

# Annual Audit Letter

Royal Borough of Kingston Upon Thames

Audit 2008/09

December 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 non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/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 issued an unqualified opinion on the Council's financial statements on 30 September 2009, the statutory deadline for doing so.
  - 2 I issued the certificate formally concluding my audit on 7 December 2009. The reason for the delay in certifying completion of the audit was because I needed to read and review information contained in the Pension Fund Annual report before I could issue my opinion on the Pension Fund financial statements.
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## Financial statements

- 3 I identified a number of amendments which were required in the Council's financial statements. The most significant of these related to the group accounts, and to the inclusion in the Council's statements of balances relating to the South London Waste Partnership. These amendments were reported to the Audit Committee on 23 September 2009 and were corrected in the final version of the Council's financial statements on which I gave my opinion.
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## Pension fund

- 4 My audit opinion on the Council's financial statements included an unqualified opinion on the Pension Fund's financial statements. The Pension Fund financial statements submitted for audit were complete and no material errors were identified during the audit.
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## Value for money

- 5 I issued an unqualified value for money conclusion on 30 September 2009 stating that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.
  - 6 I also assessed how well the Council used its resources in 2008/09 against the Audit Commission Use of Resources framework. Overall the Council is performing adequately (level 2) in all areas of the assessment. The scores will be formally published by the Audit Commission in December 2009.
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## Audit fees

7 The planned and actual fees for the audit are shown in the table below.

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**Table 1**      **Audit fees**

	<b>Actual</b>	<b>Proposed</b>	<b>Variance</b>
Financial statements	£172,560	£152,560	£20,000
Use of resources	£98,376	£98,376	nil
Pension Fund	£38,000	£38,000	nil
<b>Total audit fees (excluding grant certification)</b>	<b>£308,936</b>	<b>£288,936</b>	<b>£20,000</b>

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8 The increase in fee reflects the additional work required as a result of staffing changes in the Council's Finance Directorate and a number of specific areas of the financial statements where additional work was required to obtain necessary assurance.

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## Grants

9 Central Government grants are a significant source of income for the Council and are paid to cover the cost of specific activities. My certification work on grants is currently in progress and I will report the detailed findings of this work to officers when the work is completed. Key issues arising will be reported to the Audit Committee in early 2010.

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## Actions

10 Recommendations are shown within the body of this report and have been agreed with the Council. In addition, recommendations have been raised in other reports to the Council during the year (as set out in Table 4 at the end of this letter), and the Council has action plans in place to address them.

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## Independence

11 I can confirm that my audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds.**

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## Significant issues arising from the audit

- 12 I issued an unqualified opinion on the Council's financial statements on 30 September 2009. The following key issues were noted in my Annual Governance Report, which I presented to the Audit Committee on 23 September 2009.
- 13 There were a number of amendments required to the Council's financial statements, which were corrected in the final version of the statements on which I gave my opinion. The most significant of these related to:
  - the Council's balance sheet incorrectly included amounts owing to and from the South London Waste Partnership;
  - a number of revisions were required to the cash flow statement and supporting notes to reflect amendments elsewhere in the financial statements; and
  - the Council's group accounts required a number of amendments to correct errors in consolidating the single entity accounts and those of the Theatre Limited Liability Partnership.
- 14 There were four non-trivial errors which officers declined to correct in the financial statements. The value of these errors had no impact on my opinion.
- 15 I did not identify any significant weaknesses in the Council's internal control arrangements.
- 16 In the Annual Governance Report, I acknowledged that the Council had faced an unprecedented set of challenges around the finance team's capacity and knowledge to prepare the accounts and respond to the audit. Although this resulted in some delays to the audit and additional work, the Council was able to address my team's queries in a sufficiently timely manner to allow me to give my opinion in line with the statutory deadline.
- 17 I presented a separate Annual Governance Report to the Audit Committee on my audit of the Pension Fund financial statements. There were no significant issues to report arising from this audit.
- 18 The Council submitted its Whole of Government Accounts return after the national deadline of 1 October 2009. I was able to issue an unqualified report on this return on 28 October 2009.

- 19 The Council needs to ensure that officers provide information in a timely manner to allow this return to be completed and audited in line with the national deadline for submission.

### Recommendation

- R1** Provide a completed Whole of Government Accounts return and supporting information on a sufficiently timely basis to allow it to be audited before the national deadline of 1 October.

# Value for money and use of resources

**I considered how well the Council 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 Council 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.**

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## VFM conclusion

- 20 My value for money conclusion was informed by the work I had undertaken on use of resources. I issued an unqualified value for money conclusion stating that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The criteria used for this assessment and my findings against each one were reported in the Annual Governance Report.
- 21 Under the new Comprehensive Area Assessment (CAA) framework, the CAA Lead is responsible for making an Organisational Assessment of the Council. This is formed of two elements, Use of Resources and Managing Performance.
- 22 The scores from the two elements will be combined to give an organisational effectiveness score on a scale from 1 (lowest) to 4 (highest) and this will be published by the Audit Commission in December 2009.

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## Use of resources judgements

- 23 In forming my scored use of resources judgements, I used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (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, and level 4 is characterised by strong arrangements that have led to demonstrably excellent value for money outcomes throughout the year under review. .
- 24 Overall the Council is performing adequately and scored a level 2. The individual use of resources theme scores are as shown in Table 2.

**Table 2 Use of resources theme scores**

Use of resources theme	Scored judgement
Managing finances	Level 2 (performing adequately)
Governing the business	Level 2 (performing adequately)
Managing resources	Level 2 (performing adequately)

25 Table 3 shows the key findings for each KLOE in more detail, together with the key areas for improvement. Further detail on my findings and conclusions were set out in the Annual Governance Report issued in September 2009.

**Table 3 Use of resources theme scores**

Use of resources theme and score	KLOE descriptor	Key findings and areas for improvement
<b>Managing finances</b>		
1.1 Level 3	Financial planning	The Council's medium term financial strategy clearly links to the partnership's key objectives and it has a history of meeting its budgets.
1.2 Level 2	Understanding costs and efficiencies	The Council has a clear focus on reducing costs. It needs to demonstrate how savings programmes are achieved without compromising quality of service.
1.3 Level 2	Financial reporting	The Council's internal financial management reporting is sufficiently detailed for officers and members. The Council needs to make the impact of financial decisions on service performance clearer in its reporting internally and to the public.
<b>Governing the business</b>		
2.1 Level 2	Commissioning and procurement	The Council demonstrates it understands the local market and is following best practice procurement methodologies. It needs to demonstrate how these have had a positive social, environmental and economic impact on outcomes.
2.2 Level 2	Data quality and use of information	The Council has adequate arrangements for data quality, and actively drives improvements in service performance. It needs to monitor performance against targets in a more consistent way across all services.
2.3 Level 2	Good governance	The Council promotes the principles of good governance and has sound arrangements in place. It needs to demonstrate how these have raised awareness of ethical issues.
2.4 Level 2	Risk management and internal control	The Council has improved its arrangements for managing business continuity, risk management and fraud and corruption. It needs to show that these arrangements are having a positive impact.

## Value for money and use of resources

Use of resources theme and score	KLOE descriptor	Key findings and areas for improvement
<b>Managing resources</b>		
3.1 Level 2	Use of natural resources	The Council has agreed an Energy Strategy and has various initiatives to reduce its environmental impact. It needs to co-ordinate these and show how these initiatives have reduced its use of natural resources.
3.2 Level 2	Strategic asset management	The Council has a number of sources of information on assets. It needs to co-ordinate these in a single strategy to demonstrate how it will use its assets to deliver services in the future.

### Recommendation

**R2** Review progress in delivering actions arising from my use of resources assessment against the agreed timescales.

### Other key issues

- 26** Along with other public sector bodies, the Council faces significant challenges in the year ahead. The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. There are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes, including pressures on income streams and also on demand for services provided by the Council. There are further challenges for policy priorities where patterns of demand for services are changing.
- 27** I have reflected on the Council's response to the recession throughout my assessment of Use of Resources, and this has also been taken into account by the CAA Lead in his Organisational Assessment reported elsewhere.
- 28** In particular, the recession has affected the ability of the Council to realise capital receipts for asset disposals, which constrains the resources available to it to realise its plans to meet the Decent Homes target, and to expand the availability of places in primary schools to meet demand. These high priority areas mean that there is little spare capacity for the Council to meet other commitments in maintaining the buildings it uses to deliver services. The Council needs to consolidate its asset information into one detailed asset management strategy, with supporting plans to achieve its targets whilst maintaining assets which are fit for purpose.
- 29** The CAA Lead has considered the Council's performance in meeting the Decent Homes target and increasing primary school places, as part of his Organisational Assessment.

- 30** Following the collapse of the Icelandic banks, the Audit Commission required auditors to carry out a programme of work to assess the suitability of Council's treasury management arrangements. The Council did not have any investments in Icelandic banks at the time of their collapse and has focused on investing in higher grade institutions rather than those offering the highest rates of return.
- 31** There are further challenges for policy priorities where patterns of financial reporting will change. The government announced, in 2007, its intention to adopt International Financial Reporting Standards (IFRS) for all public sector bodies. The implementation date for Local Government is set for 2010/11. I note that officers have made a start in assessing the IFRS impact across the Council and are in the process of setting up a project development team. The Council will need to ensure that this work is adequately resourced and delivered to the timescale if it is able to produce IFRS-compliant financial statements for 2010/11.

**Recommendation**

- R3** Ensure that sufficient resources are devoted to enable the Council to produce financial statements in line with International Financial Reporting Standards for 2010/11.

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# Closing remarks

- 32** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 17 December 2009 and will provide copies to all members.
- 33** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Council during the year.

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**Table 4      Audit reports issued in 2008/09**

<b>Report</b>	<b>Date issued</b>
Audit Plan	April 2008
Supplementary audit plan (Council audit)	April 2009
Audit opinion plan (Pension Fund audit)	April 2009
Interim audit report	August 2009
Annual Governance Report (Council audit)	September 2009
Annual Governance Report (Pension Fund audit)	September 2009
Opinion on financial statements	September 2009
Value for money conclusion	September 2009
Final accounts memorandum	November 2009
Data Quality report	November 2009

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- 34** The Council has taken a positive and constructive approach to the audit, and I wish to thank officers for their support and co-operation during the year.

**Lindsey Mallors**  
**District Auditor**  
**December 2009**

# Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>2008/09 Annual Audit Letter</b>						
6	R1 Provide a completed Whole of Government Accounts return and supporting information on a sufficiently timely basis to allow it to be audited before the national deadline of 1 October.	2	Head of Financial Services	Yes	WGA will be included in the timetable for production of final accounts and associated returns for 2009/10 and data collected through this process.	WGA return passed to Auditors by 31/08/2010.
9	R2 Review progress in delivering actions arising from my use of resources assessment against the agreed timescales.	3	SLT and Interim Heads of Internal Audit	Yes	This is being addressed through the Annual Governance Statement Review and Action Plan.	31/03/2010
10	R3 Ensure that sufficient resources are devoted to enable the Council to produce financial statements in line with International Financial Reporting Standards for 2010/11.	2	Head of Financial Services	Yes	Work is underway to identify what will be required to ensure that data will be available to restate the 2009/10 accounts (including opening and closing balances) to an IFRS basis.	IFRS compliant accounts for 2010/11 approved by 30/06/2011.

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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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