

Annual Letter 2002/03

Royal Borough of Kingston upon Thames

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Appendix 1

- Reports issued during 2003

Reference:	Kingston upon Thames 2003 AAL.doc
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Date:	December 2003

Key messages

Council performance

As an excellent authority (as judged by the Audit Commission) we have carried out no performance reviews or inspections this year.

The Council has had a very positive Ofsted report on the local education authority, and remains one of only a few local authorities with three stars for both education and social care.

The Council's score for environment services is now one (on a scale from one to four) and as a result the Council's category has moved from excellent to good. The Council has identified the environment as one of its priorities for improvement. We believe that the Council has the capacity to improve environment services. We will work with the Council to agree a time when we can again measure its performance in these areas and enable it to return to the excellent category.

Meanwhile, the Council will not lose any of the benefits of an excellent council.

Financial standing

Kingston's balances and reserves have improved, with an increase in £0.7m in the general fund balance, but overall they continue to be low. The Council has set itself a general fund balance target of 2% of net revenue spend (around £2.8 million). The current level is £2.4 million, and there are significant pressures on this year's budget.

Systems of internal financial control

The Council maintains satisfactory systems of internal control. Internal audit's work is reliable but staff resources remain low.

Standards of financial conduct & prevention and detection of fraud and corruption

Satisfactory arrangements are in place for the prevention and detection of fraud and corruption, and standards of financial conduct

Legality of financial transactions

Kingston generally has appropriate arrangements for ensuring the legality of transactions with financial consequences

Accounts

We gave an unqualified opinion on the financial statements on 31 October 2003.

Best value performance plan

We gave an unqualified opinion on the Best Value Performance Plan on 22 December 2003. The plan complied with legislative requirements.

We certified the Best Value out-turn performance indicators on 8 September 2003. We placed reservations on three of the indicators and made amendments to 16 others.

The purpose of this letter

This annual letter summarises the main findings and conclusions from our 2002/03 audit and comments on other current issues.

We have issued separate reports during the year - these are listed at Appendix 1.

Our responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors.

Background

To ensure that authorities receive a tailored service, integrated with the work of other inspectorates, the Audit Commission has appointed a Relationship Manager for each authority. Your Relationship Manager, Nick Ward, is the Commission's primary point of contact with you and is also the interface between the Commission and the other inspectorates and the Government Office for London.

As an excellent authority the Council has been exempt from inspections although the Council's services have been re-assessed as part of the Comprehensive Performance Assessment.

We have undertaken a full Code audit, incorporating our accounts and financial aspects of corporate governance work.

This has been another challenging year for the Council. Some of the key priorities have been:

- Identifying areas for further improvement, including procurement
- Carrying out preparatory work for a possible transfer of the whole housing stock to a new landlord.

Objectives

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code:

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing
- Systems of internal financial control
- Standards of financial conduct & the prevention and detection of fraud and corruption
- Legality of transactions.

Performance management

- Use of resources
- Performance information
- Best Value Performance Plan.

Council performance

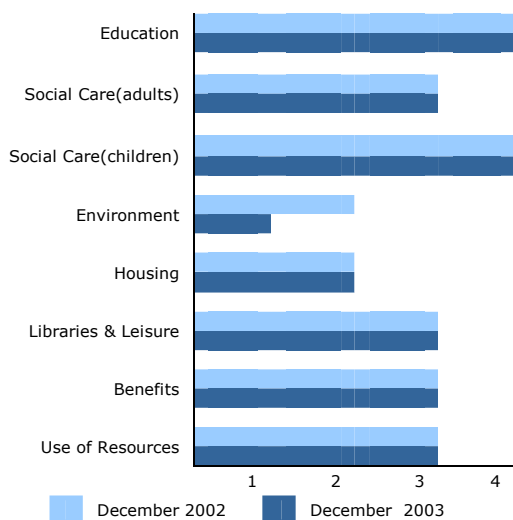
Last year the Council was assessed as excellent by the Audit Commission. The overall picture was summarised on a 'scorecard' on the Audit Commission website, including a summary of the corporate assessment and services scores.

This year there is no corporate assessment, and there is no updating of the corporate assessment score. For all authorities except excellent ones there is a 150 word summary on this year's 'scorecard' summarising the progress made over the last year. For excellent authorities there is a shorter note, and for Kingston this was:

The Council's score for environment services is now one (on a scale from one to four) and as a result the Council's category has moved from excellent to good. The Council has identified the environment as one of its priorities for improvement. We believe that the Council has the capacity to improve environment services. We will work with the Council to agree a time when we can again measure its performance in these areas and enable it to return to the excellent category.

Meanwhile, the Council will not lose any of the benefits of an excellent council.

Service scores have been updated, based on the same criteria as last year (four being the best score and 1 the worst):



The Council maintained its strong performance in social care and education and remains one of only a few authorities in the country with three stars for both these services.

There have been no mandatory recent inspections. The Council did, however, pilot a 'light touch' inspection with Ofsted and the results of this were very positive. The report noted that very good progress has been made since the last inspection in 1998 and that the Local Education Authority performs the great majority of its functions well. There were now many strengths and very few weaknesses. Ofsted concluded that Kingston was a good Local Education Authority, with good capacity to improve further and implement the few recommendations in the report.

Financial aspects of corporate governance

Financial standing

Kingston's balances and reserves have improved, with an increase in £0.7m in the general fund balance, but overall they continue to be low. The Council has set itself a general fund balance target of 2% of net revenue spend (around £2.8 million). The current level is £2.4 million, and there are significant pressures on this year's budget.

Review of 2002/03

We have expressed concerns in previous letters about Kingston's low level of balances and reserves. The Executive has set a target general fund balance target of 2% of net revenue expenditure by 31 March 2006. This amounts to around £2.8 million at current levels.

The 2002/03 net revenue budget was £133 million including a contribution to balances of £0.1 million. Net budget underspends of £0.5 million resulted in an increase in the general fund balance, to £2.4m at 31 March 2003. The year end balances and reserves position was:

2002/03 MOVEMENT IN RESERVES

Balances and reserves	00/01 £m	01/02 £m	02/03 £m
General Fund	1.5	1.7	2.4
Collection Fund	0.2	(0.2)	(0.1)
Housing Revenue Account (ring-fenced)	4.6	4.7	2.9
Earmarked Reserves (excluding schools)	7.6	7.5	8.7

Kingston's performance in collecting council tax and business rates was similar to previous years. The level of provisions against bad debts is consistent with previous years and appears reasonable. The collection rate for housing rents has improved from 94.0% to 94.5%.

Capital expenditure in 2002/03 was £22.1 million compared with a budget of £22.9 million.

2003/04 and longer term

For 2003/04 the Council budgeted for net cost of services of £147 million, and set a Band D council tax level of £1,222. The budget included a contribution to balances of £0.4 million.

The latest financial projections for 2003/04 (based on spend to September) shows a potential overspend of around £1.6 million. The most significant relate to domiciliary care, residential care and special educational needs transport. Management action is in hand to reduce the likely overspend.

Pension Fund

The Council's Pension Fund is, like many local authorities, invested over 50% in equities which until March 2000 meant relatively favourable returns.

More recently, the fall in the value of world stock markets has caused a significant deterioration in the overall value of the fund:

PENSION FUND NET ASSETS

Net assets	01/02 £m	02/03 £m
Start of year	202	200
Movement	(2)	(36)
End of year	200	164

The performance of the active fund manager was below the benchmark for 2002/03, although over the longer term, performance has been above the benchmark.

In the long term, the Council's objective is to ensure that pension fund assets are sufficient to meet liabilities. The Council received its triennial actuarial valuation during 2001/02, and this assessed the market value of the fund as being 80% of accrued liabilities. As a consequence, and based on actuarial advice, the employer contribution was increased to 20.1% in 2003/04 and is expected to increase further in 2004/05. The latest triennial review is underway and will be complete in 2004.

Stock markets have improved recently. But given the reduction in assets during 2002/03 the Council will need to maintain robust arrangements for the monitoring of fund performance over the coming months, taking corrective action where necessary.

Legality of financial transactions

Kingston generally has appropriate arrangements for ensuring the legality of transactions with financial consequences.

We are generally satisfied with Kingston's arrangements for ensuring the legality of its financial transactions. During the year we discussed current issues with the Monitoring Officer and reviewed Executive and Overview Panel agendas and minutes.

Systems of internal financial control

The Council maintains satisfactory systems of internal control. Internal audit's work is reliable but staff resources remain low.

Under our managed audit approach, we seek to rely as far as possible on the work performed by internal audit and the evidence provided by them to confirm that adequate internal controls are in place and operating as intended.

Following a recommendation made last year, Members are taking a closer interest in their work. Members now approve both their annual plan and their annual report.

We again reviewed the work of Internal Audit. We found the work quality to be good and we were able to rely on it. Staff resources are still low and audit plans are not completed (although there was an improvement over the previous year).

Standards of financial conduct and the prevention of fraud and corruption

Satisfactory arrangements are in place for the prevention and detection of fraud and corruption, and standards of financial conduct

Standards of financial conduct

In line with the requirements of the new 'ethical framework', as set out in the Local Government Act 2000, the Council has established a Standards Committee and a Code of Conduct for Members was adopted by full Council.

Training in the new arrangements has been provided for Members as part of a wider programme.

In November we gave a presentation to the Standards Committee, setting out our role, and what we saw as their role.

Prevention of fraud and corruption

The Council continues to have sound arrangements in place for the prevention and detection of fraud and corruption including:

- an anti-fraud and corruption policy
- a whistleblowing strategy

Proposed housing stock transfer

The government has set local authorities the target of bringing all housing up to a 'decent homes' standard by 2012. Following a Best Value review of the long-term needs of the Council's housing stock, Kingston carried out a Stock Condition Survey in 2001 which showed that investment of around £100 million would be needed over the next ten years to meet the 'decent homes' standard criteria and bring the Council's stock up to modern standards generally.

In its 2002 HRA Business Plan, Kingston modelled the available funding options and confirmed that, as is the case for many local authorities, it would not be able to fund this level of investment. It accordingly embarked on a Housing Options Appraisal project and, with advice from consultants and after extensive consultation with residents, decided to opt for a full stock transfer to a new stand-alone local Registered Social Landlord.

The Council saw this as a key project, and we agreed to review each stage of the process to ensure that it complies with the statutory framework, follows the relevant guidance and embraces identified good practice. For completeness, we have also briefly reviewed the work undertaken to date.

We issued our first interim report in November, prior to the completion of the Stage 1 Notice, or 'offer document', since this is a key element of the pre-ballot stage. The government approved Kingston's application in July 2003 and a ballot of tenants will take place in April/May 2004. If tenants vote for transfer, it is expected to take place in December 2004. The stock has been provisionally valued at around £35m, and initial assumptions are that there could be a usable capital receipt in the region of £5-7 million.

From our review of progress to date, we have concluded that Kingston has seen this as an important corporate project, recognising the implications for the Council as a whole. It has committed an appropriate level of resources to the task, providing its officers with strong support from experienced external consultants to cover important technically complex areas and ensuring that the project as a whole is overseen by officers of appropriate seniority.

Kingston has moved swiftly to establish the new registered social landlord – KT Housing Trust – setting up a Shadow Board that is now actively engaged on its primary task – to ensure that an offer document is issued by the target date of February 2004. In doing this, Kingston's officers and consultants have consciously developed a 'soft' split between the parties and are aware of the continuing need to avoid any conflict of interests.

A communications strategy is being implemented that involves extensive consultation with tenants and other stakeholders and there is a robust project plan which is being used by both the Council and the Shadow Board and is being monitored by officers and Members.

Building on its sound progress to date as it moves forward to approval of the ballot documentation, Kingston now needs to ensure that the following key areas are addressed:

- identify the likely financial effects of transfer on the HRA and related services as soon as possible for consideration in the 2004/05 budget round
- ensure that the offer document clearly identifies a programme of work that can be related to tenants' own circumstances and includes a commitment to regeneration
- keep the Tenanted Market Value under review and ensure that it is tested against all significant variables
- consider approaching potential funders on an informal basis during the pre-ballot stage
- review the impact of transfer on the wider strategic scenario, including the Council's corporate governance, financial and policy-making arrangements.

We shall continue to work with the Council's officers through the pre-ballot stage and will present further reports on progress.

Kingston Theatre

The Kingston Theatre Trust is carrying on with its fundraising to cover the £4.5m million fitting out costs, and aims to open the theatre in 2004. The Council agreed that the £900,000 capital receipt from the site developer would be given to the Trust to help meet these costs.

The Council also agreed to loan the Trust up to £500,000 for working capital and up to £400,000 towards fixed costs. The fixed costs loan has been taken up.

The Council also agreed to loan the Trust up to We note that the Council is monitoring the Trust's progress and its business planning, and that the Council's policy is that there will be no further financial assistance to the Trust.

Assurance work

Accounts

We gave an unqualified opinion on the financial statements on 31 October 2003.

Local authorities are required to present their draft accounts for approval by Committee by 30 September each year. This year they were approved by Council on 24 June.

We review core processes to support our opinion on the Commission's statements of account. These are:

- Main accounting system
- Budgetary control and other high level monitoring controls
- Closedown procedures

We found that the processes were generally working satisfactorily.

Generally we found that the statement of accounts was well prepared, with appropriate supporting notes. Officers were helpful and co-operative, and we issued our unqualified opinion on 31 October 2003.

We found some areas where the accounts needed to be amended, or action taken in future years. The main ones are:

Issue	Action required
<p>Bad debt provision</p> <p>The methodology for drawing up the bad debt provision for sundry debtors is not clear</p>	<p>Clarify the procedures, including establishing the collectability of old debts.</p>
<p>Bank reconciliation</p> <p>There have been delays in carrying these out due to staff sickness.</p>	<p>The bank reconciliation is a key control, and must be carried out promptly each month</p>

Best value performance plan

We gave an unqualified opinion on the Best Value Performance Plan on 22 December 2003. The plan complied with legislative requirements.

We certified the Best Value out-turn performance indicators on 8 September 2003. We placed reservations on three of the indicators and made amendments to 16 others.

Best Value Performance Plan

Kingston's Best Value Performance Plan is a well designed document that clearly communicates the Council's main messages and achievements over the year. We issued an unqualified opinion on it on 22 December 2003.

Performance indicators

Local authorities are required to publish annually their performance across a range of indicators in the Best Value Performance Plan. For 2002/03, the plan had to be produced by 30 June 2003.

We completed the audit of the Council's Best Value Performance Indicators (BVPIs) for 2002/03 and issued an unqualified opinion on 8 September 2003.

BVPIs are becoming more important now that they count towards CPA scores, and with more comparisons being made between authorities. We focused our testing on those indicators seen as relatively high risk. We were generally satisfied with the evidence that officers provided to support the 142 indicators. We placed reservations on three of the indicators (two in 2001/02):

- BVPI 12 – working days lost to sickness
- BVPI 78b – average time for processing change in circumstances for people receiving housing benefits
- BVPI 79b – percentage of housing benefits overpayments recovered

and made amendments to 16 others (21 in 2001/02).

Other work

Grant Claims

Certification returns

During the year we review and certify a range of certification returns (grant claims) submitted to major government departments. The majority of returns are well prepared and supported by adequate working papers. Some returns (9 out of 45) missed the deadline for submission for audit.

Audit and inspection fees

The Audit Commission's Standing Guidance for Auditors (para 133) requires auditors to communicate to those charged with governance a breakdown of fee income - over the three Code of Audit Practice elements plus all non-audit work and certification work - at the completion of the audit.

The proposed fee for the 2002/03 audit and inspection programme was set out in our audit and inspection plan at the start of the year. The table below shows the actual fees for 2002/03 compared with that initial plan.

AUDIT FEES 2002-03

Audit area	Plan 2002/03 £,000	Actual 2002/03 £,000
Accounts	65	65
Financial aspects of corporate governance	54	54
Performance	5	5
TOTAL CODE OF AUDIT PRACTICE AUDIT FEE	124	124
Certification returns	75	*

* work in progress

Strategic regulation: future audit work

Strategic regulation contributes to improvement in public services by ensuring that regulators collaborate to identify each authority's priorities for improvement, and provide assessments that are useful to managers, professionals, politicians and the public.

Audit planning for 2004/05 will be carried out in early 2004. We will bring a draft plan to officers for agreement.

Status of our Letter

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and District Auditor and is addressed to Members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

And finally...

This letter was discussed and agreed with the Chief Executive in December. A copy of the letter will be provided to all Members and will be presented to the Executive and also to the Community Leadership and Resources Overview Panel in January and February 2004.

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the Council's improvement agenda. We recognise the value of your co-operation and support.

Nick Ward
District Auditor and Relationship Manager
December 2003

Audit & Inspection reports issued during 2003

Audit plan	January 2003
BVPI audit	September 2003
Interim audit	November 2003
CPA Code of Audit Practice Scored Auditor Judgement	November 2003
Final accounts	December 2003
Housing stock transfer	December 2003