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# Report to those charged with governance (ISA 260) 2010/11

Runnymede Borough Council

December 2011

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at [www.auditcommission.gov.uk](http://www.auditcommission.gov.uk).

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

## This report summarises:

- the key issues identified during our audit of Runnymede Borough Council's ('the Authority's') financial statements for the year ended 31 March 2011; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

## The Authority's and our responsibilities

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

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

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

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

This report meets both these requirements.

## Financial statements

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



## Planning

We issued our Annual Fee letter on 21 May 2010. This was followed by our Audit Plan in January 2011. Our planning stage involved:

### Planning

- Performing risk assessment procedures.
- Determining our audit strategy.
- Determining our planned audit approach.

## Control evaluation

Our interim audit visit was carried out during May 2011. During this time we carried out the following work:

### Control evaluation

- Understanding accounting and reporting activities.
- Evaluating the design and implementation of selected controls.
- Testing the operating effectiveness of selected controls.
- Assessing control risk and the Risk of Material Misstatement (RoMM).

## Substantive procedures

Our final accounts visit took place between 15 August 2011 and 9 September 2011. During this period we carried out the following work:

### Substantive Procedures

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

We have now substantially completed our audit of the Authority's 2010/11 financial statements.

### Completion

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

#### Completion

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

### Acknowledgements

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

### VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. For this we considered 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.

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 4 outlines the 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 year recommendations and this is detailed in Appendix 2.

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

<b>Proposed audit opinion</b>	<p>We are anticipating issuing an audit opinion that refers to the Section 11 recommendation set out on page 6. We will also report that the wording of your Annual Governance Statement accords with our understanding.</p>
<b>Audit adjustments</b>	<p>Our audit has identified a total of two material audit adjustments. The net impact of these adjustments is to:</p> <ul style="list-style-type: none"> <li>■ Increase the deficit on provision of services for the year by £5,657K;</li> <li>■ Increase the Revaluation Reserve as at 31 March 2011 by £5,657K;</li> <li>■ Decrease the Capital Adjustment Account as at 31 March 2011 by £5,657K;</li> <li>■ Increase the Pension Reserve by £1,418K; and</li> <li>■ Decrease the General Fund by £1,418K.</li> </ul> <p>We have included a full list of material audit adjustments at Appendix 3. All of these, and other non-material adjustments, were corrected in the financial statements by the Authority.</p>
<b>Critical accounting matters</b>	<p>We have worked with officers throughout the year to discuss specific risk areas and throughout the audit on issues that have arisen.</p> <p>During the course of the audit an issue came to our attention concerning final-year salary enhancements provided to retired staff. These enhancements were previously treated as pensionable pay but it has now been determined that they are not pensionable. As a consequence there are additional charges to the general fund. This significantly reduces the level of free reserves available and we have raised a Section 11 recommendation, details of which are set out on page 6 The Section 11 recommendation is referred to in our audit opinion.</p>
<b>Accounts production and audit process</b>	<p>We have noted that the quality of the accounts and the supporting working papers was satisfactory. Officers dealt efficiently with audit queries. As noted above an issue arose during the course of the audit concerning final-year salary enhancements provided to retired staff. The consideration of this issue took some time and resulted in the delay in finalising the financial statements and audit.</p> <p>The Authority has not implemented one of the recommendations in our <i>ISA 260 Report 2009/10</i> relating to the financial statements. This has been re-raised in 2010/11 and is detailed in Appendix 1 and 2. The other recommendation raised has been superseded as the Authority has decided to accept any residual risk.</p>

<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete subject to finalisation of our completion procedures including our review of events after the balance sheet date.</p> <p>In addition before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<b>VFM conclusion</b>	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except in regards to the need to consider the level of reserves expected to be available in the future as set out in our section 11 recommendation on page 6.</p>

**During the year additional charges on the general fund have been identified in relation to final-year salary enhancements which are no longer considered pensionable.**

**This has reduced the level of the Authority's free reserves significantly.**

**Whilst the Authority has sufficient free reserves for its 2011/12 requirements its future level of reserves is dependent of planned asset sales the timing of which is uncertain.**

**We have recommended the Authority should undertake a detailed review of its financial position including scenario analysis to consider the actions that might be required if asset sales are delayed or other unforeseen adverse circumstances arise.**

### **Background**

During the course of the audit an issue came to our attention concerning final-year salary enhancements provided to retiring staff. These enhancements were previously treated as pensionable pay but it has now been determined, based on advice from Counsel, that they are not pensionable payments under the rules governing the Local Government Pension Scheme. Details of the issue and its impact on the financial statements, including reserve position, are set out in note 39 to the financial statements (extracts from note 39 are included in Appendix 6 for reference).

As a consequence of this issue there are additional charges to the general fund. This significantly reduces the amount of usable reserves available to the Authority from approximately £4,303K to £2,993K as at 31 March 2011. This reduces the Authority's financial flexibility going forward.

### **Actions being taken by the Authority**

The Authority intends to make a transfer from the HRA to cover the additional charges that will, or may, have to be met from the general fund. Based on this the Authority anticipates that it has sufficient reserves to cover its immediate requirements.

The Authority has also reviewed its financial forecasts based on the expenditure to date and increased liabilities that will need to be met from the general fund.

The updated forecasts indicate that the Authority will have sufficient usable reserves available to meet its current expenditure plans. However, we also note that the Authority has in recent years been using its reserves to maintain services. Whilst it is planned to move to a position in the next two years where reserves are not used to fund current expenditure, this is recognised to be a challenging target.

We also note that over the medium and longer term the reserve position of the Authority will be dependent upon future asset sales, the timing of which are uncertain. If these asset sales are delayed, or realises less than anticipated, the Authority's usable reserves may fall below a minimum prudent balance or the Authority may not have sufficient financial resources to meet the currently budgeted expenditure.

### **Section 11 recommendation**

Whilst we are satisfied that the Authority has sufficient reserves to cover 2011/12 the reserve position in the medium and longer term is dependent upon the Authority meeting savings targets and upon future asset sales, the timing of which are uncertain. In view of the relatively low level of reserves held by Authority we recommend that the Authority should undertake a detailed review of its financial position to satisfy itself that it will be able to maintain an appropriate minimum prudent level of reserves for the next five years. This review should include scenario analysis to consider the actions that might be required if, for example, the planned asset sales are delayed or sale proceeds are less than anticipated.

*Where, as in this case, an auditor makes a Section 11 recommendation the Authority is required to comply with sections 11 and 12 of the Audit Commission Act. This requires the Authority to consider the recommendation at a meeting within one month of the day the recommendation is made. There are various requirements in relation to advertise the meeting. Following the meeting the Authority should notify the auditor of the decisions made at the meeting regarding the recommendation and publish a summary of the decisions (once approved by the auditor) in a local newspaper. In this case we have agreed, as the Audit Commission Act allows, to extend the time for the recommendation to be considered at a meeting to 2 March 2012.*

Our audit has identified a total of two material audit adjustments to date due to the Authority:

- Netting off of upward revaluation gains against downward revaluation losses on council dwellings; and
- Not recognising and adjusting for the unfunded element of the pension liability in relation to final-year salary enhancements.

#### Proposed audit opinion

Subject to satisfactory completion of the outstanding matters noted on page 5, we are anticipating issuing an audit opinion that refers to the Section 11 recommendation set out on page 6.

#### Audit differences

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

Our audit identified a total of two material audit adjustments, which have been adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of all corrected audit differences (including non-material adjustments) on the Authority's movements on the General Fund for the year and Balance Sheet as at 31 March 2011.

The material audit adjustments are the result of the Authority:

- Netting off of upward revaluation gains against downward revaluation losses on council dwellings, which are required to be shown separately; and
- Not recognising and adjusting for the unfunded element of the pension liability in relation to final-year salary enhancements. The adjustment in this regard also impacts comparative figures for prior years.

Details of the above adjustments are given in Appendix 3.

#### Movements on the General Fund 2010/11

£000	Pre-audit	Post-audit
Surplus or (deficit) on the provision of services	2,931	3,012
Adjustments between accounting basis & funding basis under regulations	(5,639)	(5,878)
Transfers to/ from earmarked reserves	2,816	2,816
<b>Increase/decrease in General Fund</b>	<b>108</b>	<b>(50)</b>

#### Balance Sheet as at 31 March 2011

£000	Pre-audit	Post-audit
Property, plant and equipment	229,729	229,407
Other long term assets	28,690	28,690
Current assets	21,837	21,837
Current liabilities	(8,963)	(8,964)
Long term liabilities	(15,222)	(15,222)
<b>Net worth</b>	<b>256,071</b>	<b>255,748</b>
General Fund	4,411	2,993
Other reserves	251,660	252,755
<b>Total reserves</b>	<b>256,071</b>	<b>255,748</b>

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

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

- The Authority had capitalised expenditure on its council dwellings without first derecognising the replaced components' value. The impact of this adjustment was to reduce the value added in-year to council dwellings by £322K;
- The Authority did not write-out the difference between historic cost and current value depreciation from the Revaluation Reserve to the Capital Adjustment Account. This resulted in a reduction of £166K in the Revaluation Reserve and a corresponding increase in the Capital Adjustment Account.

These have been adjusted in the final version of the financial statements.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2010* ('the Code'). We understand that the Authority will be addressing these where significant.

#### **Annual Governance Statement**

We have reviewed the Annual Governance Statement and confirmed that

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

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

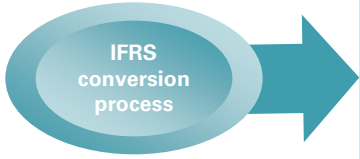

In our *Financial Statements Audit Plan 2010/11*, presented to you in January, we identified the key risks affecting the Authority's 2010/11 financial statements.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

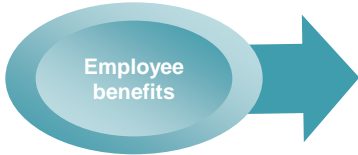

Key findings from the work undertaken to review the IFRS conversion process has also been detailed separately on page 12.

The table below sets out our detailed findings for each risk.

In addition as noted above an issue arose during the course of the audit concerning final-year salary enhancements provided to retired staff. This, together with the associated Section 11 recommendation, is considered on page 6.

Key audit risk	Actions	Findings
 <p>IFRS conversion process</p>	<p><b>IFRS conversion process</b></p> <p>We planned to audit the re-stated 2009/10 financial statement figures.</p> <p>We assessed the processes being undertaken by the Authority and provided advice on how this could be improved to ensure the final years figures are compliant with the standards.</p>	<p>We reviewed the adjustments made to restate the prior year comparatives and found these to be appropriate.</p> <p>We have reviewed and assessed the processes put in place to ensure the accuracy and completeness of disclosures such as leases, fixed assets and accumulated absences.</p> <p>We have reviewed the suitability of the IFRS accounting policies adopted by the authority and confirmed that they are tailored and appropriate for the Authority.</p>
 <p>Leases</p>	<p><b>Leases</b></p> <p>We assessed the Authority's process for ensuring that there is a complete record of all leases and these are reviewed under the requirements of IAS17.</p> <p>As part of our IFRS conversion audit we reviewed the Authority's criteria for identifying and classifying leases</p>	<p>We reviewed the criteria with which the Authority has classified its leases between operating and finance leases.</p> <p>We sample tested a selection of leases to ensure the classification met with the requirements of IAS 17.</p> <p>There have been no changes in classification of leases due to IFRS.</p>

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Actions	Findings
	<p><b>Employee benefits</b></p> <p>During the audit of the restated Balance Sheet we assessed whether the Authority payroll system can provide the information needed to calculate the obligation.</p> <p>We undertook testing on the data collated by the Authority to ensure it is inline with the requirements of IAS 19.</p>	<p>We reviewed the Authority's method of calculating the accumulated absences accrual and found the method to be appropriate and inline with the new IFRS requirements.</p> <p>The Authority has received confirmation from its actuaries, Hymans Robertson, that the disclosures made in the 10/11 accounts are in compliance with IAS 19.</p>
	<p><b>Property, plant and equipment</b></p> <p>We assessed the controls in place to ensure that additions/valuations are being addressed as components and appropriately recorded in the fixed asset register.</p> <p>We substantively tested additions and valuations to ensure these were correctly accounted for in line with component requirements of IAS 16.</p>	<p>We have reviewed the valuation performed at the Authority and confirmed that it has been correctly recorded in the fixed asset register.</p> <p>We have reviewed the instructions given to the internal valuer, performed an evaluation of their professional competence and objectivity and evaluated the appropriateness of their work. We have not identified any issues.</p> <p>We assessed the valuation assumptions for reasonableness and reviewed the Authority's processes for identifying assets which may require impairment. We then considered whether any changes in valuation have been accounted for in line with the relevant accounting standards and the Code of Practice on Local Authority Accounting 2010-11.</p> <p>We are satisfied that the valuation of fixed assets at 31 March 2011 in the financial statements is appropriate, although we noted a material misstatement in the disclosure of the Authority's housing stock valuation – see Appendix 3 for details – this has been corrected in the final financial statements.</p>

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

Key audit risk	Actions	Findings
<p>Financial standing / MTFP</p>	<p><b>Financial standing / medium term financial planning</b></p> <p>The Council's current programme of savings targets totals £3.8 million. These targets follow other savings programmes, the last of which had achieved savings of £2.4 million.</p> <p>Linking with our value for money audit work, we considered the Council's general financial standing and in particular its approach to medium term financial planning.</p> <p>We considered the potential impact of the outcome from this work on our financial statements audit.</p>	<p>We have reviewed the Authority's financial standing by assessing the financial planning, control, prioritising resources and efficiency and productivity.</p> <p>We have considered the Authority's reserves position in light of the pension enhancement issue detailed in Appendix 1. Whilst we are satisfied that the Authority has sufficient reserves to cover 2011/12 the reserve position in the medium and longer term is dependent upon future asset sales the timing of which are uncertain. We have raised a Section 11 recommendation in relation to this.</p>
<p>Corporate Management Structure</p>	<p><b>Corporate Management Structure</b></p> <p>A new corporate management structure was approved by the Corporate Management Committee with effect from 1 April 2011.</p> <p>We have reviewed the disclosure and accounting for the associated costs of the restructure and considered whether there is appropriate financial governance in your new structure.</p>	<p>We have concluded that the Authority has adequately disclosed the associated costs of the restructure.</p>

**We have worked with the finance team during 2010/11 to ensure that the Authority was in a position to produce a set of accounts which are fully compliant with the requirements of IFRS for 2010/11.**

**Key movements in the restated 2009/10 accounts and balance sheet as at 1 April 2009 include adjustments for accumulated absences of £291K and investment properties of £2,514K**

### Background

All local authorities in the UK are required to implement the International Financial Reporting Standards (IFRS) for 2010/11 and prepare their 2010/11 Statement of Accounts under IFRS, including 2009/10 comparatives and the balance sheet as at 1 April 2009. This has resulted in some fundamental differences in the accounting process and the key areas have been highlighted below.

### Work Performed

In May 2011, we looked specifically at the key areas of impact including non current assets, leases, employee benefits and corporate accounting policies and found the Authority had undertaken steps to address these.

### Key changes under IFRS

- The Comprehensive Income and Expenditure Statement combines into one statement the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, which were previously prepared under UK GAAP. This statement records the Authority's income and expenditure for the year both cash-related items and non cash items, together with any other recognised gains and losses in summary form.
- The Authority must account for holiday pay outstanding at year end in the form of an accrual identified as accumulated absences.
- Revaluation of investment property now effects the surplus or deficit on the provision of services by the change in fair value, which previously impacted the Revaluation Reserve.
- Lease classification between finance and operating are subject to a set of criteria as defined by IAS 17. Land and buildings are now required to be split into two separate leases and accounted for separately.

### Key movements to the Authority's 2009/10 accounts and 1 April 2009 balance sheet under IFRS

#### Accumulated absences

IFRS requires the Authority to accrue for holiday pay outstanding at the balance sheet date whereas under UK GAAP this was not required. As the Authority were already voluntarily accruing for employee benefits in the 2008/09 and 2009/10 accounts, the only movement to convert to IFRS from UK GAAP relates to the movement in reserves as follows:

- increase General Fund balance by £291K; and
- established an Accumulated Absences Reserve by £291K

#### Investment properties

IFRS requires the Authority to take revaluation gains on investment properties to the Income and Expenditure Statement rather than the Revaluation Reserve as permitted under UK GAAP. Therefore the following adjustment was required to restate the comparative 1 April 2009 and 31 March 2010 balances:

- decrease Revaluation Reserve by £2,514K; and
- increase Capital Adjustment Account by £2,514K

The accounts and the supporting working papers provided for audit were of a satisfactory quality.

Officers dealt efficiently with audit queries.

During the course of the audit an issue came to our attention concerning final-year salary enhancements provided to retired staff. The consideration of this issue took some time and resulted in the delay in finalising the financial statements and audits.

#### Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority has good financial reporting processes. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 12 July 2011. The Authority made a number of amendments of a presentational nature and also to reflect the impact of the final-year salary enhancement issue.
<b>Quality of supporting working papers</b>	The quality of working papers provided for audit was satisfactory.

Element	Commentary
<b>Response to audit queries</b>	Officers resolved the majority of audit queries in a reasonable time. There were no significant delays and the relevant staff members were available during the course of the audit. Where staff were not available for particular periods, this was clearly communicated to us.  During the course of the audit an issue came to our attention concerning final-year salary enhancements provided to retired staff. The consideration of this issue took some time and resulted in the delay in finalising the financial statements and audits.

#### Prior year recommendations

In our *Interim Audit Report 2010/11* we commented on the Authority's progress in addressing the recommendations in our *ISA 260 Report 2009/10*.

The Authority has not implemented one of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements. This has been re-raised in 2010/11 and is detailed in Appendix 1 and 2. The other recommendation raised has been superseded as the Authority has decided to accept any residual risk.

## 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 Runnymede Borough Council for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Runnymede Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 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. A draft template is provided in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

### Other matters

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

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

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

We follow a new VFM audit approach this year.

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

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except in regards to the need to consider the level of reserves expected to be available in the future as set out in our section 11 recommendation on page 6.**

#### Overview of the new VFM audit approach

For 2010/11, 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.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit

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



#### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. except in regards to the need to consider the level of reserves expected to be available in the future as set out in our section 11 recommendation on page 6.

The following pages include further details on the specific risk-based work.

## Section four – value for money conclusion

### Specific value for money criterion

We have considered the specific VFM criterion.

We have completed our work on the value for money criterion and summarise our findings below, together with any implications for our VFM conclusion.

VFM risk	Focus of work	Assessment
<p>Securing Financial Resilience</p>	<p><b>Securing Financial Resilience</b></p> <p>We have assessed the Authority's processes for financial governance, planning and control.</p> <p>We have assessed the Authority's processes in securing financial resilience .</p>	<p>We have reviewed committee papers, financial plans and budgets and previous Use of Resources work to assess how the Authority is securing financial resilience.</p> <p>As noted above we have considered the Authority's reserves position in light of the pension enhancement issue detailed in Appendix 1. Whilst we are satisfied that the Authority has sufficient reserves to cover 2011/12 the reserve position in the medium and longer term is dependent upon future asset sales the timing of which are uncertain. We have raised a Section 11 recommendation in relation to this.</p>
<p>Securing economy, efficiency and effectiveness</p>	<p><b>Securing Economy, Efficiency and Effectiveness</b></p> <p>We have reviewed the Authority's own assessment of the risks it faces and the arrangements to manage and address its risks.</p> <p>We have assessed evidence gained from audit work carried out and the responses the Authority has given for that work.</p>	<p>The Authority has been able to demonstrate how it has met all the criteria required for securing Vfm.</p>

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

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	<p>● (one)</p>	<p><b>Review of remuneration policies</b></p> <p>Since 1990, the Authority has operated a policy whereby staff with 10 years satisfactory service qualified for a 10% final-year enhancement of salary, which was treated as pensionable. Following an Equal Pay Audit in 2006, the Authority sought advice from Counsel on the policy, however, this advice focused on the issue of the lawfulness of the policy as opposed to the issue of whether it was pensionable. In February 2010, the Council resolved that the final-year pay enhancement scheme be abolished with effect from 1 April 2011.</p> <p>In March 2011, following concerns raised by Surrey Pension Fund, Counsel's advice commissioned by Runnymede and the Surrey Pension Fund concluded that the final-year salary enhancements were not pensionable payments under the rules governing the Local Government Pension Scheme. Surrey Pension Fund is considering its options with regard to the recovery of pension payments in light of advice they have received about the rights of the Fund to recover the payments and possible defences which might be raised by pensioners to claims to recover the unlawful elements of pension payments.</p> <p>In light of this we recommend that the Authority undertakes a review of its remuneration related policies to ensure they are both lawful and in line with other relevant regulations, e.g. local government pension scheme regulations.</p>	<p>Accepted.</p> <p>Jan Hunt (Head of Human Resources) and Mario Leo (Corporate Head of Governance and Assets).</p> <p>31 March 2012</p>

No.	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	<p>● (two)</p>	<p><b>IT policy (re-raised from 2009/10)</b></p> <p>There have been significant changes in the IT landscape since this document was produced and lack of update since 2008 suggests this is not a live document or fit for purpose.</p> <p>In addition the IT policy states that a risk management area is operating on the Authority's website. However, this is not yet live.</p> <p>The Authority should review the policy in light of the governments new open data agenda and sense-check its content for accuracy. This recommendation supersedes our recommendation from 2009/10 (see Appendix 2).</p>	<p>It is accepted that the IT policy document is out of date. We are currently working on a set of IT Security Policies, which will go up on the portal shortly. This addresses all the Government Code of Connection ("CoCo) issues and formal approval for the remaining work and associated licences has been approved by the Corporate Management Committee on 24 November.</p> <p>In partnership with the Surrey authorities, a Surrey ICT policy has been drafted and developed. This can be adapted for specific authorities and it is our intention to use this as a basis for a fresh Runnymede IT policy. Also, the Member Working Group on Information Technology and Communications is charged with undertaking a strategic review of information technology and corporate communications. These work strands will be brought together into a fresh IT policy.</p> <p>Helen Dunn (Head of IT) and Paul Turrell (Chief Executive).</p> <p>30 June 2012</p>
3	<p>● (three)</p>	<p><b>Aged debtor review</b></p> <p>The December aged debtor report was not reviewed until 31 January 2011 as the Benefits and Customer Services Manager was on sick leave.</p> <p>If controls are not operational whilst staff are absent this increases the risk that debtors are not chased appropriately and payments are not recognised.</p> <p>We recommend that an alternative member of staff is trained to complete the review in the absence of the Benefits and Customer Services Manager.</p>	<p>Already implemented.</p> <p>The collection of debts continues, and system controls remain in place, irrespective of the time taken to review the Aged Debt Report. However, the Report is now copied to both the Benefits and Income Manager (as now) and the Head of Revenues and Benefits to ensure that a review of the collection of larger debts is carried out promptly.</p>

## Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2009/10.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2009/10 and reiterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	1
Remain outstanding (re-raised in Appendix 1)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 September 2011
1	● (three)	<p><b>Independent review of amendments to standing data</b></p> <p><b>Observation</b></p> <p>Due to the size of the finance team changes to payroll data, payroll exception reports and changes to supplier details are not independently reviewed.</p> <p><b>Risk</b></p> <p>Incorrect/fraudulent amendments may not be identified.</p> <p><b>Recommendation</b></p> <p>The Authority should consider implementing periodic spot checks of changes to payroll and supplier data.</p>	<p>The payroll and payment of suppliers are administered in a small section comprising 2.5 fte staff. This inevitably creates challenges in establishing an absolute separation of duties. The risks have to be balanced against the cost of imposing additional procedures.</p> <p>Payroll controls currently in place include the reconciliation and verification of payroll control totals by the Accountancy Section, the monthly random check of payroll data by the Personnel Section and the verification of data input by another member of staff within the section.</p> <p>Controls over the payment of suppliers include the random checking of supplier data input on the system by the Payroll and Payments Manager. This control was introduced in 2009/10. The additional cost of introducing further random checks by an Officer from another section is considered to be disproportionate to the additional level of control achieved, given the appropriate procedures already in place.</p>	Superseded as the Authority has considered and concluded that any residual risk should be accepted.

## Appendix 2: Follow up of prior year recommendations (continued)

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10*.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 September
2	● (three)	<p><b>IT Policy</b></p> <p><b>Observation</b></p> <p>The Authorities IT Policy has not been updated since 2008.</p> <p><b>Risk</b></p> <p>Policy is no longer appropriate and staff are not provided with sufficient guidance for IT access and use.</p> <p><b>Recommendation</b></p> <p>Due to the fast changing nature of IT and the data security risks that have become prevalent IT policies should be reviewed and updated annually.</p>	<p>Accepted.</p> <p>ITs policy will be reviewed and updated on an annual basis going forward.</p> <p>Simon Hunt</p>	<p>Not implemented. Re-raised in Appendix 1.</p>

## Appendix 3: Audit differences

We have identified two material misstatements by our audit of the Authority's financial statements for the year ended 31 March 2011. These have all been corrected by the Authority in the financial statements.

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 the Authority's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities. There were no uncorrected misstatements.

### Corrected material audit differences

The following table sets out the corrected material audit differences identified by our audit of Runnymede Borough Council's financial statements for the year ended 31 March 2011.

Income and expenditure statement	Adjustments btw. accounting basis & statute	Impact			Basis of audit difference
		Assets	Liabilities	Reserves	
Dr Income and Expenditure £5,657K	Cr MiRS £5,657K	-	-	Dr Capital Adjustment Account £5,657K Cr Revaluation Reserve £5,657K	Upward revaluation on DIYSO properties was offset against significant downwards revaluation on council dwellings. This is a presentational adjustment in Note 12 but has repercussions in the CIES, Revaluation Reserve and Capital Adjustment Account.
-	-	-	-	Cr Pension Reserve £1,418K Dr General Fund £1,418K	During the course of the audit an issue came to our attention concerning final-year salary enhancements provided to retired staff, which are now deemed by the pension fund to be non-pensionable. As a result, adjustments to the draft accounts have been required to recognise the impact of this. Similar adjustments are also required to comparatives for prior years. Further details are contained in note 39 to the financial statements.
<b>Dr £5,657K</b>	<b>Cr £5,657K</b>	-	-	-	<b>Total impact of adjustments</b>

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

### Requirements

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

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

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

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

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.

- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

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

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

### General procedures to safeguard independence and objectivity

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

**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 Runnymede Borough Council for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and the Runnymede Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

**We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.**

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

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

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Runnymede Borough Council (“the Authority”) for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority’s expenditure and income for the year then ended; and
- ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement 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:
  - give a true and fair view of the financial position of the Authority as at 31 March 2011 and of the Authority’s expenditure and income for the year then ended; and
  - have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 require adjustment or disclosure have been adjusted or disclosed.
4. In respect of the restatement of prior year comparators to IFRS, the Authority confirms that the restatement is appropriate.

**Information provided**

5. 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.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. 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.

**We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.**

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

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

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.

8. 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 financial statements communicated by employees, former employees, analysts, regulators or others.
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. Further, the Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. 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 and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

11. Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.
12. Having made appropriate enquiries, the Authority is satisfied that that the transfer from the Housing Revenue Account to the General Fund is legal.
13. 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 pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that 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;
- are funded or unfunded; and
- are approved or unapproved,
- have been identified and properly accounted for; and
- all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Corporate Management Committee on *[date]*.

Yours faithfully,

[Chief Financial Officer]

**We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.**

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

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

**Appendix A to the Management Representation Letter of Runnymede Borough Council: Definitions**

**Financial Statements**

A complete set of financial statements comprises:

- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

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 2010/11.

A housing authority shall present:

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

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

For pension funds participating in the following pension schemes, pension fund accounts shall be prepared by the local authority that administers the Pension Fund:

- a) the Local Government Pension Scheme (in England and Wales)
- b) the Local Government Pension Scheme (in Scotland).

**Material Matters**

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

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size 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.

**We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.**

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

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

**Management**

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

**Related party**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (ie subsidiaries);
- b) associates;
- c) joint ventures in which the authority is a venture;
- d) an entity that has an interest in the authority that gives it significant influence over the authority;
- e) key management personnel, and close members of the family of key management personnel; and
- f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, 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.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11:

- a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority

by virtue only of those dealings; and

- b) an entity with which the relationship is solely that of an agency.

**Related party transaction**

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.

**Final-year pay enhancement – Pensions**

In 1990, Runnymede introduced a scheme whereby staff with 10 years satisfactory service qualified for a 10% final-year enhancement of salary. This scheme formed part of a comprehensive Member-led initiative aimed to 'maintain the authority's competitive advantage in the employment market and to underline the policy of attracting and retaining able staff'. The scheme was modified in 2004 and again in 2007 to make it clear that it was discretionary rather than an entitlement and to ensure that the scheme was within the Council's powers. In February 2010, the Council resolved that the final-year pay enhancement scheme be abolished with effect from 1 April 2011.

In March 2011, Counsels advice commissioned by Runnymede and the Surrey Pension Fund concluded that the final-year salary enhancements were not pensionable payments under the rules governing the Local Government Pension Scheme (LGPS). Surrey Pension Fund is considering its options with regard to the recovery of pension payments in light of advice they have received about the rights of the Fund to recover the payments and possible defences that might be raised by pensioners.

Runnymede has obtained a further Counsel's opinion as to whether Runnymede could be required to compensate the pensions (i.e. continue

paying their pension, or come to another arrangement) should their pensions be reduced by the Surrey Pension Fund.

The Council has decided to honour the pension commitments it has made to the pensioners in respect of the final-year pay. The charges to the General Fund for pensions payable through the LGPS are limited to those cash sums determined by the Fund Actuary. There are no mitigating rules for pension payments made outside the statutory scheme. Therefore, the liability for pensions payable outside the LGPS are a direct charge to the General Fund. In 2010/11, the charge to the General Fund in respect of pensions outside the LGPS was £158,000, bringing the total pensions liability outside the LGPS to £1,418,000 at 31 March 2011.

On the basis that Runnymede will reimburse the Surrey Pension Fund for pensions paid to date, the assets of the Runnymede share of the Surrey Pension Fund at 31 March 2011 have been increased by £428,000. The liabilities in Surrey Pension Fund are reduced by £990,000 in respect of future pensions.



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