis and Accounting Basis, there is a £84k balance for Capital Expenditure Charged Against the General Fund. However this balance is £nil in Note 17.2 Capital Adjustment Account, hence is understated in Note 17.	Presentational amendment required to rectify an understatement of £84k in Note 17.
35	Several material adjustments have been made to Note 25 Amounts Reported for Service Allocation Decisions, as the figures stated did not reconcile to the CIES. Reclassifications and further subsequent audit adjustments within this note impact all lines.	Significant reclassification of Note 25 required in order for it to agree to the revised CIES.
36	Revenue expenditure amounting to £83k was incorrectly classified as a capital addition item before being impaired for during the year. Since the impairment has already been included as an expenditure item against the relevant service area, no change is required to the CIES. However, in Note 11 Property, Plant and Equipment, the additions figure for Other Land & Buildings needs to be reduced by £83k and the 'Revaluation Amount Recognised in the CIES' within this note needs to increase by £83k to reverse the amount impaired.	Decrease of £83k to Other Land and Building additions and increase of £83k to the 'Revaluation Amount Recognised in the CIES' within Note 11, Property Plant and Equipment.
37	The 'Revaluation Losses/Gains on PPE' balance within the Capital Adjustment Account in Note 17.2 was £1,691k. However, due to the £83k adjustment outlined above, and the £1,412k that should have been written back to the Revaluation Reserve, the actual CIES charge is £196k; this needs to be reflected within the Capital Adjustment Account.	Decrease of £1,495k to the Revaluation Losses/Gains on PPE from £1,691k to £196k within Note 17.2 Capital Adjustment Account.

Appendix 3: Audit differences (Disclosure Amendments)

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all adjusted audit differences over £45k.

It is our understanding that all of these will be adjusted.

No.	Impact Disclosure	Basis of audit difference
38	£1,691k was incorrectly classified as 'Impairment Losses/Reversals Recognised in the Revaluation Reserve' rather than in 'Impairment Losses/Reversals Recognised in the Surplus/Deficit on the Provision of Services' within Note 11, Property Plant and Equipment.	Reclassification of £1,691k from Impairment Losses/Reversals Recognised in the Revaluation Reserve to Impairment Losses/Reversals Recognised in the Surplus/Deficit on the Provision of Services within Note 11, Property Plant and Equipment.
39	Within Note 17.2, disposal for nil proceeds of £94k relating to Assets Under Construction have been omitted from the line 'Amounts of Non Current Assets Written Off on Disposal or Sales as Part of the Gain/Loss on Disposal to the CIES.'	Note 17.2 must include the £94k relating to Assets Under Construction in the relevant line.
40	The Movement in Reserves Statement section within Note 31.2 Transactions relating to Post-Employment Benefits should be removed to remain in line with the Code.	Removal of the Movement in Reserves Statement section within Note 31.2 as it is not a required disclosure per the Code.
41	Due to the material audit adjustments listed above, the Cash Flow Statement and MiRS are subject to necessary material amendments. Similar adjustments are necessary for Note 9 Adjustments Between Accounting Basis and Funding Basis and Note 17 Unusable Reserves. The Explanatory Foreword and Annual Governance Statement will also require amendments where appropriate once the final accounts have been prepared.	Updates will be required to the Explanatory Foreword, Cash Flow and MiRS. Additionally, Notes 9, and 17 will require amendment to ensure consistency throughout the accounts following the audit adjustments detailed above.

Appendix 4: Declaration of independence and objectivity

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

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

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

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd 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. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

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

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

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

General procedures to safeguard independence and objectivity

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

Appendix 4: Declaration of independence and objectivity

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Surrey Heath Borough Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Surrey Heath Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 5: Materiality and reporting of audit differences

For 2014/15 our materiality was £900k for the Authority's accounts.

We have reported all audit differences over £45k for the Authority's accounts to the Audit and Standards Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

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

We used the same planning materiality reported in our External Audit Plan 2014/15.

Materiality for the Authority's accounts was set at £900k which equates to c.2% of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. During planning, this lower level of precision was set at £675k, equivalent to 75% of materiality. However, in response to the larger than anticipated volume of audit errors identified across the financial statements during audit fieldwork, it was determined that this level should be reduced. We therefore determined that a revised level of £450k would be appropriate, in order to detect significant errors to the Authority's financial statements.

Reporting to the Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45k for the Authority.

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

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

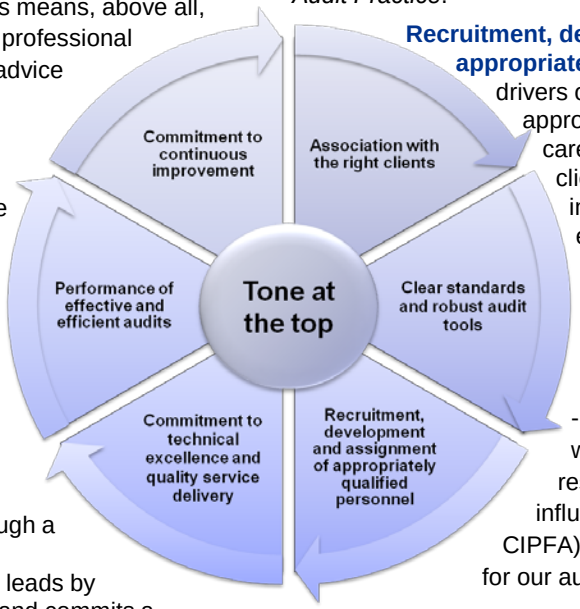
KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.



Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Neil Hewitson as Engagement Lead sets the tone of the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report issued June 2015 showed that we are meeting the overall audit quality and regulatory compliance requirements.

KPMG

cutting through complexity™

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Surrey Heath Borough Council
Audited Statement of Accounts
2014/15

Contents

Explanatory Foreword Presented by the Executive Head of Finance

Introduction

I am pleased to be able to present to you the Statement of Accounts for the year 2014/15.

The Statement of Accounts is published to present a true and fair view of the financial position and transactions of the Council. Wherever possible it has been written in plain language but inevitably it contains technical terms. To help explain some of these terms a glossary can be found towards the back of this publication.

The Statement of Accounts comprises:

- Statement of responsibilities
- Core financial statements
- Notes to the core financial statements
- Supplementary financial statements
- Notes to the supplementary financial statements

The objective of each of the accounting statements is set out below.

i) Statement of Responsibilities

This statement identifies the officer responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the accounts present a true and fair view of the financial position of the Council at the accounting date, and its income and expenditure for the year then ended.

ii) Core Financial Statements

Movement in Reserves Statement – this statement shows the movement in the year on the different reserves held by the Council, analysed into (a) *usable reserves* - those that can be applied to fund expenditure or reduce local taxation and (b) *unusable reserves* - those that cannot be applied to fund expenditure or reduce local taxation. The *surplus (or deficit) on the provision of services* line shows the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The "*net increase/decrease before transfers to earmarked reserves"* line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement – this statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet – this statement shows the value as at the balance sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital

expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line *Adjustments between accounting basis and funding basis under regulations*.

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

iii) Notes to the Core Financial Statements

These provide support to the core financial statements, which inform the reader and give sufficient information to present a fuller understanding of the Council's activities.

iv) Supplementary Financial Statements

Collection Fund – this account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the Council in relation to non-domestic rates and council tax, and illustrates the way in which these have been distributed.

v) Notes to the Supplementary Financial Statements

These provide support to the supplementary financial statements which inform the reader and give sufficient information to present a good understanding of the Council's activities.

vi) Annual Governance Statement

The *Annual Governance Statement* is not part of the Statement of Accounts, but is required to be included alongside it in the same publication, and as such is not covered by the Chief Finance Officer's certification.

The objective of this statement is to fulfill the statutory requirement for the Council to conduct an annual review of the effectiveness of its system of internal control.

Service Expenditure

General Fund Compared to Budget

The 2014/15 budget predicted the general fund balance of £1.122m as at 31st March 2015. In reality, the balance was £2.702m which is higher than predicted. £1.0m of the difference is due to accounting for business rates but the remainder is because of better performance from services as explained below and additional new homes bonus received.

Service revenue spending compared with budget

The council managed to achieve its annual budget for the year despite the fact that it included a £400k reduction in Government funding compared to the previous year. Key areas (excluding the effect of asset charges) were:

- Arena Sports centre £55k under budget due to increased usage
- Waste and recycling £275k under budget due to increased recycling and renegotiated contract
- Street Cleaning £70k under budget due to a contract renegotiation
- Planning applications £261k under budget due to increased income as the economy picks up
- Planning appeals £71k under budget as fewer appeals than anticipated
- Housing £133k under budget due to the work being done to ensure that B&B stays are kept to a minimum
- Corporate Land Management £157k under budget due to increased income from assets and savings on repairs
- Theatre over budget due to income not meeting expectations. Steps were taken in the new year to address these issues
- Housing Benefits £156k over budget due to reductions in grant and disallowed claims

New Homes Bonus

The Council received £922k in the year as its share of new homes bonus of which £600k was budgeted to be used to support the council's revenue spend. The remainder is in the general fund

Business Rates

Before 2013/14 all business rates collected by the Council went to central government to be redistributed as grant using a formula. In 2013/14 the system changed so that Councils were incentivised to deliver economic growth by allowing them to retain a proportion (20% for district councils) of any growth above a predetermined baseline. The downside was that any loss (40% for district councils) below this baseline down to a determined safety net figure represented a reduction in funding.

During 2014/15, the Council estimated that it would collect £34.070m of business rates.
However, during the year as more information was received from the Valuation Office, it became clear that the level of appeals and revaluations outstanding - many dating back to 2005 – had increased significantly, resulting in a £1.8m increase in the Council's provision for NDR appeals in 2014/15.

This significant increase in the provision of the NDR appeals contributed towards the total deficit of £2.992 m on the NDR Collection Fund as at 31st March 2015. The Council's share of this deficit is £1.4m

Use of Reserves

In 2014/15 the Council increased its earmarked reserves by £100k. Reserves were used to complete work at the Windle Valley Centre, to support the Family Well Being Programme, complete Section 106 works, community fund grants, drainage works and Support the town centre amongst other things.

The biggest transfers in to reserves came from SANGS, (Suitable Alternative Natural Green Space), and various planning tariffs attached to new housing developments. Full details are given in the financial statements.

New Computer System

The Council implemented a new finance computer system, Civica Financials which replaced Oracle Financials which had been in place for over 20 years. The implementation has presented a number of challenges in terms of financial reporting and accounting given the size of the finance team but the system did go live on time on the 1st April 2014.

The new system will result in a number of improvements in the way the Council manages its finances, some of which were realised in 2014/15 and some of which will be realised in are being realised in early 2015/16:

- Commitment accounting has been introduced, meaning budget monitoring information is more accurate;

- Real time access to budgets is available to all managers, who no longer have to wait for the finance department to produce budget reports;

- Financial controls have been improved, with preventative computer controls replacing weaker paper based authorised signatory controls; and

- The new system is virtually paperless, which saves time processing transactions and storage of data

Further work will be done during the year to ensure that the benefits of the system can be fully exploited.

vii) Capital Spending

In 2014/15 the Council spent £2.650m on capital projects. Details of this expenditure and how it was funded is shown below:

Summary of Schemes funded from Capital

Assets Acquired and Capitalised	**£'000**
Depot Improvements	277
Main square improvements	152
Parking equipment	348
Windle Valley day centre	106
Frimley Lodge Park	40
Playgrounds and play areas	120
3g pitch	614
Web portal	9
Camberley Theatre Projector	35
Deposit re acquisition of SANGS Land	101
Deposit re Property acquisition	848
	2,650

The deposit of £101k against the purchase of Suitable Alternative Natural Greenspace (SANG) land to enable housing development in the borough. This was completed in 2015/16 at a total cost of £1.5m

The deposit of £845k against the purchase of Ashwood House in Camberley to support the Council's regeneration aims for the Town centre. This £8m purchase was completed in 2015/16.

In 2014/15 there have been no capital receipts. Of the available historic receipts £1.160m were used during the year, leaving £0.903m to fund future capital expenditure, with the remainder of capital expenditure being financed from grants, internal borrowings, revenue and earmarked reserves.

viii) Brief note explaining significance of any pension liability or asset disclosed

Details of the Council's pension liability calculated under IAS19 are shown at note 31 of the core financial statements.

Any surplus or deficit on the Council's pension fund is required to be shown within the balance sheet. In 2014/15 the estimated return on investments within the fund was £2.5.m (£2.6m in 2013/14). The value of the Council's share of the pension fund administered by Surrey County Council has been assessed by the scheme's actuary as at 31st March 2015. The current valuation shows a deficit on the fund of £38.3m (previously £31.3m in 2013/14) based upon the nationally set criteria. The increase in liabilities is caused by very low corporate and government bond yields, resulting in a reduction in the discount rate used by the actuary to determine the rate at which pension benefits are discounted back to the present value. The large reduction in the discount rate used has increased the estimated value of the pension liabilities.

The actual contributions payable by the Council are based upon the actuary's own assumptions in a review that is undertaken on a triennial basis. The most recent review was completed as at 31st March 2013 and this has resulted in an increase in the deficit funding payment of about £170k pa compounded from 2014/15 until the next triennial review. No change was made to current in-year payments.

ix) Significant changes in accounting policies

Cars are now depreciated on a straight line basis rather than reducing balance basis as had been the case previously

x) Prior Year Adjustment

These financial statements contain a prior year adjustment relating to the accounting treatment of the collection fund. The effect of the restatement is shown where applicable on the core statements and a full explanation is given in note 30 to these financial statements

xi) Brief note on the current borrowing facilities and capital borrowing

A number of schemes in the 2014/15 capital programme were funded by internal borrowing. Since the year end, the Council has borrowed £16.3m from the Public Works Loans Board (PWLB) and £1.5m from the Hampshire Local Enterprise Partnership (LEP) to finance property acquisitions to support its regeneration aims.

xii) An explanation of the impact of the current economic climate on the Council and the services it provides

Through prudent actions in the past the Council has carried forward healthy reserves into 2015/16. This is against a background of reducing formula grant which has reduced by £2.5m over the last four years and is likely to disappear completely in the next Parliament. This means that the way the Council provides its services and interacts with residents will need to change in this period. It also means that there will be greater emphasis on income generation – a process which has already started as can be evidenced by the property investment and improved treasury returns.

The overall uplift in the general economy has seen growth in planning income and rents. However this has made it more difficult to recruit new staff as the skilled employment market has become more competitive.

The Council realises that there are real financial challenges ahead and is committed to, and continues with a programme of continual transformation working with partners and maximising income in order to preserve front line services. However it recognises that it may not be possible to protect all services given the challenges ahead.

Sarah Parmenter ACMA, CGMA, MAAT
Deputy Section 151 Officer

8th July 2015

Surrey Heath Borough Council
Surrey Heath House
Knoll Road
Camberley,
Surrey GU15 3HD

Statement of Responsibilities

The Executive Head of Finance's responsibilities

The Head of Finance is legally and professionally responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* - the Code.

In preparing this statement of accounts, I have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Executive Head of Finance has also:

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

Deputy Section 151 Officer's certification

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31st March 2015.

Sarah Parmenter ACMA, CGMA, MAAT
Deputy Section 151 Officer
8th July 2015

Executive Head of Finance's re-certification

These financial statements replace the unaudited financial statements certified and placed on the council's website on the 8th July 2015

Kelvin Menon BSc ACA
Executive Head of Finance
31st March 2016

The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of these affairs. In this Council, that officer is the Executive Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Council approval

The Statement of Accounts for the year to 31st March 2015 have been prepared and I confirm that these accounts were approved by the Audit and Standards committee at its meeting on the 31st March 2016.

Councillor Valerie White
Chairman of Audit and Standards Committee
31st March 2016

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The *'(surplus) or deficit on the provision of services'* line shows the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes. The *'net (increase) /decrease before transfers to earmarked reserves'* line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	2014/15						
	General fund balance	Earmarked GF reserves	Capital receipts reserves	Capital grants unapplied	Total usable reserves	Unusable reserves	Total council reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance	(2,415)	(16,522)	(2,063)	(14)	(21,014)	(17,740)	(38,754)
(Surplus) or deficit on provision of services	(2,717)	0	0		(2,717)	0	**(2,717)**
Other comprehensive income and expenditure					0	(3,696)	**(3,696)**
Total comprehensive income and expenditure	(2,717)	0	0	0	(2,717)	(3,696)	**(6,413)**
Adjustments between accounting basis & funding basis under regulations	2,154	0	1,254	0	3,408	(3,408)	**0**
Net (increase) / decrease before transfers to earmarked reserves	(563)	0	1,254	0	691	(7,104)	**(6,413)**
Transfers (to) / from earmarked reserves	100	(100)			0		**0**
(Increase) / decrease in year	**(463)**	(100)	1,254	0	691	(7,104)	**(6,413)**
Other CIES	**176**				176	0	**176**
Closing balance	**(2,702)**	**(16,622)**	**(809)**	**(14)**	**(20,147)**	**(24,844)**	**(44,991)**

	2013/14						
	General fund balance	Earmarked GF reserves	Capital receipts reserves	Capital grants unapplied	Total usable reserves	Unusable reserves	Total council reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance	(1,378)	(16,395)	(3,015)	(14)	(20,802)	(21,376)	**(42,178)**
(Surplus) or deficit on provision of services	**2,560**				2,560	0	**2,560**
Other comprehensive income and expenditure					0	1,137	**1,137**
Total comprehensive income and expenditure	**2,560**	**0**	**0**	**0**	**2,560**	**1,137**	**3,697**
Adjustments between accounting basis & funding basis under regulations	(3,724)	0	952	0	(2,772)	2,772	**0**
Net (increase) / decrease before transfers to earmarked reserves	**(1,164)**	**0**	**952**	**0**	**(212)**	**3,909**	**3,697**
Prior Year adjustment - CFAA					0	**(273)**	**(273)**
Transfers (to) / from earmarked reserves	127	(127)			0	0	**0**
(Increase) / decrease in year	**(1,037)**	**(127)**	**952**	**0**	**(212)**	**3,636**	**3,424**
Closing Balance	**(2,415)**	**(16,522)**	**(2,063)**	**(14)**	**(21,014)**	**(17,740)**	**(38,754)**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

	2014/15		
	Expenditure	Income	Net
	£'000	£'000	£'000
Central services to the public	1,936	(868)	1,068
Cultural, environmental & planning services	9,822	(5,160)	4,662
Highw ays, roads & transportation	1,480	(2,569)	(1,089)
Housing services	19,596	(17,244)	2,352
Adult social care services	2,315	(1,613)	702
Corporate & democratic core	2,429	(42)	2,387
Non distributed costs	0	0	0
Other Operating Income and Expenditure	0	0	0
Cost of services	**37,578**	**(27,496)**	**10,082**
Other operating expenditure			
Parish precepts			509
Payments to Government housing capital receipts pool			0
			509
Financing and investment income and expenditure			
Pensions interest cost and expected return on pensions assets			1,348
Interest receivable and similar income			(241)
Income and expenditure in relation to investment properties and changes in their fair value			(2,633)
			(1,526)
(Surplus) or deficit on discontinued operations			**0**
Taxation and non-specific grant income			
Council tax income			(7,756)
Non domestic rates			(1,152)
Non-ringfenced government grants			(2,591)
Capital grants and contributions			(283)
			(11,782)
(Surplus)/deficit on provision of services			**(2,717)**
(Surplus) or deficit on revaluation of property, plant and equipment assets			(9,251)
(Surplus) or deficit on revaluation of available for sale financial assets			(144)
Movement on collection fund adjustment account			0
Actuarial (gains) / losses on pension assets / liabilities			5,699
Other comprehensive income and expenditure			**(3,696)**
Total comprehensive income and expenditure			**(6,413)**

	2013/14		
	Expenditure	Income	Net
	£'000	£'000	£'000
Central services to the public	2,410	(1,108)	1,302
Cultural, environmental & planning services	13,301	(4,732)	8,569
Highw ays, roads & transportation	1,943	(2,034)	(91)
Housing services	18,848	(17,707)	1,141
Adult social care services	1,468	(648)	820
Corporate & democratic core	1,798	(69)	1,729
Non distributed costs	0	(5)	(5)
Other Operating Income and Exp	0	0	0
Cost of services	**39,768**	**(26,303)**	**13,465**
Other operating expenditure			
Parish precepts			496
Payments to Government housing capital receipts pool			2
			498
Financing and investment income and expenditure			
Pensions interest cost and expected return on pensions assets			1,300
Interest receivable and similar income			(290)
Distribution from joint venture			
Income and expenditure in relation to investment properties and changes in their fair value			(563)
			447
(Surplus) or deficit on discontinued operations			**0**
Taxation and non-specific grant income			
Council tax income			(7,599)
Non domestic rates			(1,283)
Non-ringfenced government grants			(2,689)
Capital grants and contributions			(279)
			(11,850)
(Surplus)/deficit on provision of services			**2,560**
(Surplus) or deficit on revaluation of property, plant and equipment assets			(219)
(Surplus) or deficit on revaluation of available for sale financial assets			0
Movement on collection fund adjustment account			0
Actuarial (gains) / losses on pension assets / liabilities			1,356
Other comprehensive income and expenditure			**1,137**
Total comprehensive income and expenditure			**3,697**

Balance Sheet

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

2013/14 Original £'000	Prior Year Adjustment £000	2013/14 Amended £000		2014/15 note	2014/15 £'000
			Property, plant & equipment		
36,165		36,165	Other land and buildings	11	48,464
1,916		1,916	Vehicles, plant and equipment	11	2,460
72		72	Infrastructure assets	11	63
609		609	Community assets	11	609
237		237	Surplus assets not held for sale	11	237
161		161	Assets under construction	11	963
39,160		39,160	**Total property, plant & equipment**		**52,796**
334		334	Heritage Assets	12	334
10,327		10,327	Investment property	14	12,534
2,009		2,009	Long term investments	34	11,623
327		327	Long term debtors	19	320
52,157	**0**	**52,157**	**Long term assets**		**77,607**
2,666		2,666	Short term investments		2,676
33		33	Inventories		34
5,356	(304)	5,052	Short term debtors	20	6,513
15,236	1,553	16,789	Cash and cash equivalents	21	9,264
23,291	**1,249**	**24,540**	**Current assets**		**18,487**
(4,766)	(976)	(5,742)	Short term creditors	22	(11,376)
(4,766)	**(976)**	**(5,742)**	**Current liabilities**		**(11,376)**
(132)		(132)	Long term creditors		(136)
(561)		(561)	NDR Provision for Appeals		(1,280)
(31,508)		(31,508)	Other long term liabilities - Pensions	31	(38,310)
(32,201)	**0**	**(32,201)**	**Long term liabilities**		**(39,726)**
38,481	**273**	**38,754**	**Net assets**		**44,992**
(2,415)		(2,415)	General Fund balance		(2,703)
(2,063)		(2,063)	Capital receipts reserve		(809)
(14)		(14)	Government Grants Unapplied		(14)
(16,522)		(16,522)	Earmarked reserves	16	(16,622)
(21,014)	**0**	**(21,014)**	**Usable reserves**		**(20,148)**
(17,141)		(17,141)	Revaluation reserve	17	(25,385)
(32,680)		(32,680)	Capital adjustment account	17	(38,712)
(23)		(23)	Deferred capital receipts	17	(23)
0		0	Available for sale Fin Inst Reserve	17	(144)
31,508		31,508	Pensions reserve	17	38,310
732	(273)	459	Collection fund adjustment account	17	975
137		137	Accumulated absences account	17	135
(17,467)	**(273)**	**(17,740)**	**Unusable reserves**		**(24,844)**
(38,481)	**(273)**	**(38,754)**	**Total reserves**		**(44,992)**

Balance Sheet Supplement

Executive Head of Finance's re-certification

These financial statements replace the unaudited financial statements certified and placed on the council's website on the 8th July 2015

Kelvin Menon BSc ACA
Executive Head of Finance
31st March 2016

Members' re-approval

The Statement of Accounts for the year to 31st March 2015 have been prepared and I confirm that these accounts were approved by the Audit and Standards committee at its meeting on the 31st March 2016.

Kelvin Menon BSc ACA
Executive Head of Finance
31st March 2016

Cash Flow Statement

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

2013/14 Restated					2014/15
Original	Prior year adjustment	Restated		note	
£'000	£'000	£'000			£'000
(2,559)		(2,559)	Net (surplus) or deficit on the provision of services		(2,717)
1,193	0	1,193	Adjust net surplus or deficit on the provision of services for noncash movements		(2,143)
(549)		(549)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities		2,632
(1,915)	**0**	**(1,915)**	**Net cash (inflows)/outflows from operating activities**		**(2,228)**
3,469	1,553	5,022	Investing activities	23	9,792
2,244	0	2,244	Financing activities	24	(39)
3,798	**1,553**	**5,351**	**Net (inflows)/ouflows in cash and cash equivalents**		**7,525**
11,438		11,438	Cash and cash equivalents at the beginning of the reporting period		16,789
15,236	**1,553**	16,789	Cash and cash equivalents at the end of the reporting period	21	9,264
3,798	**1,553**	**5,351**	**Movement in cash**		**(7,525)**

Notes to the Core Financial Statements

1 Basis of Preparation

Last year the Statement of Accounts document was reviewed, resulting in the notes being presented in an order most likely to be of importance to the reader. The notes are intended to aid the understanding of the key drivers of the financial position of the Council.

A further review is scheduled to be completed during the 2015/16 finanical year, to ensure that the Council's Statement of Accounts does not include notes which are either deemed unnecessary or immaterial.

Details of the order of the notes can be found in the index on page 1 of this document.

2 Accounting Policies

2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. The Council is required to prepare an annual statement of accounts by the Accounts and Audit (England) Regulations 2011 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ("**the Code**")* and the *Service Reporting Code of Practice for Local Authorities 2014/15*, supported by International Financial Reporting Standards (IFRS).

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

Details of the significant accounting policies can be found on page 67 of this document.

3 Accounting standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2015/16 Code:

IFRS 13 Fair Value Measurement. This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions).The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued to market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS 13. Overall this standard is not expected to have a material impact on the Statement of Accounts, due to the low value of surplus assets held by the Council.

IFRIC 21 Levies. This standard provides guidance on levies imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a

threshold is reached, or both. This standard will not have a material impact on the Statement of Accounts.

Annual Improvements to IFRSs (2011 – 2013 Cycle). These improvements are minor, principally proving clarification and will not have a material impact on the Statement of Accounts.

The Code requires implementation from 1 April 2015 and there is therefore no impact on the 2014/15 Statement of Accounts.

4 Critical judgements in applying accounting policies

In applying the accounting policies set out on page 67 onwards of this document, the Council has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgments made in the statement of accounts are:

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

5 Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions which take into account historical experience, current trends, professional knowledge and other various factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0.053m for every year that useful lives had to be reduced.
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £9.487m However, the assumptions interact in complex ways. During 2014/15, the Council's actuaries advised that the net pension's liability has increased by £6.8m. This is principally because financial assumptions at 31st March 2015 were less favorable than they were at 31st March 2014.
Debtors	At 31st March 2015, the Council had a balance of sundry debtors of £1.30m. A review of significant balances suggested that an impairment for doubtful debts of £1.07m was appropriate.	If collection rates were to deteriorate, a full review of the bad debt provision would be undertaken to review the debts on a case by case basis.

This list does not include assets and liabilities that have been carried at fair value based on a recently observed market price.

6 Material items of income and expense

All material items are disclosed on the face of the Comprehensive Income and Expenditure Statement.

7 Events after the Balance Sheet date (restated)

The Statement of Accounts were initially certified for issue by the Deputy Section 151 Officer on the 8th July 2015. At the conclusion of the audit the Statement of Accounts will be recertified and re- issued and events taking place after this recertification are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

8 Members' allowances

The Council paid the following amounts to members of the council during the year.

	2013/14 £'000	2014/15 £'000
Allowances	271	275
Travel and other allowances	2	1
Mayor	5	5
Total allowances	**278**	**281**

Local Authorities are required to disclose the amounts paid to each member; these are published annually on the Surrey Heath Borough Council website.

8.1 Officers remuneration

The remuneration paid to the Council's senior employees is as follows:

Following the departure of the Executive Head of Business and Executive Head of Transformation during 2014/15, an interim management structure was put in place on 1st June 2014. There were some small changes to the allocation of teams as a result of this interim structure and a permanent structure is to be addressed during 2015/16.

`		Salary (including fees & allowances)	Expenses	Benefits in kind	Compensation for Loss of Office	Employers Pension Contributions	Sub Total	Returning Officer Amount	Total	Note
2014/15		£000	£000	£000	£000	£000	£000	£000	£000	
Chief Executive	**2014/15**	**113**	**2**	**10**	**0**	**18**	**143**	**3**	**146**	
	2013/14	109	2	7	0	18	136	3	139	
Executive Head of Finance	**2014/15**	**83**	**0**	**5**	**0**	**13**	**101**	**0**	**101**	
	2013/14	80	0	6	0	13	99	0	99	
Executive Head of Corporate	**2014/15**	**12**	**0**	**1**	**0**	**2**	**15**	**0**	**15**	April - May 2014
	2013/14	71	0	6	0	11	88	0	88	
Executive Head of Corporate (Interim)	**2014/15**	**57**	**2**	**0**	**0**	**9**	**68**	**0**	**68**	Interim Structure from June 2014
	2013/14	0	0	0	0	0	0	0	0	
Executive Head of Transformation	**2014/15**	**26**	**1**	**0**	**0**	**4**	**31**	**0**	**31**	Left 19/08/14
	2013/14	42	1	0	0	7	50	0	50	Started 20/08/13
	2013/14	36	0	4	76	6	122		122	Left 30/09/13
Exective Head of Transformation	**2014/15**	62	0	4	0	10	76	0	76	Interim Structure from June 2014
	2013/14	0	0	0	0	0	0	0	0	
Executive Head of Community	**2014/15**	**74**	**0**	**5**	**0**	**12**	**91**	**0**	**91**	
	2013/14	71	0	6	0	11	88	0	88	
Executive Head of Business	**2014/15**	**9**	**0**	**0**	**0**	**0**	**9**	**0**	**9**	Left 15/05/2014
	2013/14	71	2	0	0	9	82	0	82	
Executive Head of Business (Interim)	**2014/15**	**55**	**2**	**0**	**0**	**9**	**66**	**0**	**66**	Interim Structure from June 2014
	2013/14	0	0	0	0	0	0	0	0	
Executive Head of Regulatory	**2014/15**	**74**	**3**	**0**	**0**	**12**	**89**	**0**	**89**	
	2013/14	71	2	0	0	11	84	0	84	
Head of Legal	**2014/15**	**11**	**0**	**0**	**0**	**2**	**13**	**0**	**13**	April - May 2014
	2013/14	65	0	0	0	10	75	0	75	
Head of Legal and Property (interim)	**2014/15**	**63**	**0**	**0**	**0**	**10**	**73**	**0**	**73**	Interim Structure from June 2014
	2013/14	0	0	0	0	0	0	0	0	
Head of Human Resources	**2014/15**	**10**	**0**	**0**	**0**	**2**	**12**	**0**	**12**	Effected by interim structure. HR function
	2013/14	57	0	0	0	9	66	0	66	

* The salaries for the Chief Executives incudes an amount for his/her services as Returning Officer.

8.2 Remuneration Bands

Council employees (including senior officers included in the table above) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts.

Remuneration band	2013/14 number of employees	2014/15 number of employees
£50,000 - £54,999	5	6
£55,000 - £59,999	5	3
£60,000 - £64,999	0	1
£65,000 - £69,999	2	2
£70,000 - £74,999	2	1
£75,000 - £79,999	2	3
£80,000 - £84,999	0	0
£85,000 - £89,999	1	1
£90,000 - £94,999	0	0
£95,000 - £99,999	0	0
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000- £114,999	1	0
£115,000 - £119,999	1	0
£120,000 - £124,999	0	1
£125,000 - £129,999	0	0
£130,000 - £134,999	0	0
£135,000 - £139,999	0	0
	19	**18**

8.3 Exit Packages

The Council did not terminate the contracts on any employees during 2014/15.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies for 2013/14 are set out in the table below.

`	b		c		d		e	
Exit package cost band (including special payments)	**Number of compulsory redundancies**		**Number of other departures agreed**		**Total number of exit packages by cost band b + c**		**Total cost of exit packages in each band**	
	2013/14	**2014/15**	**2013/14**	**2014/15**	**2013/14**	**2014/15**	**2013/14 £**	**2014/15 £**
£0 - £20,000	2	0	6	0	8	0	88,505	0
£20,001 - £40,000	0	0	0	0	0	0	0	0
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	1	0	1	0	75,912	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
Total	**2**	**0**	**7**	**0**	**9**	**0**	**164,417**	**0**

9 Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice for the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

Available For Sale Financial Instruments Reserve

The Available For Sale Financial Instruments Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost, or the associated investments are disposed of and the gains are realised.

	Usable reserves			
	General fund balance	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
2014/15	**£000**	**£000**	**£000**	**£000**
Adjustments primarily involving the capital adjustment account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	2,060	0	0	(2,060)
Revaluation losses on property, plant and equipment	(279)	0	0	279
Movements in the market value of investment properties	2,207	0	0	(2,207)
Capital grants and contributions applied	283	0	0	(283)
Revenue expenditure funded from capital under statute	(633)	0	0	633
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(129)	0	0	129
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	0	0	0	0
Capital expenditure charged against the general fund balance	84	0	0	(84)
Adjustments primarily involving the capital grants unapplied account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0
Application of grants to capital financing transferred to the capital adjustment account	178	0	0	(178)
Adjustments primarily involving the capital receipts reserve				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1,254	0	(1,254)
Transfer from deferred capital receipts reserve upon receipt of cash	0	0	0	0
Adjustments primarily involving the deferred capital receipts reserve				
Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0
Adjustment primarily involving the financial instruments adjustment account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0	0
Adjustments primarily involving the pensions reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	(2,883)	0	0	2,883
Employer's contributions and direct payments to pensioners payable in year	1,780	0	0	(1,780)
Adjustments primarily involving the collection fund adjustment account				
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(516)	0	0	516
Adjustments primarily involving the accumulated absences account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	2	0	0	(2)
Other Adjustments recorded in CIES				0
Total adjustments	**2,154**	**1,254**	**0**	**3,408**

	Usable reserves			
	General fund balances	Capital receipts reserve	Capital grants unapplied	Movement in unusable reserves
2013/14	£000	£000	£000	£000
Adjustments primarily involving the capital adjustment account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	(1,781)	0	0	1,781
Revaluation losses on property, plant and equipment	14	0	0	(14)
Movements in the market value of investment properties	0	0	0	0
Capital grants and contributions applied	0	0	0	0
Revenue expenditure funded from capital under statute	(358)	0	0	358
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	(52)	0	0	52
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment	0	0	0	0
Capital expenditure charged against the general fund balance	233	0	0	(233)
Adjustments primarily involving the capital grants unapplied account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0	0	0	0
Application of grants to capital financing transferred to the capital adjustment account	281	0	0	(281)
Adjustments primarily involving the capital receipts reserve				
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	11	(11)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	962	0	(962)
Transfer from deferred capital receipts reserve upon receipt of cash	(1)	1	0	0
Adjustments primarily involving the deferred capital receipts reserve				
Transfer of deferred sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0
Adjustment primarily involving the financial instruments adjustment account				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0	0	0	0
Adjustments primarily involving the pensions reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and expenditure Statement	(2,705)	0	0	2,705
Employer's contributions and direct payments to pensioners payable in year	1,526	0	0	(1,526)
Adjustments primarily involving the collection fund adjustment account				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(892)	0	0	892
Adjustments primarily involving the accumulated absences account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	0	0
Total adjustments	**(3,724)**	**952**	**0**	**2,772**

10 Grant income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2014/15:

	2013/14 £'000	2014/15 £'000
Credited to taxation and non specific grant income		
Revenue support grant	(2,059)	(1,578)
Capital Grants	(279)	(283)
Other grants	(630)	(1,740)
Total	**(2,968)**	**(3,601)**
Credited to services		
Housing benefit administration grant	(338)	(252)
Council tax benefit grant	0	(56)
Rent allowance subsidy	(16,194)	(16,934)
Other grants	(531)	(688)
Total	**(17,063)**	**(17,930)**
Total Grants	**(20,031)**	**(21,531)**

The Council has no grants, contributions and donations that have yet to be recognised as income because they have conditions attached.

11 Property, plant and equipment

11.1 Depreciation

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

Class type	Useful life range
Other Buildings	10 to 60 years
Plant and Equipment	2 to 10 years
Vehicles	20% Reducing Balance
Officer's Cars	20% Straight line method
Intangible	Written off in year of purchase
Infrastructure	10 to 20 years

11.2 Construction Contracts

At 31st March 2015, the Council has agreed the following schemes:-

- The A30/A331 corridor improvements (Meadows Gyratory) and Blackwater Valley Connectivity project at an estimated cost (25%) to the Council of £673,000.

- The acquisition of Ashwood House, Pembroke Broadway, Camberley for the sum of £8m including fees and taxes. The deposit for the purchase of the property was paid in March 2015.

The acquisition of land for use as Suitable Alternative Natural Greenspace (SANG) land between Station Road and Chertsey Road, Chobham for the sum of up to £1.5million including stamp duty and legal costs subject to a satisfactory business case. A deposit of £0.106m was paid in 2014/15.

11.3 Revaluations

The Council carries out a rolling programme that ensures that all material Property required to be measured at fair value is revalued at a minimum of every five years. All valuations for the current financial year were carried out by the Council's in house surveyors. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or the latest list prices adjusted for the condition of the asset.

	Other Land & Buildings £'000	Surplus Assets £'000	Total £'000
Value at fair value as at:			
31 March 2015	22,833		**22,833**
31 March 2014	541		**541**
31 March 2013	5,503		**5,503**
31 March 2012	12,479	**237**	**12,716**
31 March 2011	7,108		**7,108**
Total Cost or Valuation	**48,464**	**237**	**48,701**

2014/15	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure	Community Assets	Surplus Assets	Assets Under Construction	Total PP&E
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2014	45,794	6,784	154	609	237	161	53,739
Additions	533	1,154	0	0	0	963	2,650
Donations	0	0	0	0	0	0	0
Revaluation Increases/(decreases) recognised in the revaluation reserve	9,251	0	0	0	0	0	9,251
Revaluation Increases/(decreases) recognised in the surplus / deficit on the provision of services	(1,337)	0	0	0	0	0	(1,337)
Derecognition - disposals	0	(35)	0	0	0	(94)	(129)
Derecognition - other	0	0	0	0	0	0	0
Assets reclassified from Assets under Construction	59	8	0	0	0	(67)	0
Other movements in cost or valuation	0	0	0	0	0	0	0
At 31 March 2015	**54,300**	**7,911**	**154**	**609**	**237**	**963**	**64,174**
Accumulated depreciation and Impairment							
At 1 April 2014	(9,629)	(4,868)	(82)	0	0	0	(14,579)
Depreciation Charge	(1,240)	(583)	(9)	0	0	0	(1,832)
Depreciation written out to the revaluation reserve	0	0	0	0	0	0	0
Depreciation written out to the surplus / deficit on the provision of services	3,892	0	0	0	0	0	3,892
Impairment losses/reversals recognised in the revaluation reserve	0	0	0	0	0	0	0
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	1,141	0	0	0	0	0	1,141
Derecognition - disposals	0	0	0	0	0	0	0
Derecognition - other	0	0	0	0	0	0	
Other movements in depreciation and impairment	0	0	0	0	0	0	0
At 31 March 2015	**(5,836)**	**(5,451)**	**(91)**	**0**	**0**	**0**	**(11,378)**
Net Book Value							
At 31 March 2015	**48,464**	**2,460**	**63**	**609**	**237**	**963**	**52,796**
At 31 March 2014	**36,165**	**1,916**	**72**	**609**	**237**	**161**	**39,160**

2013/14	Other land & buildings	Vehicles, plant & equipment	Infrastructure	Community assets	Surplus assets	Assets under construction	Total PP&E
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation							
At 1 April 2013	45,512	6,282	154	609	237	30	52,824
Additions	154	554	0	0	0	131	839
Donations	0	0	0	0	0	0	0
Revaluation Increases/(decreases) recognised in the revaluation reserve	135	0	0	0	0	0	135
Revaluation Increases/(decreases) recognised in the surplus / deficit on the provision of services	(7)	0	0	0	0	0	(7)
Derecognition - disposals	0	(52)	0	0	0	0	(52)
Derecognition - other	0	0	0	0	0	0	0
Assets reclassified (to) / from held for sale	0	0	0	0	0	0	0
Other movements in cost or valuation	0	0	0	0	0	0	0
At 31 March 2014	**45,794**	**6,784**	**154**	**609**	**237**	**161**	**53,739**
Accumulated depreciation and Impairment							
At 1 April 2013	(8,480)	(4,402)	(72)	0	0	0	(12,954)
Depreciation Charge	(1,233)	(466)	(10)	0	0	0	(1,709)
Depreciation written out to the revaluation reserve	63	0	0	0	0	0	63
Depreciation written out to the surplus / deficit on the provision of services	21	0	0	0	0	0	21
Impairment losses/reversals recognised in the revaluation reserve	0	0	0	0	0	0	0
Impairment losses/reversals recognised in the surplus / deficit on the provision of services	0	0	0	0	0	0	0
Derecognition - disposals	0	0	0	0	0	0	0
Derecognition - other	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	0	0	0	0	0	0
At 31 March 2014	**(9,629)**	**(4,868)**	**(82)**	**0**	**0**	**0**	**(14,579)**
Net Book Value							
At 31 March 2014	**36,165**	**1,916**	**72**	**609**	**237**	**161**	**39,160**
At 31 March 2013	**37,032**	**1,880**	**82**	**609**	**237**	**30**	**39,870**

12 Heritage Assets

A reconciliation of the carrying value of heritage assets held by the Council is shown in the table below:

	Museum £'000	Civic Regalia £'000	Other £'000	Total £'000
Cost or Valuation				
1st April 2013	158	107	48	**313**
Revaluations	0	0	0	**0**
Other Movements	17	4	0	**21**
31st March 2014	**175**	**111**	**48**	**334**
Cost or Valuation				
1st April 2014	175	111	48	**334**
Revaluations	0	0	0	**0**
Other Movements	0	0	0	**0**
31st March 2015	**175**	**111**	**48**	**334**

12.1 Civic Regalia

An additional jewel for the Civic Regalia was located in the 2013/14 year resulting in a £4k increase in the total valuation to £0.111m.

12.2 Museum

Surrey Heath Museum is a small museum with displays of local history and the environment of Surrey Heath, including archaeology, natural history, local social history and the effect of the army. It also regularly holds temporary exhibitions and provides additional services for schools.

12.3 Other

A modern piece of artwork is displayed outside the Atrium. The value of this asset is separately identifiable at £0.048m.

12.4 Five Year Summary of Transactions

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Cost of Acquistions of Heritage Assets					
Museum Artwork	149	149	149	166	166
Civic Regalia	49	49	107	111	111
Other	48	48	48	48	48
Total Cost of Purchases	**246**	**246**	**304**	**325**	**325**
Value of Heritage Assets Acquired by Donation					
Museum Artwork	9	9	9	9	9
Civic Regalia					
Other					
Total Donations	**9**	**9**	**9**	**9**	**9**

13 Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that software is not an integral part of a particular IT system and is not accounted for as part of any hardware item recorded in Property, Plant and Equipment. Intangible assets include both purchased licences and internally generated software.

During 2014/15 no Capital expenditure was incurred in relation to this category.

14 Investment Properties

The following items of income and expense have been accounted for in the Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

	2013/14 £'000	2014/15 £'000
Rental income from investment property	(580)	(751)
Direct operating expenses arising from investment property	17	324
Net (gain) / loss	**(563)**	**(427)**

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or towards repairs, maintenance or enhancement.

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

	2013/14 £'000	2014/15 £'000
Balance at start of the year	**10,120**	**10,327**
Purchases	207	0
Net gains / (losses) from fair value adjustments	0	2,207
Balance at end of the year	**10,327**	**12,534**

15 Capital expenditure and capital financing

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

	2013/14 £'000	2014/15 £'000
Opening capital financing requirement	**0**	**0**
Capital investment		
Property, plant and equipment	708	1,687
Investment assets	207	0
Assets under construction	131	963
Intangible assets	71	0
Revenue expenditure funded from capital under statute	359	633
Sources of finance (Restated)		
Capital receipts	(962)	(1,254)
Government grants and other contributions	(281)	(461)
Sums set aside from revenue	(233)	(84)
Closing capital financing requirement	**0**	**1,484**

16 Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund Balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2014/15.

Reserve	note	Balance 1 April 2013	Net Transfers 2013/14	Balance 31 March 2014	Net Transfers 2014/15	Balance 31 March 2015
		£000	£000	£000	£000	£000
Revenue purposes						
Capital Fund	(a)	9,987	(283)	9,704	(337)	9,367
Earmarked Revenue purposes						
Atrium development agreement	(b)	0	0	0	0	0
Affordable Housing	(b)	0	0	0	316	316
Atrium Public Art	(c)	12	0	12	1	13
Atrium S106 Agreement	(d)	394	(27)	367	(26)	341
Blackwater Valley developers contributions	(e)	144	(7)	137	(31)	106
Chewing Gum Machine	(f)	22	(9)	13	0	13
Chobham and Town Team Partnership	(g)	9	(3)	6	(1)	5
Community Fund 2002	(h)	410	(55)	355	(26)	329
Commuted Sums	(i)	838	(52)	786	(95)	691
Crime and Disorder Partnership	(j)	144	(19)	125	(3)	122
Deepcut Village Centre: Alma Dettingen	(k)	373	2	375	2	377
Heatherside: multi-use games area	(l)	46	(3)	43	(4)	39
Insurance Reserve Fund	(m)	239	(21)	218	(1)	217
Land drainage	(n)	404	(20)	384	0	384
LLC Personal Search Revocation	(o)	34	(9)	25	0	25
New Burdens Fund	(p)	81	(32)	49	81	130
Old Dean toddlers playground	(q)	20	0	20	0	20
Personalisation and Prevention Partnership Fund	(r)	115	(45)	70	(26)	44
Planning S106 Agreements	(s)	134	1	135	(1)	134
Planning Tariff Contributions	(t)	294	111	405	54	459
Property Maintenance	(u)	508	1,333	1,841	73	1,914
Recycling/Refuse Equalisation	(v)	250	(44)	206	0	206
Remediation Fund	(w)	45	0	45	0	45
Repairs and Renewals	(x)	1,187	(1,187)	0	0	0
Safer Surrey Heath [1]	(y)	7	0	7	(7)	0
SANGS	(z)	698	189	887	280	1,167
Surrey Family Support Programme	(aa)	0	247	247	(89)	158
Windle Valley Well Being Centre	(bb)	0	60	60	(60)	0
Total - Revenue Purposes		**6,408**	**410**	**6,818**	**437**	**7,255**
TOTAL		**16,395**	**127**	**16,522**	**100**	**16,622**

Note 1 - Safer Surrey Heath Reserve was merged with the Crime and Disorder Reserve during 2014/15.

Note 2 – Affordable Housing Reserve – Fund set up with contributions from developers who are unable to provide affordable housing on their site to enable SHBC to provide affordable housing elsewhere.

a) **Capital Fund –** this reserve is sourced from revenue to support capital expenditure

b) **Affordable Housing** - this fund is made up of contributions received from developers who are unable to provide affordable housing on the site of their development. The fund will enable the Council to provide affordable housing elsewhere.

c) **Atrium Public Art** – this fund was set up to meet the on-going maintenance and insurance costs of the project.

d) **Atrium S106 Agreement** – this fund is made up of the developer contributions towards Town Centre Management Improvements as part of the Atrium Development legal agreement.

e) **Blackwater Valley Developer's Contributions** – this is a sum held to contribute towards the maintenance costs of the Blackwater Valley leisure projects. The balance includes miscellaneous contributions from developers.

f) **Chewing Gum Machine** – this fund was set up from S106 income, to fund the projected 8 year life of the machine to cover the running costs and replacement of the machine.

g) **Chobham and Town Team Partnership** – A fund, granted by the Department of Communities and Local Government (DCLG), is held on behalf of Chobham BEE (Chobham Better Experience for Everyone) for planning and implementing improvements to Chobham High Street.

h) **Community Fund 2002 –** this fund is to make grants to community based organisations. This fund also includes the environmental bursary, as the balance was transferred into the fund as per the Executive 2nd October 2007, minute 066/E refers.

i) **Commuted Sums** – these funds are contributed by developers for the maintenance of open spaces and amenities.

j) **Crime and Disorder Partnership** – the Crime and Disorder Act 1999 required a partnership to be set up to improve community safety. This money will be used to fund the activities of mutual benefit to the whole partnership.

k) **Deepcut Village Centre: Alma Dettingen –** this is a sum held to contribute towards structural maintenance and the eventual refurbishment of this community facility.

l) **Heatherside: Multi-Use Games Area –** the Safer Surrey Heath partnership set aside £150,000 to fund a multi user games area in Surrey Heath. This is a facility where various ball games can be played in a safe environment.

m) **Insurance Reserve Fund** - this fund has been set aside for three reasons:

- in connection with the close of trading of the Municipal Mutual Insurance (MMI) and the potential contribution towards costs
- to provide a credit guarantee for loans made under the council's car loans scheme for officers and;
- to deliver a risk management policy including risk management, business continuity and health and safety.

n) **Land Drainage –** this fund finances the land drainage programme.

o) **LLC Personal Search Revocation** – this fund is to finance claims for refunds of fees, paid by way of Personal Searches of the Land Charges Register from 2005 to August 2010.

p) **New Burdens Fund** – funding received from the DCLG in recognition of additional resources/works required by local authorities under the Localism Act.

q) **Old Dean Toddlers Playground –** this fund has been set up for this project from payments received from The Accent Foundation, Frimley Fuel Allotments, Beacon Church and parents support group for the installation of the playground and future maintenance.

r) **Personalisation and Prevention Partnership –** funding provided by Surrey County Council (SCC) to enable the Council to invest in projects which through improved efficiency and increased income will benefit the older community.

s) **Planning S106 Agreements –** this fund reflects developer contributions collected to fulfil specific financial obligations contained in S106 Agreements and are to be used for specific projects and purposes as detailed in the Section 106 Agreements.

t) **Planning Tariff Contributions –** this fund reflects developer contributions collected via the Surrey Heath Developer Tariff Scheme for the provision of additional infrastructure projects in the borough in order to mitigate the impact of new development on local infrastructure.

u) **Property Maintenance** – this fund is used to finance the planned preventative maintenance programme for the council's properties.

v) **Recycling/Refuse Equalisation** - this fund has been set up to mitigate the effect of any fall in prices for recycled materials in future years.

w) **Remediation Fund –** this fund is used to fund works to restore land following illegal occupation.

x) **Repairs and Renewals** – this fund is used to finance the repairs and renewal of equipment, vehicles and plant.

y) **Safer Surrey Heath** – the Safer Surrey Heath Partnership receives funding from the Home Office and others which it allocates by way of grant to partners and other organisations to fund community safety projects. The reserve relates to grants/projects previously approved by the partnership for which the funding is being held by the council.

z) **SANGS (Suitable Alternative Natural Green Space) -** this fund was set up from developer contributions to fund the long term costs of mitigation for the Special Protection Areas (SPA). The Earmarked Reserve represents agreements for which the Council acts as the Principal. The Council also acts as Agent for 2 further SANGS agreements which is shown elsewhere in these Financial Statements.

aa) **Surrey Family Support Programme** – this fund is used to finance the Troubled Families Project for the period 2012- 2015. It is funded by Surrey County Council using government grant funding.

bb) **Windle Valley Well Being Centre –** this fund is used to provide support to people living in Surrey Heath who are in need of advice, information and assistance regarding memory problems, confusion and dementia.

17 Unusable Reserves

17.1 Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

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

Revaluation Reserve	**2013/14 £'000**	**2014/15 £'000**
Balance at 1 April	**(17,551)**	**(17,141)**
Upward revaluation of assets	(219)	(9,348)
Downward revaluation of assets and impairment losses not charged to the surplus / deficit on the provision of services	0	97
(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	(219)	(9,251)
Difference between fair value depreciation and historical cost depreciation	629	1,007
Amount written off to the Capital Adjustment Account	629	1,007
Balance at 31 March	**(17,141)**	**(25,385)**

17.2 Capital Adjustment Account

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

The account contains accumulated gains and losses on investment properties and gains recognised on donated assets that have yet to be consumed by the Council.

The account also contains revaluation gains accumulated on property, plant and equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 11 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

	2013/14 £'000	2014/15 £'000
Application of grants to capital financing from the capita	**(32,752)**	**(32,680)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	1,781	(2,060)
Revaluation losses/gains(-) on property, plant and equipment	(14)	279
Revenue expenditure funded from capital under statute	358	633
Amounts of non-current assets written off on disposal or sale as part of the (gain) / loss on disposal to the Comprehensive Income and Expenditure Statement	52	129
	2,177	(1,019)
Adjusting amounts written out of the Revaluation Reserve	(629)	(1,007)
Net written out amount of the non-current assets consumed in the year	1,548	(2,026)
Capital financing applied in the year:		
Use of the capital receipts reserve to finance new capital expenditure	(962)	(1,254)
Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	(281)	0
Application of grants to capital financing from the capital grants unapplied account	0	(461)
Statutory provision for the financing of capital investment charged against the General Fund Balance	0	
Capital expenditure charged against the General Fund Balance	(233)	(84)
	(1,476)	(1,799)
Movements in the market value of investment properties debited or (credited) in the Comprehensive Income and Expenditure Statement	0	(2,207)
Movements in the donated assets account credited in the Comprehensive Income and Expenditure Statement	0	0
Balance at 31 March	**(32,680)**	**(38,712)**

17.3 Deferred Capital Receipts Reserve

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

	2013/14 £'000	2014/15 £'000
Balance at 1 April	**(23)**	**(23)**
Transfer of deferred sales proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
Transfer to the capital receipts reserve upon receipt of cash	0	0
Balance at 31 March	**(23)**	**(23)**

17.4 Pensions Reserve

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

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	2013/14 £'000	2014/15 £'000
Balance at 1 April	**28,973**	**31,508**
Actuarial (gains) and losses on pensions assets and liabilities	1,356	5,699
Reversal of items relating to retirement benefits debited or (credited) to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	2,705	2,883
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,526)	(1,780)
Balance at 31 March	**31,508**	**38,310**

17.5 Collection Fund Adjustment Account (Restated)

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

	2013/14	2014/15
	£'000	£'000
Balance at 1 April	**(160)**	**459**
Amount by which council tax income and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	619	516
	459	**975**

17.6 Accumulated Absences Account

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

	2013/14 £'000	2014/15 £'000
Balance at 1 April	**137**	**137**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	(2)
Balance at 31 March	**137**	**135**

17.7 Available For Sale Financial Instruments Reserve

The Available For Sale Financial Instruments Reserve contains the gains made by the Council arising from the increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost, or the associated investments are disposed of and the gains are realised.

	2013/14 £'000	2014/15 £'000
Balance at 1 April	0	0
Upward revaluation of investments		0
Downward revaluation of investments not charged to the surplus / deficit on the provision of services	0	144
	0	**144**
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of other investment income		
Balance at 31 March	**0**	**144**

18 Leases

18.1 Council as Lessee – Operating Leases

The Council leases four vans from Apetito to assist in providing the Meals on Wheels service to residents.

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

	31 March 2014	31 March 2015
	£	£
Not later than one year	25	25
Later than one year and not later than five years	68	68
Later than five years	0	0
	93	**93**

Expenditure charged to the following services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2013/14	2014/15
	£'000	£'000
Adult social care	25	25
	25	**25**

18.2 Council as Lessor – Operating Leases

The council leases out property and equipment under operating leases for the following purposes:

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

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

	31 March 2014	31 March 2015
	£'000	£'000
Not later than one year	172	232
Later than one year and not later than five years	636	674
Later than five years	2,031	1,877
	2,839	**2,783**

The Council is also Lessor of the Atrium shopping Centre in Camberley for which is receives a fixed percentage of net rent collected. In 2014/15 the income was £239,968 and in 2013/14 £174,289. This lease is expected to continue in to the foreseeable future however on the grounds of materiality this has not been separated in to the component parts within this note.

19 Long Term Debtors

Details of the Council's long term debtors are shown below:

	31 March 2014	31 March 2015
	£'000	£'000
Charges on properties	182	176
Housing loans	145	144
	327	**320**

20 Short Term Debtors

Details of the Council's short term debtors are shown below:

	31 March 2014	Prior year adjustment	31 March 2014 Restated	31 March 2015
	£'000	£'000	£'000	£'000
Central government bodies	2,379	(254)	2,125	1,838
Other local authorities	494	(50)	444	1,598
Sundry debtors	3,463	0	3,463	1,295
Bodies External to Central Government				2,847
	6,336	**(304)**	**6,032**	**7,578**
Provision for impairment of bad debts	(980)		(980)	(1,065)
	5,356	**(304)**	**5,052**	**6,513**

21 Cash and Cash Equivalents

Details of the Council's cash and cash equivalents are shown below.

	31 March 2014	Prior year adjustment	31 March 2014 Restated	31 March 2015
	£'000	£'000	£'000	£'000
Cash held by the Council	7	0	7	(21)
Bank current accounts	(1,227)	1,553	326	834
Short term deposits	16,456	0	16,456	8,451
Total cash and cash equivalents	**15,236**	**1,553**	**16,789**	**9,264**

22 Short Term Creditors

Details of the Council's short terms creditors are shown below:

	31 March 2014	Prior year adjustment	31 March 2014 Restated	31 March 2015
	£'000	£'000	£'000	£'000
Central government bodies	(1,713)	(121)	(1,834)	(4,517)
Other local authorities	(1,204)	(481)	(1,685)	(3,621)
Other entities and individuals	(1,849)	(374)	(2,223)	(3,238)
	(4,766)	**(976)**	**(5,742)**	**(11,376)**

23 Cash flow statement – investing activities

The cash flows for investing activities include the following items:

	2013/14 £000 Restated	2014/15 £000
Purchase of property, plant and equipment, investment property and intangible assets	(1,248)	(3,245)
Purchase of short term and long term investments	5,089	(9,625)
Other payments for investing activities	1,128	3,043
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	53	35
Net cash flows from investing activities	**5,022**	**(9,792)**

24 Cash flow statement – financing activities

The cash flows for financing activities include the following items:

	2013/14 £000 Restated	2014/15 £000
Cash receipts of short and long term borrowing	1,352	562
Other receipts from financing activities	892	(523)
Net cash flows from financing activities	**2,244**	**39**

25 Amounts reported for resource allocation decisions

25.1 The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Council's Executive on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges (apart from an estimate for asset charges) are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the

balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)

- the cost of retirement benefits is based on an estimate of current service cost of benefits accrued in the year, however this changes after the actuaries review
- expenditure on some support services is budgeted for centrally and not charged to portfolios
- some expenditure from reserves is not included within the budget reports that go to the Executive

The income and expenditure of the Council's principal portfolios recorded in the budget reports for the year is as follows:

Portfolio Income and Expenditure 2014/15	Business	Regulatory	Community	Corporate	Finance	Transformation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(3,843)	(960)	(2,603)	(73)	(541)	(1,545)	(9,565)
Government grants	(30)	(228)	(320)	(93)	(17,243)	(16)	(17,930)
Total income	**(3,873)**	**(1,188)**	**(2,923)**	**(166)**	**(17,784)**	**(1,561)**	**(27,495)**
Employee expenses	1,734	1,865	1,993	580	1,856	(336)	7,692
Other service expenses	1,371	382	4,776	695	16,509	(406)	23,327
Support service recharges	742	881	964	430	1,255	343	4,615
Total expenditure	**3,847**	**3,128**	**7,733**	**1,705**	**19,620**	**(399)**	**35,634**
Net expenditure	**(26)**	**1,940**	**4,810**	**1,539**	**1,836**	**(1,960)**	**8,139**

Portfolio Income and Expenditure 2013/14	Business	Regulatory	Community	Corporate	Finance	Transformation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service incom	(3,384)	(1,986)	(2,379)	(102)	(539)	(701)	(9,091)
Government grants	(18)	(379)	(136)	(16)	(16,657)	(3)	(17,209)
Total income	**(3,402)**	**(2,365)**	**(2,515)**	**(118)**	**(17,196)**	**(704)**	**(26,300)**
Employee expenses	1,311	1,322	1,378	486	893	717	6,107
Other service expenses	2,718	1,555	4,772	556	16,622	806	27,029
Support service recharges	806	940	1,143	334	1,199	436	4,858
Total expenditure	**4,835**	**3,817**	**7,293**	**1,376**	**18,714**	**1,959**	**37,994**
Net expenditure	**1,433**	**1,452**	**4,778**	**1,258**	**1,518**	**1,255**	**11,694**

25.2 Reconciliation of portfolio income and expenditure to cost of services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2013/14 £'000	2014/15 £'000
Net expenditure in the Portfolio Analysis	11,694	8,139
Net expenditure of services and support services not included in the analysis	1,770	1,943
Cost of Services in Comprehensive Income and Expenditure Statement	**13,464**	**10,082**

25.3 Reconciliation to subjective analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the surplus or deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

	Portfolio analysis	Services and support services not in analysis	Amounts not reported to management for decision making	Cost of services	Corporate amounts	Total
2014/15	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(9,565)	0	0	(9,565)	0	(9,565)
Financing and investment income and expenditure	0	0	0	0	(2,633)	(2,633)
Income from council tax	0	0	0	0	(7,756)	(7,756)
Income from non domestic rates	0	0	0	0	(1,152)	(1,152)
Past service gain on pensions	0	0	0	0	1,348	1,348
Government grants and contributions	(17,930)	0	0	(17,930)	(2,874)	(20,804)
Total income	(27,495)	0	0	(27,495)	(13,067)	(40,562)
Employee expenses	7,693	0	0	7,693	0	7,693
Other service expenses	23,326	0	0	23,326	0	23,326
Support service recharges	4,615	0	0	4,615	0	4,615
Depreciation, amortisation and impairment	0	0	1,943	1,943	0	1,943
Interest payments	0	0	0	0	(241)	(241)
Payments to housing pool					0	0
Precepts & levies	0	0	0	0	509	509
Total expenditure	**35,634**	0	1,943	37,577	268	37,845
Surplus or deficit on the provision of services	**8,139**	**0**	**1,943**	**10,082**	**(12,799)**	**(2,717)**

2013/14	Portfolio analysis	Services and support services not in analysis	Amounts not reported to management for decision making	Cost of services	Corporate amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service	(9,091)	0	0	(9,091)	0	(9,091)
Interest and investment income	0	0	0	0	(853)	(853)
Income from council tax	0	0	0	0	(7,599)	(7,599)
Income from non domestic rates	0	0	0	0	(1,283)	(1,283)
Post stock transfer capital receipts	0	0	0	0	0	0
Government grants and contributions	(17,209)	0	0	(17,209)	(2,968)	(20,177)
Total income	**(26,300)**	**0**	**0**	**(26,300)**	**(12,703)**	**(39,003)**
Employee expenses	6,107	0	0	6,107	0	6,107
Other service expenses	27,029	0	0	27,029	0	27,029
Support service recharges	4,858	0	0	4,858	0	4,858
Depreciation, amortisation and impairment	0	0	1,770	1,770	0	1,770
Interest payments	0	0	0	0	1,300	1,300
Payments to housing pool					2	2
Precepts & levies	0	0	0	0	496	496
Total expenditure	**37,994**	**0**	**1,770**	**39,764**	**1,798**	**41,562**
Surplus or deficit on the provision of services	**11,694**	**0**	**1,770**	**13,464**	**(10,905)**	**2,559**

26 Trading operations

The table below shows those operating units of the Council where service managers are required to operate within a commercial environment and balance their budget by generating income from other parts of the Council, other organisations and the general public.

	2013/14		2014/15	
	Turnover	(Surplus) / deficit	Turnover	(Surplus) / deficit
	£'000	£'000	£'000	£'000
Camberley Theatre	(738)	787	(757)	2,044
Car parks	(1,675)	(149)	(1,890)	(1,270)
Building control - chargeable	(278)	(39)	(307)	(59)
	(2,691)	**599**	**(2,954)**	**715**

Camberley Theatre

The Council owns and manages a theatre that puts on a variety of productions. In 2014/15 the catering concession was outsourced. All other functions remained in-house.

Car Parks

The car parks are owned and managed by the Council.

27 Agency services

27.1 The Council provides the following services on behalf of Surrey County Council and Hampshire County Council through agency agreements:

- Management of two gypsy sites at Swift Lane and Kalima,
- Civil parking enforcement and controlled parking zones.
- - SANGS agreements in relation to Swan lakes and Hawley Meadows

Gypsy sites		
Income	(169)	(146)
Expenditure	173	331
(Surplus) / deficit on the agency arrangement	**4**	**185**
Parking Services		
Income	(359)	(671)
Expenditure	417	684
(Surplus) / deficit on the agency arrangement	**58**	**13**
Total (surplus) / deficit on the agency arrangements	**62**	**198**

28 External audit costs

The Council has incurred the following costs in relation to the audit of the statement of accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2013/14 £'000	2014/15 £'000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	55	56
Fees payable for the certification of grant claims and returns for the year	15	15
	70	**71**

29 Related Parties

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

29.1 Central Government

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, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 25.3 on reporting resources allocation decisions.

29.2 Members

Members of the Council have direct control over the Council's financial and operating policies. One member is an employee of Guildford Borough Council but is not involved in contracting nor any activity paid for by Surrey Heath. Three members are also members of Surrey County Council but have no personal interest in any transactions. Grants totaling £84,788 were paid to 4 voluntary organisations in which 7 members had an interest. The grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of all these transactions are recorded in the register of members' interest, open to public inspection at Surrey Heath House during office hours.

The total of members' allowances paid in 2014/15 is shown in Note 8.

29.3 Officers

No outside interests were declared.

29.4 Other Public Bodies (subject to common control by central government)

The Council had significant financial transactions with both Surrey County Council and Surrey Police Authority details of which are shown in the Collection Fund Statement for 2014/15 on page 62.

30 Prior year adjustments

There are two prior year adjustments which have resulted in the 2013/14 financial statemenst being restated. These relate to the Collection Fund and Reserves

Collection Fund

These financial statements contain a prior year adjustment relating to changes required to accounting for the Collection Fund relating to the financial year 2012/13 and before.

The Collection Fund contains all of the Council Tax and Business Rates collected from ratepayers in the borough and also the payments out to preceptors. During the preparation of the accounts for 2014/15 it became apparent that the Collection Fund had not been properly accounted for over a number of years.

This related to in particular to the way that “receipts in advance” had been treated. In the Collection fund calculation used in precious years the “receipts in advance” figures was taken to be the balancing figure in the collection fund calculation rather than the actual figure as in the revenues system. This discrepancy only became apparent with the changes to the Localisation of Business Rates and the new computer system. It is clear that the “receipts in advance” in the revenue system and that used in the accounts have drifted apart over many years leading to the differences below. As a result of a thorough review of the collections fund to further adjustments were found also relating to 2012/13.

The adjustment of £1.5m, which was wrongly shown as a reduction in cash in the 2013/14 accounts has arisen for the following reasons:

- £830,822 as a result of the wrong opening figure being used on the 1st April 2013 for “payments in advance” in respect of business rates;
- £447,082 as a result of the wrong opening figure being used on the 1st April 2013 for “payments in advance” in respect of business rates;
- £195,000 as a result of a surplus on Council Tax not being paid over relating to 2012/13;
- £122,480 representing an amount due to the Government representing transitional relief not paid over in 2012/13
- (£42,380) being Business Rates creditor in relation to the BID area

These adjustments have the effect of increasing the cash balances at the 31st March 2014 and creating a number of creditors which were not included in the original accounts.

A summary of the adjustments are shown below:

DR: Cash and Cash Equivalents	1,553,000	
CR: Other creditors – SCC		481,561
DR: Other Creditors – BID	42,380	

CR: Other Creditors – Police	83,470
CR: Other creditors – central Government	453,763
CR: Collection Fund Adjustment Account	276,864
CR: Other debtors – Central Government	249,769
CR: Other debtors – SCC	49,953

31 Defined Benefit Pension schemes

31.1 Participation in Pension Schemes

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

The Council participates in two post-employment schemes:

The Local Government Pension Scheme, administered locally by Surrey County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

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

The Local Government Pension Scheme operates under the regulatory framework for this scheme, and the governance of the local scheme is the responsibility of the Pensions Committee of Surrey County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the pensions committee, consisting of the Head of Finance for Surrey County Council, the Pension Fund Manager, four county Councilors, two district council representatives, an employee representative and two professional investment advisors.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note (see page 67).

31.2 Transactions relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been

made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme	
	2013/14	**2014/15**
	£'000	**£'000**
Comprehensive Income and Expenditure Statement		
Cost of Services		
Service Cost comprising:		
- Current Service Cost	1,403	1,535
- Past Service Costs	2	0
- (gain)/loss from settlements	0	0
Financing and Investment Income and Expenditure		
Net interest expense	1,300	1,348
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**2,705**	**2,883**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
comprising:		
- Return on plan assets (excluding the amount included in the net interest expense)	1,378	(5,414)
- Actuarial gains and losses arising on changes in demographic assumptions	1,554	0
- Actuarial gains and losses arising on changes in financial assumptions	381	11,991
- Other experience	(1,957)	(878)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**1,356**	**5,699**

31.3 Assets and Liabilities in relation to Post-employment Benefits

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans are:

	Local Government Pension Scheme	
	2013/14 £'000	**2014/15 £'000**
Present value of the defined benefit obligation	(90,085)	(103,742)
Fair value of plan assets	58,577	65,432
Net liability arising from defined benefit obligation	**(31,508)**	**(38,310)**

31.4 Reconciliation of fair value of the scheme assets:

	Funded Assets: local government pension		Unfunded Assets: discretionary benefits	
	2013/14 £'000	**2014/15 £'000**	**2013/14 £'000**	**2014/15 £'000**
Opening fair value of scheme assets	**58,750**	**58,577**	**0**	**0**
Interest Income	2,611	2,495		
Remeasurement gain/(loss):				
- the return on plan assets, excluding the amount included in the net interest expense	(1,378)	5,414		
The effect of changes in foreign exchange rates				
Contributions from employer	1,304	1,557	222	223
Contributions from employees in the scheme	399	467		
Benefits paid	(3,109)	(3,078)	(222)	(223)
Closing fair value of scheme assets	**58,577**	**65,432**	**0**	**0**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

31.5 Reconciliation of present value of the scheme liabilities

	Funded Liabilities: local government		Unfunded Liabilities: discretionary benefits	
	2013/14 £'000	**2014/15 £'000**	**2013/14 £'000**	**2014/15 £'000**
Opening Balance at 1 April	**(87,723)**	**(90,085)**		
Current Service cost	**(1,403)**	(1,535)		
Interest cost	**(3,911)**	(3,843)		
Contributions from Schemen participants	**(399)**	(467)		
Remeasurement (gains) and losses:				
- Actuarial gains/losses arising from changee in demographic assumptions	**(1,554)**	0		
- Actuarial gains/losses arising from changes in financial assumptions	**(381)**	(11,991)		
- Other Experience	1,957	878		
Past service cost	(2)	0		
Liabilites assumed on entity combinations				
Unfunded Benefits paid			222	223
Benefits paid	3,109	3,078		
Closing balance at 31 March	**(90,307)**	**(103,965)**	**222**	**223**
Being				
Present value of funded liabilities	(86,456)	(99,976)		
Present value of unfunded liabilities	(3,629)	(3,766)		
	(90,085)	**(103,742)**		

31.6 Local Government Pension Scheme Assets

The fair value of the Local Government Scheme assets are shown in the table below:

	Period Ended 31 March 2014			Period Ended 31 March 2015			
Asset category	**Quoted prices in active markets**	**Quoted prices not in active markets**	**Total**	**Quoted prices in active markets**	**Quoted prices not in active markets**	**Total**	**Percentage of Total Assets**
	£'(000)	**£'(000)**	**£'(000)**	**£'(000)**	**£'(000)**	**£'(000)**	
Equity Securities:							
Consumer	4,941		4,941	4,901		4,901	7%
Manufacturing	4,006		4,006	3,544		3,544	5%
Energy and Utilities	2,842		2,842	2,144		2,144	3%
Financial Institutions	3,823		3,823	4,192		4,192	6%
Health and Care	2,140		2,140	2,302		2,302	4%
Information Technology	3,186		3,186	3,125		3,125	5%
Bonds							
Corporate Bonds (investment grade)	2,238		2,238	2,381		2,381	4%
corporate bonds (non-investment grade)	100		100	263		263	0%
UK Government	1,346		1,346	1,473		1,473	2%
Other	380		380	609		609	1%
Private Equity:							
All	0	2,227	2,227	0	2,455	2,455	4%
Real Estate							
UK Property	1,247		1,247	1,842	2,287	4,129	6%
Overseas Property	2,000		2,000	0	32	32	0%
Investment Funds and Unit Trusts:							
Equities	16,330		16,330	19,059		19,059	29%
Bonds	5,251		5,251	6,116		6,116	9%
Other	5,760		5,760	7,546		7,546	12%
Derivatives:							
Interest Rate	4		4	(9)		(9)	0%
Foreign Exchange	275		275	(52)		(52)	0%
Cash and Cash Equivalents:							
All	481		481	1,223		1,223	2%
	56,351	**2,227**	**58,577**	**60,658**	**4,774**	**65,432**	**100%**

31.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1st April 2013.

The principal assumptions used by the actuary are shown in the table below:

	2013/14	2014/15
Long-term expected rate of return on assets in the scheme:		
Equity investments	4.3%	3.2%
Bonds	4.3%	3.2%
Property	4.3%	3.2%
Other	4.3%	3.2%
Mortality assumptions:	**Years**	**Years**
Longevity at 65 for current pensioners:		
Men	22.5	22.5
Women	24.6	24.6
Longevity at 65 for future pensioners:		
Men	24.5	24.5
Women	26.9	26.9
Rate of inflation	2.8%	2.4%
Rate of increase in salaries	4.1%	3.8%
Rate of increase in pensions	2.8%	2.4%
Rate for discounting scheme liabilities	4.3%	3.2%

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

`	Approximate % increase to Employer Liability	Approximate monetary amount (£'000)
0.5% decrease in Real Discount Rate	9%	9,487
1 year increase in member life expectancy	3%	3,112
0.5% increase in the Salary Increase Rate	2%	2,249
0.5% increase in the Pension Increase Rate	7%	7,099

31.8 Impact on Council's Cashflows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the act, the Local Government Pension Scheme in England and Wales and other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or service after 31 March 2015 for other main existing

public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits.

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £103.7m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary; and finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The Council anticipates paying £1.7m contributions to the scheme in 2015/16.

The weighted average duration of the defined benefit obligation for scheme members is 17.2 years.

32 Contingent liabilities

Surrey Heath Borough Council was a defendant in proceedings brought by two groups of Property Search Companies for refunds of fees paid to the Council to access land charges data. A payment was made to the first group during the year and a provision made in this year's financial statements to cover the second group. The second group have also made a claim for costs of £25,000 which is being heavily resisted by the Council's officers. As the outcome of the case is not known and it is believed that the actual costs due is a far smaller figure, no allowance has been made for this in the 2014/15 financial statements. Were the liability to crystallize it would fall on the General Fund although it will be no greater than the £25k claimed.

The Council was a member of the Municipal Mutual Insurance Limited. The Council is party to a reserve scheme arrangement with the company which was entered into in October 1993 after the company ceased trading in September 1992. The company has advised that the Council's potential liability from unpaid claims is £141k for which the Council has set up a reserve included in earmarked reserves in these accounts. A Supreme Court judgement during the year has crystallized this liability and an initial payment of £21k was made during the year and has been charged to the Income and Expenditure account. Due to the level of uncertainty as to when the remainder may be called upon no provision has been made at this time.

The Council has received a claim relating to mesothelioma of a former employee of Bagshot Rural District Council. The solicitors acting for the estate have previously valued the claim at £137k. The claim has been made against two former employers of which Bagshot RDC was one in the 1950s. This Council which was incorporated into Surrey Heath when the borough was created. The Council's legal advice suggests the claim is unlikely to succeed against the Council and it is currently being defended. As the outcome is unknown no provision has been made. Depending on the outcome, there could be a future liability.

33 Contingent assets

No contingent assets had been identified as at 31st March 2015.

34 Financial Instruments

34.1 The following categories of financial instruments are carried in the balance sheet:

	Long Term		Current	
	31 March 2014 £'000	31 March 2015 £'000	31 March 2014 £'000	31 March 2015 £'000
Investments				
Loans and receivables	2,009	3,500	2,666	2,676
Available-for-sale financial assets	0	8,123	0	0
Total investments	**2,009**	**11,623**	**2,666**	**2,676**
Debtors				
Loans and receivables	0	0	0	0
Financial assets carried at contract amount	327	320	5,052	6,514
Total debtors	**327**	**320**	**5,052**	**6,514**
Creditors				
Financial liabilities at amortised cost	**0**	0	0	0
Financial liabilities carried at contract amount	(132)	(136)	(6,074)	(11,376)
Total creditors	**(132)**	**(136)**	**(6,074)**	**(11,376)**

34.2 Reclassifications

No financial instruments were reclassified during the year.

34.3 Income, expense, gains and losses

2013/14						2014/15				
Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	**Total**		Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Assets and liabilities at fair value through profit and loss	**Total**
£'000	£'000	£'000	£'000	**£'000**		£'000	£'000	£'000	£'000	**£'000**
0	0	0	0	**0**	Interest expense	0	0	0	0	**0**
0	0	0	0	**0**	Losses on derecognition	0	0	0	0	**0**
0	0	0	0	**0**	Reductions in fair value	0	0	0	0	**0**
0	0	0	0	**0**	Impairment losses	0	0	0	0	**0**
0	0	0	0	**0**	Fee expense	0	0	0	0	**0**
0	**0**	**0**	**0**	**0**	**Total expense in surplus or deficit on the provision of services**	**0**	**0**	**0**	**0**	**0**
0	(225)	(65)	0	**(290)**	Interest income	0	(157)	(84)	0	**(241)**
0	0	0	0	**0**	Interest income accrued on impaired financial assets	0	0	0	0	**0**
0	0	0	0	**0**	Increase in fair value	0	0	0	0	**0**
0	**0**	0	0	**0**	Gains on derecognition	0	0	0	0	**0**
0	**0**	0	0	**0**	Fee income	0	0	0	0	**0**
0	**(225)**	**(65)**	**0**	**(290)**	**Total income in surplus or deficit on the provision of services**	**0**	**(157)**	**(84)**	**0**	**(241)**
0	0	0	0	**0**	(Gains) on revaluation	0	0	0	0	**0**
0	0	0	0	**0**	Losses on revaluation	0	0	0	0	**0**
0	0	0	0	**0**	Amounts recycled to the surplus or deficit on the provision of services after impairment	0	0	0	0	**0**
0	**0**	**0**	**0**	**0**	**(Surplus) / deficit arising on revaluation of financial assets in other comprehensive income and expenditure**	**0**	**0**	**0**	**0**	**0**
0	**(225)**	**(65)**	**0**	**(290)**	**Net (gain) / loss for the year**	**0**	**(157)**	**(84)**	**0**	**(241)**

34.4 Fair values of assets and liabilities

Financial liabilities, financial assets represented by loans and receivables, available for sale financial assets and long-term debtors and creditors are carried in the balance sheet at amortised cost, so changes in their fair value do not impact on the Comprehensive Income and Expenditure Statement. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised
- where appropriate cash flows arising from long term investments have been discounted at money market rates available for investments of similar remaining maturities on the balance sheet date.

- where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value.
- Available for sale assets are held on the balance sheets at fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	2013/14		2014/15	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Financial liabilities	0	0	0	0
Long term creditors	(132)	(132)	(136)	(136)

	2013/14		2014/15	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Loans and receivables	4,675	4,708	6,177	6,255
Available for sale	0	0	8,123	8,123
Long term debtors	327	327	320	320

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a fixed rate loan where the interest rate receivable is lower than the rates available for similar loans at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2015) attributable to the commitment to receive interest below current market rates.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

35 Nature and extent of risks of financial instruments

35.1 Introduction

The Council's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council

- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments

- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council manages its treasury risk exposures in compliance with the CIPFA Code of Practice on Treasury Management in the Public Services and seeks to minimize the potentially adverse impacts on its resources that may arise from the holding of financial instruments. Treasury activities are conducted by the Executive Head of Finance and his staff in accordance with the

Council's Financial Regulations and Treasury Management Policy and Practices. In addition, full Council approves a treasury management strategy each financial year which includes its strategy for managing financial risks.

35.2 Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council manages its credit risk by restricting deposits to financial institutions according to the following criteria:

	Rating	*Cash limit*	*Time limit*
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	*AAA*	*£3 million each*	*5 years*
	AA+		*3 years*
	AA		*3 years*
	AA-		*3 years*
	A+		*2 years*
	A		*1 year*
	A-		*6 months*
UK Building Societies	*A+*	*£2 million each*	*2 years*
	A-		*1 year*
	£1 billion assets		*6 months*
	£250 million assets	*£1 million each*	*6 months*
Money market funds[2] and similar pooled vehicles whose lowest published credit rating is AAA		*£3 million each*	*Not Applicable*
Other pooled investments – commercial property funds, equity funds, corporate bond funds and multi-asset funds		*£2 million each*	*Not Applicable*
UK Central Government (irrespective of credit rating)		*unlimited*	*5 years*
Supranational banks such as the EIB etc.		*£3 million*	*5 years*
UK Local Authorities[3] without credit ratings		*£2 million each*	*5 years*

For the purposes of these limits, banks within the same group ownership are treated as one organisation (other than UK Government). Currently investments are only made with UK based banks and building societies.

Customers are assessed for their ability to pay depending on the size of the debt, financial position, past experience and any other relevant factors.

The Council's maximum exposure to credit risk in relation to its short term investments has been estimated at £1.25k. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence that at the 31st March 2015 this was likely to crystalise.

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds. The historical experience of default for deposits is based on credit rating agencies records since 1981, with unrated building society deposits assumed to be equivalent to a BBB credit rating. The historical experience of default for customers is based on the Authority's own records.

35.3 Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All trade and other payables are due to be paid in less than one year.

As the Council has no external borrowings at present there is no refinancing risk.

The maturity analysis of financial instruments is as follows:-

	31 March 2014	**31 March 2015**
	£'000	**£'000**
Less than one year	**2,665**	2,677
Between one and two years	**0**	3,500
Between two and five years	**2,009**	8,123
More than five years	**0**	0
	4,674	**14,300**

35.4 Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates will have the following effects:

- borrowings at variable rates – the interest expense charged to the surplus or deficit on the provision of services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the surplus or deficit on the provision of services will rise
- investments at fixed rates – the fair value of the assets will fall.

A fall in interest rates will have the opposite effect.

All financial assets and liabilities are carried on the balance sheet at amortised cost, so changes in their fair values do not impact on the Comprehensive Income and Expenditure Statement or Movement in Reserves Statement. Changes in interest payable and receivable on all instruments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund balance £ for £. This impact will be offset to the extent that interest rate changes are reflected in the government grants receivable towards financing costs.

A range of interest rate forecasts are used when setting and updating the interest budget so that adverse interest rate changes can be accommodated in the Council's plans with sufficient notice.

As at 31st March 2015, the Council's investments held £8.315m of fixed rate investments, and £14.57m of variable rate investments.

35.5 Price risk

The Council's approved treasury management strategy permits investment in pooled instruments such as commercial property funds, equity funds, corporate bond funds and other multi asset funds. Such funds offer enhanced returns over the longer term but are potentially more volatile in the shorter term, exposing the Council to changes in share prices. However such funds hold investments on behalf of many investors, and therefore are able to spread risk.

The Council monitors the performance and suitability of its investments in such funds to ensure that its investment objectives are met. Investments in new funds are only considered after taking independent financial advice from the Council's treasury management advisors.

Changes in the prices of fixed interest investments are managed as part of the Council's interest rate risk management strategy.

35.6 Foreign exchange risk

Due to currency controls in Iceland the Council holds ISK 137,424,784 in escrow in Iceland. This has been converted at the official interest rate as at the 31st March 2015 of ISK 203.057 to the £ with any exchange gains and losses being taken to the income and expenditure account. As the Icelandic Kronor is not convertible at this time the Council is exposed to exchange risks arising from movements in currency values.

35.7 Borrowing

As at 31st March 2015, the Council does not have any external borrowing, but £1.567m of internal borrowing had been undertaken to finance the 2014/15 capital programme.

Icelandic Banks
Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and went into administration. On 28th October 2011 the Icelandic Supreme Court ruled that UK local authorities' claims qualified as priority claims under Icelandic bankruptcy legislation. These have now been settled as follows:

Landsbanki
Landsbanki's winding up Board has made 5 distributions since the Supreme Court ruling, amounting to 55% of the outstanding balance. During 2013/14 the Council sold its remaining Landsbanki debt together with Icelandic currency held in escrow to Deutsche Bank for £0.411m. This realised a gain on sale of £0.030m.

Glitnir
Glitnir's winding up board made full and final distribution on the 16th March 2012. The distribution was made in a basket of currencies, which, with the exception of the amount paid in Icelandic Kronor (ISK) were converted into sterling on the day of receipt. The ISK amount is still subject to exchange restrictions imposed by the Icelandic government and is being held in an Escrow account earning interest over the year at 4.2%. For accounts purposes at the 31st March 2015 the ISK was converted into £ sterling using a prevailing exchange rate giving an exchange loss £47k. The total balance of £0.677m is recorded on the balance sheet as a short term investment. The final repayment of this amount will depend on the lifting of exchange controls and the prevailing exchange rate and may therefore be lower than value recorded in sterling on the balance sheet as at 31st March 2015.

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate collection fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates.

2014/15	Business Rates £'000	Council Tax £'000	Total £'000
INCOME			
Council Tax Receivable		59,854	59,854
Business Rates Receivable	33,956		33,956
	33,956	**59,854**	**93,810**
EXPENDITURE			
Apportionment of Previous Year Surplus			
Central Government	(33)		(33)
Surrey Heath Borough Council	(26)	169	143
Surrey County Council	(7)	1,046	1,039
Surrey Police Commissioner		185	185
	(66)	**1,400**	**1,334**
Precepts, Demands and Shares			
Central Government	16,462		16,462
Surrey Heath Borough Council	13,169	7,648	20,817
Surrey County Council	3,292	43,333	46,625
Surrey Police Commissioner		7,671	7,671
	32,923	**58,652**	**91,575**
Charges to the Collection Fund			
Less: Write off for uncollectible amounts	349	166	515
Less: Increase/Decrease in Bad Debt Provision	11	13	24
Lees: Increase/Decrease in Provision for Appeals	1,800		1,800
Lees: Cost of Collection	122		122
Interest Payable	0		0
	2,282	**179**	**2,461**
Total Expenditure	**35,139**	**60,231**	**95,370**
Surplus/(Deficit) arising during the year	(1,183)	(377)	(1,560)
Surplus/(Deficit) b/fwd 1st April 2014 Restated	(1,809)	2,112	303
Surplus/(Deficit) c/fwd 31st March 2015	**(2,992)**	**1,735**	**(1,257)**

Collection Fund 2013/14 Restated

	Business Rates £'000	Council Tax £'000	Total £'000
INCOME			
Council Tax Receivable		59,248	59,248
Business Rates Receivable	34,480		34,480
	34,480	**59,248**	**93,728**
EXPENDITURE			
Apportionment of Previous Year Surplus			
Central Government	0		0
Surrey Heath Borough Council	0	143	143
Surrey County Council	0	813	813
Surrey Police Commissioner	0	144	144
	0	**1,100**	**1,100**
Precepts, Demands and Shares			
Central Government	17,130		17,130
Surrey Heath Borough Council	13,704	7,424	21,128
Surrey County Council	3,426	42,023	45,449
Surrey Police Commissioner		7,439	7,439
	34,260	**56,886**	**91,146**
Charges to the Collection Fund			
Less: Write off for uncollectible amounts	204	172	376
Less: Increase/Decrease in Bad Debt Provision	302	204	506
Less: Increase/Decrease in Provision for Appeals	1,400		1,400
Less: Cost of Collection	123		123
Interest Payable	0		0
	2,029	**376**	**2,405**
Total Expenditure	**36,289**	**58,362**	**94,651**
Surplus/(Deficit) arising during the year	(1,809)	886	(923)
Surplus/(Deficit) b/fwd 1st April 2013	**0**	1,226	1,226
Surplus/(Deficit) c/fwd 31st March 2014	**(1,809)**	**2,112**	**303**

Non-Domestic Rates (NNDR)

NNDR is organised on a national basis. The Government specifies the rate poundage, and subject to the effects of transitional arrangements, the rates payable are calculated by multiplying the rateable values by the rate poundage. As at 31st March 2015, the total non-domestic rateable value of properties owned by the Council was £1.341m. The 2014/15 national non-domestic rate multiplier was 47.1p for small businesses and 48.2p for other businesses.

Calculation of council tax base

Council tax income derives from charges raised according to the capital value of residential properties which have been classified into nine valuation bands, based on market values estimated at 1991 prices. 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. The tax base calculation is derived by first multiplying the estimated number of domestic properties in each tax band less exemptions by a weighting factor. This result is then reduced by a percentage to allow for losses on collection and reductions through appeals.

The calculation of the 2014/15 tax base is shown below.

	2014/15		
Band	**Number of chargeable homes less exemptions and discounts**	**Factor**	**Band D equivalents**
A*	1.00	5/9	1
A	444	6/9	296
B	1,720	7/9	1,337
C	4,912	8/9	4,367
D	8,562	9/9	8,563
E	5,999	11/9	7,332
F	5,335	13/9	7,706
G	4,651	15/9	7,754
H	431	18/9	863
Total	32,055		38,219

New properties Band D equivalent	184
MOD properties	484
Reduction in taxbase due to Council Tax Support	(2,106)
Less: allowance for non-collection	(544)
Council tax base	**36,237**
Collection rate assumed	98.5%

Accounting Policies

1. Accruals of income and expenditure

All transactions of the Council are accounted for in the year in which they take place, not simply when the cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the balance sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

2. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in a period of no more than 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are payable on demand and form an integral part of the Council's cash management.

3. Prior period adjustments, changes in accounting policies and estimates and errors

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening

balances and comparative amounts for the prior period as if the new policy had always been applied.

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

4. Charges to Revenue for Non-current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (if it has any borrowings) equal to an amount calculated by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

5. Employee benefits

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

Termination benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the net cost of services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

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

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

Local Government Pension scheme
The local government scheme is accounted for as a defined benefits scheme.

The liabilities of Surrey County Council's pension fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on a high quality corporate bond (as measured by the yield on the iboxx Sterling Corporates Index, AA over 15 years).

The assets of Surrey County Council's pension fund attributable to the Council are included in the balance sheet at their fair value:

- quoted securities – mid market value
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

The change in the net pensions liability is analysed into seven components:

Current service cost
The increase in liabilities as a result of the number of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

Past service cost
The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.

Interest cost
The expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Expected return on assets
The annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

Gains/losses on settlements and curtailments
The result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.

Actuarial gains and losses
Changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions are debited to the pension's reserve.

Contributions paid to Surrey County Council's pension fund
Cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pension reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the local government pension scheme.

6. Events after the balance sheet date

Events after the balance sheet date are those happenings, favourable or unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the statement of accounts is adjusted to reflect such events

- those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

7. Financial instruments

Financial liabilities
Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. The fair value of trade payables is taken to be the invoiced or billed amount.

Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

Financial assets
Financial assets are classified into two types:

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

Loans and receivables
Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. The fair value of trade receivables is taken to be the invoiced or billed amount.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where the Council makes a loan at less than market rate these are called soft loans. When these are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of the amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the future cash flows discounted at the asset's effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited/debited to the Financing and Investment line in the Comprehensive Income and Expenditure Statement.

Available-for-sale assets
Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. Where there

are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Changes in fair value are balanced by an entry in the available-for-sale reserve and the gain/loss is recognised in the surplus or deficit on revaluation of available-for-sale financial assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payment due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

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

8. Foreign Currency Transactions

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year end, they are reconverted at the spot exchange rate at 31st March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

9. Government grants and other contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution

is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

10. Business Improvement Districts

A Business Improvement District (BID) Scheme operates in Camberley town centre. Collectively Camberley is made up of all the businesses in the town centre and aims to encourage people to visit the town centre and use the fantastic range of shops, entertainment and business services that it has to offer.

The scheme is funded by a BID levy paid by the town centre non-domestic ratepayers. The Council acts as the agent responsible for the collection of the BID levy.

11. Heritage Assets

Heritage Assets are assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage Assets were recognised as a separate class of assets for the first time in the 2011/12 financial statements in accordance with adoption of FRS30 and constitutes a change of accounting policy.

In 2012/13 the Civic Regalia was reviewed and revalued to ensure adequate insurance coverage was in place. This resulted in an increase of value of £0.058m to £0.107m.

The carrying amount of Heritage Assets is reviewed where there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage, or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see note 4 in this summary of significant accounting policies.

Any disposals of Heritage Assets are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant, and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 16 in this summary of significant accounting policies).

12. Intangible Assets

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

Internally generated assets are capitalised when it is demonstrable that the project is technically feasible and intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as

attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost, and are fully amortised in the Comprehensive Income and Expenditure Statement in the year that the expense was incurred.

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

13. Investment property

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

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

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

14. Leases

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

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

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

<u>The Council as Lessee</u>

Finance leases
The Council does not currently have any finance leases where it is the lessee.

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

The Council as Lessor

Finance leases
The Council does not currently have any material finance leases where it is the lessor.

Operating leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

15. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2014/15* - (SeRCoP).

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

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

These two categories are defined in SeRCoP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Cost of Services.

16. Property, plant and equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition
Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council; and the cost of the item can be measured reliably. A de-minimis level of £10,000 (per individual item, or group of items forming a scheme where applicable) on property, plant and equipment is applied to capitalisation. Expenditure that (a) falls below the de-minimis level and (b) maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement
Assets are initially measured at cost comprising:

- the purchase price,
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the capital adjustment account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

Assets included in the balance sheet at fair value are revalued on a rolling basis within a five year timeframe. Increases in valuations are matched by credits in the Revaluation Reserve to recognise unrealised gains. Gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are treated as follows:

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

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

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

Where impairment losses are identified, they are treated as follows:

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

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

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

Depreciation is calculated on the following bases:

- buildings – straight-line method over the useful life of the property as estimated by the valuer
- plant and equipment, other than vehicles – straight-line method over the useful life of the item
- vehicles – reducing balance method over the useful life of the asset
- officer's cars – straight line method
- infrastructure –straight line method over useful life of the item
- intangibles – 100% in year of purchase

Where a property, plant or equipment asset has major components whose cost individually is significant in relation to the total cost of the asset, the components are depreciated separately.

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

Component Accounting
Component accounting is required for any asset that is enhanced, acquired or revalued from 1st April 2010. From this date, any significant component part of an asset that has a different useful life to other parts of the asset will be depreciated separately. Where a component is replaced or restored the carrying amount of the old component shall be derecognised. This will only be considered for assets over £1m or which have capital spending greater than £0.2m

As at the 31st March 2015 there have been no material components recognised that have a significantly different useful life from that of the asset.

Disposals and Non-current assets held for Sale
When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continued use, it is classified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up

to the amount of any losses previously recognised in the surplus or deficit on provision of services. Depreciation is not charged on assets held for sale.

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

Assets that are to be abandoned or scrapped are not classified as assets held for sale.

When an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the "Other Operating Expenditure" line in the Comprehensive Income and Expenditure Statement as part of a gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow – the capital financing requirement. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

17. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received, if the Council settles the obligation.

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

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

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the Council a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

18. Reserves

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

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

19. Revenue expenditure funded from capital under statute

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

20. Inventories and long-term contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of the Comprehensive Income and Expenditure Statement being charged in the year during which the cost of goods or services were received or provided.

21. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

General Glossary

Carrying amount

The amount at which an asset is recognised in the balance sheet after deducting any accumulated depreciation and impairment losses.

Cash

Comprises cash in hand and demand deposits.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Class of property, plant and equipment

Grouping of assets of a similar nature and used in the Council's operations.

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

Costs to sell

The incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs.

Creditor

The money that the council owes to third parties for goods and services it has received but not paid for at the end of the accounting period.

Current asset

An asset that is intended to be sold within the normal operating cycle. The asset is held primarily for the purpose of trading or the Council expects to realise the asset within 12 months after the reporting date.

Debtors

Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

Depreciable amount

The cost of an asset, or other amount substituted for cost, less residual value.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Employee benefits

All forms of consideration given by a Council in exchange for service rendered by employees.

Fair Value

The amount for which an asset could be exchanged between knowledgeable willing parties in an arm's-length transaction.

For land and buildings: fair value is to be interpreted as the amount that would be paid for the asset in its existing use.

For investment property: fair value is to be interpreted as the amount that would be paid for an asset in its highest and best value – i.e. market value.

Fair value less costs to sell

The amount obtainable from the sale of an asset, in an arm's-length transaction, between knowledgeable, willing parties, less costs of disposal.

Finance lease

A lease that transfers substantially all risks and rewards that are incidental to ownership of an asset. Title may or may not eventually be transferred.

Financing activities

Activities that result in changes in the size and composition of the principal received from or repaid to external providers of finance.

Heritage Assets

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Historical cost

Deemed to be the carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Investment property

Property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations.

Investing activities

Acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Lease

An arrangement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period.

Non-current asset

An asset that does not meet the definition of a current asset.

Operating activities

Activities of the council that are not investing or financing activities.

Operating lease

A lease other than a finance lease.

Other comprehensive income and expenditure

Comprises items of income and expense, including reclassification adjustments that are not recognised in the surplus or deficit on the provision of services as required or permitted by the code. Examples include changes in revaluation surplus, actuarial gains and losses on defined benefit plans, and gains and losses on re-measuring available-for-sale financial assets.

Other long-term employee benefits

Employee benefits, other than post-employment benefits and termination benefits, which do not fall due wholly within 12 months after the end of the period in which the employees render the related service.

Property, plant and equipment

Tangible assets, i.e. assets with physical substance, that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Reclassification adjustments

Amounts reclassified to surplus or deficit on the provision of services in the current period that were recognised in other comprehensive income and expenditure in the current or previous periods

Recoverable amount

The higher of fair value less costs to sell (i.e. net selling price) and its value in use of an asset.

Residual value

The estimated amount that the Council would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and condition expected at the end of its useful life.

Short term employee benefits

Employee benefits (other than termination benefits) that fall due wholly within 12 months after the end of the period in which the employees render the related service.

Termination benefits

Employee benefits payable as a result of either:

The Council's decision to terminate an employee's employment before the normal retirement date; or
an employee's decision to accept voluntary redundancy in exchange for those benefits.

Useful life

The period which an asset is expected to be available for use by the Council

Value in use

Of a non-cash-generating asset it is the present value of the asset's remaining service potential. Of a cash-generating asset it is the present value of the future cash flows expected to be derived from an asset.

Pension Glossary

Actuarial gains and losses

Comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has been actually incurred), and the effects of changes in actuarial assumptions.

Assets held by a long-term employee benefit fund

Assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the Council and exists solely to pay or fund employee benefits, and are available to be used only to pay or fund employee benefits, are not available to the council's own creditors (even in bankruptcy), and cannot be returned to the Council, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the council, or
- the assets are returned to the Council to reimburse it for employee benefits already paid.

Current service cost

The increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Defined benefit plan

Post-employment benefit plans other than defined contribution plans.

Defined contribution plans

Post-employment benefit plans under which the Council pays fixed contributions into a separate entity (a fund) and which have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Interest cost

The increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost

The increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service costs may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

Plan assets

Comprise:

- assets held by a long-term employee benefit fund, and
- qualifying insurance policies.

Post employment benefits

Employee benefits (other than termination benefits) which are payable after completion of employment.

Post employment benefit plans

Formal or informal arrangements under which the Council provides post employment benefits for one or more employees.

Present value of a defined benefit obligation

The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Qualifying insurance policy

An insurance policy issued by an insurer that is not a related party (as defined in IAS 24 *related party disclosures*) of the Council, if the proceeds of the policy:

- can be used only to pay or fund employee benefits under a defined benefit plan, and
- are not available to the Council's own creditors (even in bankruptcy) and cannot be paid to the Council, unless either the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations, or the proceeds are returned to the council to reimburse it for employee benefits already paid.

Return on plan assets

Interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains and losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

Vested employee benefits

Employee benefits which are not conditional on future employment.

Draft Annual Governance Statement

Scope of Responsibility

Surrey Heath 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, 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, and facilitating the effective exercise of its functions, and includes arrangements for the management of risk.

Surrey Heath Borough Council has developed, 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 this code is on the Council's website at www.surreyheath.gov.uk or can be obtained from the Council Offices, Surrey Heath House, Knoll Road, Camberley, Surrey. This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3) which requires all relevant bodies to prepare an Annual Governance Statement.

The Purpose of the Governance Framework

The Governance Framework comprises the systems and processes, cultures and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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

The governance framework has been in place at Surrey Heath Borough Council for the year ended 31st March 2015 and up to the date of approval of the Statement of Accounts.

The Governance Framework

There are a number of key elements and processes that comprise the Council's governance arrangements, which are set out below:

Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

- The Council's key priorities and objectives are included in the Council's "2020 strategy" which covers the 10 years to 2020. This is the Corporate Plan.

- The Corporate Plan and Key Priorities feed into the Annual Plan which sets out the financial and performance objectives of each service. These are monitored on a six monthly basis and reviewed by the Performance and Audit Scrutiny Committee in a publically available document.

- The Council's Constitution, decision making structure and arrangements; schedule of meetings and associated agendas and minutes are publically available in accordance with regulations to encourage public attendance and involvement as appropriate.

Reviewing the authority's vision and its implications for the authority's governance arrangements

- The Corporate Plan is reviewed every three years to take account of progress against the key priorities. This review takes account of any implications for the Council's governance arrangements with appropriate amendments being made as necessary.

Translating the vision into objectives for the authority and its partnerships

- The Corporate Plan sets out clear objectives to deliver the council's key priorities and vision. All decisions made by the Council demonstrate how they support the Council's key objectives and priorities.

Measuring the quality of services for users, for ensuring they are delivered in accordance with the authorities objectives and for ensuring they represent the best use of resources and value for money

- Performance progress is tracked regularly through monitoring of key performance indicators, service tasks and projects. Progress against the Council's Annual Plan is reported on a six monthly basis to the Executive and the Performance and Audit Scrutiny Committee. The Council's Performance Management system (TEN) is maintained online and is available for review by members and officers.

- Regular financial reporting to Management Board and Members assists the monitoring of council expenditure against budgets which have been set to enable Corporate Plan objectives to be met.

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

- Roles and responsibilities of the Executive, the Council, Overview and Scrutiny and all the committees of the Council, along with officer functions are defined and documented, with clear delegation arrangements and protocols for effective communication within the Council's Constitution.

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

- Codes of Conduct defining the standards of behaviour for members, staff, our partners and the community have been developed and communicated and are available on the Council's website and intranet site. These include Members' Code of Conduct, Code of Conduct for Staff, Planning Code of Practice for Councillors and Officers, Anti-fraud and Corruption Policy, Member and Officer Protocols and regular performance appraisals.

- The Standards Hearing and Determination Committee promotes standards within the Council and receives reports from the Monitoring Officer. It also hears and determines complaints against Members arising out of alleged breaches of the Members Code of Conduct. It also considers dispensations in certain circumstances.

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 Constitution is regularly reviewed and updated by the Governance working group. The Constitution is available on the Council's website.

- The Council has established policies and procedures to govern its operations. Key within these are the Financial Regulations, Procurement Strategy and Contract Standing Orders, Risk Management Strategy, Codes of Conduct for Members and Officers, Anti-Fraud and Corruption Policy, Bribery Policy and Procedure, Whistleblowing Policy and Procedure and Human Resources policies. Ensuring compliance with these policies is the responsibility of everyone throughout the Council. These key controls are subject to periodic review, including that by Internal Audit, and are updated to ensure that they are relevant to the needs of the organisation. The Council's Financial Regulations have been reviewed and updated in 14/15, and a revised set of regulations are due to be published.

- Contract Standing Orders set out the rules governing the procurement process to ensure that value for money is achieved whilst meeting all legal and statutory requirements and minimising the risk of fraud or corruption. The Council's Procurement Strategy is a high level view of how to promote effective procurement across the whole organisation.

- A risk management framework has been in place across the Council for some years with the objective of embedding effective risk management practices at both strategic and operational levels. The Corporate Risk Management Register is reviewed on an annual basis and approved by the Performance and Audit Committee. A risk section is included in all Executive reports to ensure that it has been properly considered.

Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability

- A risk workshop was held with the Council's Management Team last year to assist in identifying Corporate Risks. The risk group meets to update the corporate risk register and to ensure that identified risks have mitigation processes in place and clear lines of responsibility.

Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained

- The Council has in place an Anti-fraud and Corruption Policy and this has been communicated to all staff. It also forms part of the induction process for new staff.

The Council has a Corporate Fraud team responsible for investigating Benefit fraud, corporate fraud and Members' Code breaches. The team embed the anti-fraud culture by training generally and through their involvement in the induction of staff. Members of the team are fully trained to Police and Criminal Evidence Act standard.

Ensuring effective management of change and transformation

- All change and transformation is approved and monitored by the Council's Transformation Board consisting of 3 Executive Members and the Council's Management Board. At the start of the process, managers are required to prepare a report setting out the reasons for the transformation, the benefits it will bring, resource implications and any risks for the board to consider. Once complete a final report has to be submitted to the board stating what the outcomes of the transformation were.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

- The Council's financial management arrangements conform to CIPFA standards. The Executive Head of Finance (Section 151 Officer) has statutory responsibility for the proper management of the Council's finances and is a member of the Council's Management Board. The management of the Council's finances within departments is devolved to Executive Heads of Service through the Scheme of Delegation. Service managers further devolve decision making to managers and business unit managers.

- The Finance Team and internal audit provide detailed finance protocols, procedures, guidance and training for managers and staff. The structure of the Finance Team ensures segregation of duties and all committee reports are reviewed by the service.

Ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA statement on the Role of the Head of Internal Audit

- The internal audit function is an independent appraisal process, the manager of which has direct access to the Chief Executive, members through the Performance and Audit Scrutiny Committee and External Audit. It undertakes reviews which provide management with a level of assurance on the adequacy of internal controls and of risks to the Council's functions / systems. Throughout the year, the internal auditors have performed a wide range of reviews covering both financial areas as well as service/business functions. The conclusion is a report that is produced for management, which includes an assessment of the level of assurance that can be derived from the system of internal controls related to the service that is reviewed. A new set of public sector wide internal audit standards for the UK and Ireland have also recently been published, based on a series of mandatory elements of the IIA's International Professional Practices Framework. The Council's internal audit team have been working to these standards since their adoption.

Ensuring effective arrangements are in place for the discharge of the Monitoring Officer function

- The Council has appointed its Head of Legal Services as Monitoring Officer. The Monitoring Officer is a member of the Council's Management Board and the Governance working group. The Monitoring Officer can also call upon the resources of the Council's legal team, internal audit and Investigations teams as required.

- The Monitoring Officer is responsible for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer may report to the full Council if she 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.

Ensure effective arrangements are in place for the discharge of the Head of Paid Service function

- The Council has designated the Chief Executive as Head of Paid Service

Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

- The role of the Performance and Audit Committee is set out in the Constitution and one of its key roles is to provide independent assurance of the adequacy of the risk management framework and the associated control environment. It is a committee comprising of 15 Members, independent of the Executive. It oversees the internal audit function and considers all relevant reports of the external auditor. It has the power to refer matters of concern to the Executive or other committees and to require a response.

- The terms of reference for the Performance and Audit Committee are reviewed annually.

Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.

- The Monitoring Officer has a duty to report on any actual or likely decision which would result in an unlawful act or maladministration. All decisions to be taken by Members are supported by a legal assessment provided by the appropriate officer.

- The Council has in place a Responsible Finance Officer under Section 151 of the Local Government Act 1972. This role ensures lawfulness and financial prudence of decision making, has responsibility for the administration of the financial affairs of the Council and provides advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues.

Whistle-blowing and receiving and investigating complaints from the public

- The Council has in place a Whistleblowing Policy and Procedure whereby staff and others can report concerns about various sorts of wrongdoing or alleged impropriety. The Policy is available on the website and is also proactively communicated to those contracting with the council. Informants are requested to be open in their disclosure, but it is recognised that on occasions informants will wish to remain anonymous.

- Surrey Heath Borough Council wants to provide the best service it can to the community and has a Customer Feedback process in place, which includes complaints, compliments, service requests, member contact and comments. All complaints are thoroughly investigated in line with the Council's complaints procedure. A complaints report is provided annually to the Performance and Audit committee.

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

- The Council is committed to developing the skills of both Members and officers in order to enable a continuous improvement in the services provided. The Council continues to hold the Investor's in People Silver standard which has been awarded.

- Officers are covered by the appraisal development scheme which is the mechanism used to help ensure that performance and development needs are reviewed on an annual basis.

- There is a full induction process for Members and specific officers have been designated with training responsibilities for Members. Members have training provided to reflect their specific statutory responsibilities as appropriate.

Clear channels of communication with all sections of the community and other stakeholders are in place, ensuring accountability and encouraging open consultation

- The Council ensures that there is community input in its decision making processes. This is done by focus groups, workshops, questionnaires, business breakfasts and members interaction with the community. During the year 2 community consultation events were held in different parts of the borough. Greater use has been made of social media recently.

- The Council has a well-established and effective consultation function which includes a wide range of consultation methods to ensure that as many groups and individuals as possible are able to participate. Before undertaking any consultation or communication, action plans are completed by the Corporate Communications Officers to detail exactly how key groups will be targeted. The Council delivers an extensive programme of consultations throughout the year.

- The Council also regularly communicates and consults with residents online via the council website, through social media such as Twitter and Facebook, through local press, through blogs, through local forums and organisations and also through the Council's own magazine "Heathscene" which is published 3 times a year.

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

- Partnership working is governed by agreements, protocols or memoranda of understanding relevant to the type of work or relationship involved. The Council's Monitoring Officer ensures that all are fit for purpose and the Council's interests are protected.

Internal Audit Statement

In the financial year 2014/15 Internal Audit carried out a number of internal audit reviews based on the Annual Plan agreed by the Performance and Audit Committee in January 2014. 23 audits have been completed, 18 from the Plan and 5 unscheduled pieces of work.

The majority of internal audits result in an action plan being agreed with management to address areas of weakness and improve overall controls. These action plans include a number of recommendations for management. In 2014/15 79 recommendations have been agreed with management. As at the end of March 2015, all medium and high level recommendations were fully implemented where they fell due. The outcomes of these internal audit reviews are reported to Management Board. Overdue recommendations are also reported twice yearly to Management Board and to Performance and Audit Scrutiny Committee by way of an escalation process.

The Council has very high levels of assurance in respect of all of its main financial systems and the majority of its governance arrangements. All of the main financial systems completed in 14/15, which feed into the production of the Council's Financial Statements, have achieved a substantial assurance level following the audit review. The Council can therefore be assured in these areas.

However, the introduction of a new financial system has brought with it a number of issues, in particular relating to bank reconciliations and budget monitoring during the year, compounded by structural and capacity difficulties within the finance team. These matters have resulted in a qualified "except for" opinion being given by external auditors KPMG on the Value for Money conclusion in 2014/15. These matters have now been addressed for 2015/16.

A number of internal audits and investigations however resulted in limited assurance in 2014/15, including:

- Human Resources
- Parks Income
- Camberley Theatre
- Community Services
- Travellers Sites/Gypsies
- Windle Valley Centre

Senior Information Risk Owner (SIRO) Statement

The Local Government Data Handling Guidelines requires that all Local Authorities have a board member who acts as a SIRO. Within Surrey Heath, the Executive Head of Finance acts as SIRO with the assistance of the Information Governance Manager.

During 2014-15, the Data Security Breach Management Policy and Procedure was approved. It now forms part of the Terms and Conditions for staff. A Lead Investigation Officer is appointed, if necessary, to investigate any breaches. A log is kept of all data breaches. 12 minor internal breaches were recorded and dealt with. There were no data breaches during the year that required reporting to the Information Commissioner's Office.

To ensure all staff understand their responsibility for Data Protection, an Information Governance e-learning package has been produced. It is mandatory for all staff.

The Council achieved certification for the Public Sector Network (PSN) on 26 January 2015. All end-points connecting to the Surrey Heath Public Sector Network are now managed in line with PSN Code of Connection requirements All staff are recruited in line with HMG Baseline Personnel Security Standard as part of Public Sector Network certification. A new recruitment policy, which includes this procedure, is now in place.

The Information Security Policy was updated to reflect changes in legislation and practices to ensure adequate protection of Council held information.

The Information Commissioner's Office has recommended that Privacy Impact Assessments (PIA), where personal data is involved, are carried out for all new projects and policies. A template has been produced to assist in the production of PIA's. One was carried out in 2014 for the use of Automatic Number Plate Recognition in car parks.

The Information Governance Manager attended two courses, one on Privacy Impact Assessments and an update on CCTV.

Based on the controls in place and the work undertaken during the year, the SIRO is of the opinion that the Council's controls for the security and use of information assets was adequate for the year.

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 the

effectiveness is informed by the work of senior officers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies.

For 2014/15, this review has been undertaken by the Head of Legal Services, together with the Executive Head of Finance and Internal Audit. The group has reviewed how the Council has operated in accordance with the Governance Framework and considered its effectiveness.

Improvements during the Year

During the year a number of issues arose which relate to the operation of the Governance Framework. These issues have been reviewed as follows:

Risk Management Strategy and Process

The Council continued to work with its insurers on identifying Corporate Risks. These were then reflected in the corporate risk register if appropriate.

Data Protection

Surrey Heath Borough Council must ensure all personal information is processed in accordance with the Data Protection Act 1998. The Information Security policy explains how members and officers are expected to comply with the Act. The Council must comply with this policy to ensure the Data Protection Act is not breached. Any breach of the Act has serious consequences for the organisation and its customers.

Constitution

The Council has agreed a number of changes to the Scheme of Delegation and to the committee structure which will take effect in the new municipal year. These will lead to more efficient decision-making.

Emergency Planning

Members of staff continued to receive training related to the operation of the Borough Emergency Centre.

HR Polices

HR Policies relating to the Pay Settlement Procedure, Drugs and Alcohol, House Rules, Flexible Working, Offsite Working, Family Friendly Policies, Recruitment and Social Media were all reviewed and approved during the year.

New Financial System

A new financial system was implemented on the 1st April 2014. The new computer system removes a number of existing paper controls in areas such as purchasing and instead relies on in built electronic authorisations. The new system has controls in place to prevent ordering where there is no budget or authorisation in place.

Governance Issues Reported Last Year

A number of issues were identified in the 2013/14 financial year and the following action has been taken:

Parking: significant investment has been made by the Council in modernising its parking equipment and machinery over the last 18 months, making the parking system more reliable, stable and efficient. The Council is rolling out e-wallets, as well as the ability for customers to pay for parking by phone and by debit/credit card.

Performance Management: the new Annual Plan now links KPIs to key priorities. Performance data is scrutinised before publication, and changes have been made to the way the Council's performance is managed and reported.

Corporate Asset Management: condition surveys are being undertaken and surveys where necessary. The assets team is working more closely with colleagues in planning, and business to improve leisure leases.

Disabled Facilities Grants: subject to a detailed internal audit in 2015, and a number of minor improvements made to the system to make it more effective.

Camberley Theatre café/venue: the café's trading has been analysed on a monthly basis and the cafes performance in 14/15 has been discussed in detail at Management Board. A number of areas were asked to be considered. A number of changes have since been made including streamlining the hours of operation, reducing operating costs by cutting staffing levels, whilst focusing on pre-show dining, hospitality and room hires.

Financial and non-financial interests: Senior officers and members have been asked to declare any interests they have. They are also required to state that they have no interests if this is the case.

Significant Governance Issues

The overall opinion of the Monitoring Officer and the Section 151 Officer is that the Council's governance arrangements are adequate and effective. There are no significant governance issues but a number of other issues have been identified and will be addressed through the planned work of the Council.

The areas below have arisen from various assessments into the Council's governance arrangements for 2014/15, many actions have already been addressed, and residual issues will be addressed in the forthcoming year.

Corporate Processes

Issues arising out of internal audit reviews and action taken to date:

Human Resources – travel and expenses claims. Revisions to the computer system have been made, as well as new guidance being issued. Spot checks of claims will also be undertaken.

Parks Income – a number of recommendations were made with the café contractor to improve controls and cash security. The Council is currently working with the new staff in place at the café to action all these areas.

Camberley Theatre – a number of improvements to cash security, and building security were made, and the majority of recommendations have since been actioned, including staff changes.

Travellers Sites /Gypsies – a range of changes were agreed with management to improve rent controls and deposits as well as financial reporting, the majority of these have been actioned.

Windle Valley – efforts have been made to improve cash controls, finance reporting, banking, and the way the voluntary fund is managed, and all recommendations to date have been actioned.

Major Projects

The Council continues to be involved in a number of projects and initiatives that are complex in nature, carry the risk of a great financial loss, are of a high value or dependent upon working with partners to achieve. These will continue to be monitored closely over the coming year.

The introduction of a new financial system brought with it a number of issues, in particular relating to bank reconciliations and budget monitoring during the year, which highlighted that there were structural and capacity difficulties within the finance service. This will be addressed in 2015/16.

Assurance Summary

Good governance is about running things properly. It is the means by which the Council shows it is taking decisions for the good of the people of the area, in a fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services that meet all local people's needs. It is fundamental to showing that public money is well spent. Without good governance, councils will struggle to improve services.

From the review, assessment and monitoring work undertaken and supported by the ongoing work undertaken by Internal Audit, we have reached the opinion that, overall, key systems are operating soundly and that there are no fundamental control weaknesses.

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.

Karen Whelan
Chief Executive…….

Councillor Moira Gibson
Leader of Surrey Heath Borough Council……

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Independent auditor's report to the members of Surrey Heath Borough Council

To be inserted after completion of audit.

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Statement of Accounts 2015/16

Portfolio:	(Portfolio)
Ward(s) Affected:	(Ward)

Purpose: The purpose of this report is to update the Committee on the actions being taken to ensure that the Statement of Accounts for 2015/16 is fully compliant with statutory requirements.

1. Background

1.1. This report is intended to inform the Audit Committee of the implications on the Statement of Accounts of the most significant statutory changes applying to the 2015/16 financial year, and the work underway to ensure that the Accounts are prepared in accordance with those requirements.

1.2. The Statement of Accounts is required to be prepared in accordance with 'proper practices' as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and any subsequent Local Authority Accounting Panel (LAAP) recommendations.

1.3. The external auditors, KPMG, will undertake planning for the 2015/16 audit and bring forward their proposed Audit Plan to a future meeting of this Committee.

2. Changes Required

2.1. Accounts and Audit Regulations 2015

The Accounts and Audit Regulations 2015 apply to all financial years starting on or after 1st April 2015. Amongst other things, these Regulations specify the standard to which the Accounts must be prepared; the approval and publication requirements; and how the rights of the public to take part in the process must be facilitated. The key changes are explained below:

2.1.1. Exercise of Public Rights

The draft, pre-audit, Statement of Accounts is required to be signed by the Section 151 officer by 30 June, and the audited Statement of Accounts should be approved by Members, by 30 September, annually.

The accounts are then published alongside a new statement setting out the public inspection rights and arrangements.

In previous years the public had 20 working days to inspect the accounts and one appointed day during which they could ask questions of or make objections to the external auditor. This inspection window has now been

extended to 30 working days and the public may now also ask questions of and make objections to the auditor at any point during this time.

2.1.2. Narrative Statement

With effect from 2015/16, the Council will be required to publish a narrative statement alongside its Statement of Accounts. The Narrative Statement must include comment by the Authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

2.2. Accounting Code of Practice 2015/16

The 2015/16 Code has introduced a number of presentational changes in relation to the disclosure notes to the Accounts. The draft format of the accounts is in the process of being updated for this.

2.3. Accounting Standards

The Accounts for 2014/15 identified a number of accounting standards that were not applicable to the accounts because they had not been adopted for that financial year. For 2015/16 the following changes arise from new or amended standards:

2.3.1. IFRS 13 Fair Value Measurement - This Standard provides a consistent definition of fair value and requires enhanced disclosure. It is designed to apply to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (i.e. the price that would be received / paid in an orderly transaction between market participants) to be used when measuring certain types of assets and liabilities. The adoption of this standard will require surplus assets (assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale) to be revalued at market value rather than value in existing use as at present. Operational property, plant and equipment assets are outside the scope of IFRS13. Overall this Standard is not expected to have a material impact on the Statement of Accounts, due to the low value of surplus assets held by the Council.

The Accounting Code limits the impact of IFRS13 by only applying it prospectively (avoiding the need for prior period adjustments) and only to surplus assets, investment properties and financial instruments liabilities.

2.3.2. IFRIC 21 Levies - This standard provides guidance on levies imposed by government in the financial statements of entities paying the levy. The IFRIC specifies the obligating event as the activity that triggers the timing of the payment of the levy. The amount payable may be based on information relating to a period before the obligation to pay arises or the levy is payable only if a threshold is reached, or both. This standard will not have a material impact on the Statement of Accounts.

3. Options

3.1 Members are asked to note the 2015/16 Statement of Accounts update and make any comments or suggestions as appropriate.

4. Future Requirements

4.1. With effect from the accounts for the financial year 2017/18, all Authorities will be required to prepare their accounts for approval by 31 May and audited accounts must be published by 31 July, following the year end.

5. Resource Implications

5.1. The published scale fee for External Audit for the 2015/16 Annual Accounts is £41,900.

6. Recommendation

6.1. Members are asked to note this report in respect of the Statement of Accounts for 2015/16.

Background Papers: None

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