

# Annual Audit Letter

Royal Borough of Kensington and Chelsea

Audit 2008/09

November 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

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## Audit opinion

- 1 I have issued unqualified opinions on the Council's financial statements and on the Pension Fund on 30 September 2009. I have also issued an unqualified opinion upon the Council's Whole of Government Accounts submission to the Department of Communities and Local Government (CLG) on 1 October 2009.
  - 2 I have not issued a certificate on my 2008/09 audit, as I have received objections to the financial statements from local electors in connection with street trading and refuse collection. My work to consider the issues raised in the objection is in progress.
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## Financial statements

- 3 I reported the significant issues arising from my audit of the Council's financial statements and my audit of the Council's pension fund to the Audit Committee on 15 September 2009 in my Annual Governance Reports. My reports were subsequently updated and re-issued with my final comments.
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## Value for Money and Use of Resources

- 4 I issued an unqualified value for money conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources on 30 September.
  - 5 I have assessed how well the Council uses its resources in line with new methodology developed by the Audit Commission. I have concluded that the Council demonstrates excellent performance in some aspects of managing its finances, commissioning its services and in ethical and governance arrangements and strong performance across all other areas reviewed.
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## Actions

- 6 Recommendations are shown within the body of this report and have been agreed with the Council.
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## Independence

- 7 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.
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# Financial statements and annual governance statement

**The Royal Borough's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds.**

**8** I reported the significant issues arising from my audit of the Council's financial statements and my audit of the Council's pension fund to the Audit Committee on 15 September 2009 in my Annual Governance Reports. My reports were updated and re-issued as final at the end of September. The key issues arising from both my audits are summarised below.

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## Significant issues arising from the audit

**9** The key issue arising from my audit of the Council's financial statements concerned the treatment of debtors and creditors. Although my audit identified several errors with the classification and under/over recording of balances, there was no net impact on the financial statements.

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## Material weaknesses in internal control

- 10** My audit identified two weaknesses which could impact upon the financial statements:
- The posting of journals is not subjected to independent review or approval. Although my testing did not find any instances of incorrectly posted journals, there is a risk that General Ledger balances could be misstated through the posting of incorrect journals.
  - A key opinion control within the Council's pensions system is to check 5 per cent of updates to employees' details. My audit work identified that there is no evidence that this control is executed.

I understand that action to address these matters is in hand.

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## Accounting Practice and financial reporting

- 11** I considered the qualitative aspects of your financial reporting, and draw the following items to your attention:
- The Council has not annually updated its valuation of council dwellings in accordance with the appropriate guidance. Whilst we have satisfied ourselves that the 2008/09 financial statements have presented fairly the closing valuation of council dwellings, the Council should ensure that in future years, the relevant Housing Revenue Account direction is followed.

## Financial statements and annual governance statement

- Although the Council has accounted for decent homes expenditure totalling some £7 million in 2008/09 in line with the accounting requirements, the Council should ensure that in future years, impairment of decent homes expenditure is valued using the Existing Use Value for Social Housing.
- The Council's accounting records in respect of pension fund contributions need to be strengthened. My audit identified unreconciled differences between employer and employee contributions as disclosed in the accounts and the supporting documentation held by the Council. In addition, contribution records for other bodies that are part of the Pension Fund need strengthening, for example, ensuring that names of relevant employees are held by the Council.

## International Financial Reporting Standards

**12** The introduction of international financial reporting standards (IFRS) into the public sector raises significant challenges for local government to ensure arrangements are in place if they are to publish timely and accurate IFRS-compliant accounts for 2010/11. Whilst the Council has been reviewing its financial information to ensure it can meet the reporting requirements, our experience in other sectors has shown that despite an apparently long lead-in time, it is important for authorities to retain their focus and continue to plan for an early completion of this work.

### Recommendation

**R1** The Council should consider the opportunities identified for improving its accounts and ensure that the preparations for implementing IFRS are on track.

# Value for money and use of resources

I considered how well the Royal Borough is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Royal Borough put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

## VFM conclusion

- 13** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources key line of enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas assessed are set out in Appendix 1.
- 14** I issued an unqualified VFM conclusion stating that the Royal Borough had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Use of resources judgements

- 15** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each KLOE using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 16** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 17** The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in Appendix 1.

**Table 1** Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	4
Managing resources	3

## Value for money and use of resources

- 18** The Council has performed strongly across all KLOEs, with some areas of excellent performance in managing its finances, commissioning its services and in ethical and governance arrangements. My key messages are set out below.
- 19** The Council has consistently demonstrated strong performance across all the Use of Resources themes. In particular, it has demonstrated notable and innovative practice in a number of areas, particularly:
- Planning its finances effectively to deliver its strategic priorities and secure sound financial health.
  - Commissioning and procurement of quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.
  - Promotion and demonstration of the principles and values of good governance.
  - Managing risks and maintaining a sound system of internal control.
- 20** The Council has also set in motion a number of strategies in the last year which are designed to achieve efficiency savings, whilst reducing the Council's carbon footprint and improving its management of assets. The Council needs to ensure that these schemes are embedded and achieving outcomes at key milestone stages of delivery.
- 21** To maintain and further improve the Council's performance in the Use of Resources assessment, the following issues will need to be reviewed:
- There are a small number of services, such as planning, that remain relatively high cost when compared with other councils. While plans are in place for these services to be reviewed and an effective start has been made to achieving savings with partners, the increasingly stringent financial climate means that these will need to be pursued further.
  - The arrangements in place around the production of the financial statements should be reviewed to ensure that the accounts are fully compliant with the Statement of Recommended Accounting Practice (SORP) and relevant accounting policies. The 2008/09 audit identified four non-trivial amendments to the accounts and three qualitative issues that were reported 'to those charged with governance'.
  - The Council should ensure that the arrangements in place with partners for the management of data are as strong as those for Council held data. This will ensure that partnerships produce relevant and reliable data to support decision making and manage performance.
  - The Council is making good progress with the development of strategies to reduce its environmental footprint. These strategies are still at an early stage and the Council needs to demonstrate that outcomes are in accordance with the original planned objectives.
  - The Council can demonstrate that it has an understanding of its strategic risks and can demonstrate outcomes from managing assets to improve value for money. The Council is increasingly working in partnership to share usage of assets but it is not yet in a position to fully maximise the potential savings available.

### Recommendation

- R2** The Council should consider implementing the recommendations in our detailed Use of Resources report, specifically in respect of ensuring that key milestones in long-term environmental and asset management plans demonstrate achievement of outcomes.

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### The economic downturn

- 22** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. Although there is an immediate impact on treasury management, there is a wider and more fundamental impact on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams. There are also further challenges for policy priorities where patterns of demand for services are changing. This impacts on my audit and as part of my responsibility, I have reflected on the wider environment, specific issues and risks and the Council's response to them.
- 23** Whilst the recession has had an immediate impact on the Council's balance sheet at 31 March 2009, with a fall in the value of fixed assets and a decrease in interest on investments, the Council has made a positive response. The Council has recognised that meeting its financial targets in 2009/10 onwards will be hard in the current economic climate and has increased its range of financial monitoring, including the introduction of a recession scorecard focusing on key economic indicators. Its latest financial monitoring report to Cabinet in July 2009 shows that whilst early forecasts suggested that service budgets would probably record a net underspend of £1.2 million, this underspend would most likely be absorbed by a shortfall in interest income received on investment of cash balances. The Council has also recognised that the recession was likely to cause further hardship to local residents and is reviewing specific areas of budget pressures and how it might address them.

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### National Fraud Initiative

- 24** The Audit Commission's National Fraud Initiative matches data across different sectors and potential matches of data could indicate fraudulent activity. The Council has very strong arrangements for responding to potential fraud risks identified through the Audit Commission's National Fraud Initiative data matching exercise with a very high percentage of potential matches investigated. In comparison to other London Boroughs. There were a small number of categories where the Council could continue to review potential matches, such as those for Insurance Claimants, and Right to Buy.

### Grant claims

- 25** Central government departments require certain claims from local authorities in respect of specified expenditure to be audited in accordance with agreed criteria. Schemes requiring audit range from substantial areas of expenditure such as housing benefits to relatively small schemes such as the Kensington youth offer. When certifying expenditure on the schemes, I am required to consider whether there are errors in the original claims which require amendment or whether there are issues arising which I am required to report to the grant paying department. Claims are audited in accordance with deadlines specified by the grant paying department.
- 26** For the 2008/09 financial year, there are ten claims which require audit. Work remains in progress on four claims, which are programmed to be completed before December 2009. Of the six claims which have been completed, two claims have been subject to amendment following audit. I have not yet issued qualification letters in respect of any of the completed claims.

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### Organisational assessment

- 27** During 2009, the Audit Commission introduced new arrangements for the assessment of performance, known as organisational assessment. The organisational assessment forms part of the Comprehensive Area Assessment which assesses public sector bodies within a geographical area. Details of how the Royal Borough and the local area have been can be found after 10 December 2009 on the Audit Commission website at:  
<http://www.audit-commission.gov.uk/localgov/audit/CAA/Pages/oneplace.aspx>

# Closing remarks

- 28** I have discussed and agreed this letter with the Chief Executive and the Executive Director for Finance Information Systems and Property. My successor, Mr Mike Haworth-Maden, will present this letter at the 6 January 2010 Audit Committee meeting and will provide copies to all Council Members.
- 29** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Royal Borough during the year.

**Table 2**

Report	Date issued
Annual Audit Plan	April 2008
Supplementary Opinion Letter	May 2009
Pension Fund Audit Plan	April 2009
Annual Governance Report	September 2009
Use of Resources Report	October 2009

## Audit fee

- 30** My audit plan presented to the June 2008 Audit Committee contained my proposed fee to undertake the audit. Table 3 below shows my actual resources used for the audit.

**Table 3 Audit fees**

	Actual £'000	Proposed £'000	Variance £'000
Financial statements and annual governance statement	181	181	0
Value for money	86	86	0
Pension Fund	38	38	0
<b>Total audit fees</b>	<b>305</b>	<b>305</b>	<b>0</b>
Non-audit work	0	0	0
<b>Total</b>	<b>305</b>	<b>305</b>	<b>0</b>

## Closing remarks

- 31 Whilst my work on financial statements and use of resources is in accordance with my original fee estimate, additional audit work has been incurred in respect of queries and objections received from members of the public. I will need to raise an additional audit fee to the Council for this work. However, as this work remains in progress, I am currently unable to finalise the extent of this fee.
- 32 The Royal Borough has taken a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Kash Pandya

District Auditor

25 November 2009

# Appendix 1 – Use of resources scores

33 The following tables summarise the scores against the individual KLOEs.

KLOE	Score
<b>Managing Finances</b>	
Planning for financial health	4
Understanding costs and achieving efficiencies	3
Financial reporting	3
<b>Governing the business</b>	
Commissioning and procurement	4
Use of information	3
Good governance	4
Risk management and internal control	4
<b>Managing resources</b>	
Natural resources	3
Strategic asset management	3

# Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Audit Letter 2008/09 Recommendations</b>						
5	The Council should consider the opportunities identified for improving its accounts and ensure that the preparations for implementing IFRS are on track.	2				
8	The Council should consider implementing the recommendations in our detailed Use of Resources report, specifically in respect of ensuring that key milestones in long-term environmental and asset management plans demonstrate achievement of outcomes.	2				

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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