

Annual Audit and Inspection Letter

Kingston Upon Thames London Borough Council

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Reference:	KI005 Annual Audit and Inspection Letter
Date:	January 2005

Executive summary

The purpose of this Letter

This is our audit and inspection 'Annual Letter' for Members for 2003/04, and is presented by the Council's Relationship Manager and District Auditor. The Letter summarises the conclusions and significant issues arising from our recent audit and inspection work.

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

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

Key messages

Council performance

The Council is rated as excellent by the Audit Commission's Comprehensive Performance Assessment. Services are improving, albeit some from a lower base and the Council has approved an improvement programme in order to sustain its excellent status.

Accounts and governance issues

The Council has provided significant support to the Kingston Theatre Trust. The Trust has not yet secured the investment needed to complete the fit out of the theatre and begin full time operation.

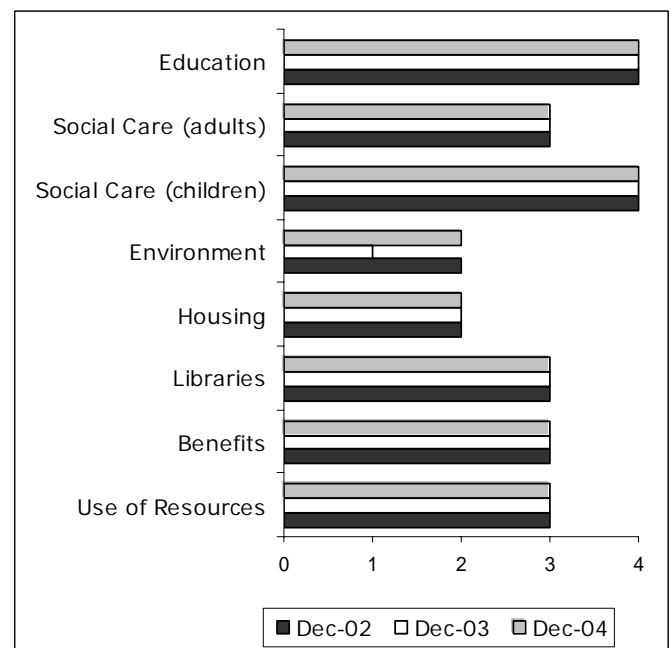
Action needed by the Council

- The Council needs to maintain focus on improving performance in all services, in order to sustain its excellent status.
- In any consideration of future policy choices relating to Kingston Theatre, the Council should robustly examine all the benefits and risks involved.

Council performance

CPA scorecard

The Council has been assessed as excellent.



(Note: 1=lowest, 4=highest)

The Council has made improvements in education, social care and housing services, and performance has begun to improve in some environmental services such as transport and planning, although from a lower base. We expect to see these services improve further in the next 12 months.

The Council's education and social services are high performing. The Council has acknowledged that it needs to improve some of its services and has put plans in place. The views of local residents and partners have been taken into account in the Council's first community plan. Challenging targets have been set to improve services, for example to reduce by a third the number of sub-standard roads. Additional investment of £7.5 million is being made for road and pavement works over the next three years. More staff have been allocated to processing planning applications. The Council has put in place better systems for managing its performance.

Based on the Council's current plans, it is now well placed to improve the way it works and the services it provides to local people.

We have issued a more detailed improvement report to officers.

Best Value Performance Plan and performance information

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 16 December 2004.

We completed the audit of the Council's Best Value Performance Indicators (BVPIs) for 2003/04 on 3 September 2004, before the Audit Commission's deadline.

We focused our testing on high risk indicators. We made amendments to 17 indicators (16 in 2002/03) and placed reservations on three indicators. We make reservations when we have concerns about the systems producing the data. The reasons for the reservations, on BVPIs 126a, 127a-e and 128a – crime detection, were outside of the Council's control, and these indicators were reserved at all London Boroughs.

Audit Commission inspections

We carried out two inspections this year, covering transport and waste management.

Transport inspection

We inspected transport services and assessed the Council as providing a 'fair', one-star service that has promising prospects for improvement. (the range of assessments is nil to three stars and uncertain, promising or excellent prospects for improvement).

The Council has been successful in significantly reducing road casualties and there is a wide range of travel and road safety awareness initiatives in place. Also, car parks and parking services are good, and the Council works well with bus operators to provide quality bus services. There is effective consultation with residents and others and the priorities reflect this. However, until very recently there has been under-investment in highways maintenance and an absence of a clear highways strategy.

We recommended that the Council should:

- improve the quality and availability of information about transport services to the public;
- improve the level of partnership working with contractors;
- develop an overarching transport strategy and supplementary detailed strategies, policies and procedures that integrate national and local priorities;
- develop and implement longer-term planned maintenance programmes; and
- develop performance measures and set challenging targets that link to the Council's sustainability objectives, and that cover the level of planned maintenance.

Waste management inspection

We have assessed the service as 'good' (two stars) with uncertain prospects for improvement.

The Council's waste aims and objectives are clear and are linked to resident and stakeholder concerns. The combined recycling and composting rates are high compared with other London boroughs and challenging targets have been set. The Council's performance in dealing with abandoned vehicles and graffiti is good as is the standard of street cleaning and level of missed refuse collections. However, the level of household waste collected is relatively high and there is little capacity to divert waste from expensive landfill. Also, recycling facilities are underdeveloped.

We recommended that the Council:

- specify and publish standards for service delivery so that local people are aware of the level and range of services provided, and so that the service can be held to account;
- ensure waste minimisation, re-use and recycling become an integral part of the Council's service planning processes and that appropriate targets are set;

- work more closely with contractors to better coordinate delivery of waste services; and
- improve performance management by ensuring that all team plans contain clear targets for service delivery and involve Members more in performance management, especially scrutiny.

Looking ahead

The Council's CPA service score is in the top category of four, which with its score of three (out of four) for corporate capacity, means that the Council has been assessed as excellent by the Audit Commission. This has been a welcome plaudit for the quality services provided by the Council and has resulted in some freedoms and flexibilities, and a significantly reduced audit and inspection fee. The Council is playing its full part in the Innovation Forum – the group of 22 excellent Councils that is working with the Office of the Deputy Prime Minister and the Local Government Association – and this is helping to share good practices and innovations with other councils.

The score of four for services is largely due to the Council's high scores for education and for social services. Other services, such as environmental services and housing, are improving, albeit from a lower base. It will be important for the Council to maintain its focus on improvements in order to sustain its excellent status.

Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance.

These include:

- Ofsted;
- Commission for Social Care Inspection;
- Benefits Fraud Inspectorate;
- Department for Education and Skills; and
- Government Office for London.

We share information and seek to provide 'joined up' regulation to the Council and their assessments form part of the CPA judgement.

Accounts and governance

We gave an unqualified audit opinion on your accounts on 17 November 2004.

Your corporate governance arrangements are satisfactory.

Audit of 2003/04 accounts

Our main objective in auditing the Council's accounts is to obtain evidence to confirm that the accounts are free from material misstatement, whether caused by fraud, other irregularity or error.

Members approved the Council's accounts on 13 July and the accounts and supporting papers were submitted for audit on 2 August.

We completed our audit on 17 November 2004 with an opinion that the accounts present fairly the financial position of the Council as at 31 March 2004.

Looking ahead, the Accounts and Audit Regulations 2003 set out the requirements for the next two years for dates by which approval of accounts must take place (including the requirement for the accounts to be signed by the Chair of Council/Committee approving the accounts). The table below sets out the target date for 2003/04 and the next two years.

EXHIBIT 1 ACCOUNTS APPROVAL AND PUBLICATION

Accounts year	Approval deadline	Publication deadline
2003/04	31 Aug 2004	30 Nov 2004
2004/05	31 Jul 2005	31 Oct 2005
2005/06	30 Jun 2006	30 Sept 2006

The challenge for the Council is to ensure that, when approved, the accounts are supported by detailed evidence that will allow us to give our opinion by the deadline. We will be working closely with the Director of Finance and his staff over the coming months to help them to achieve this objective.

Reporting to the Council

Auditing Standard (SAS 610) 'reporting to those charged with governance' requires us to report issues arising from our audit to Members, before we give our audit opinion on your accounts.

Our report to Members of 28 October 2004 noted that:

- the statement of accounts was approved by Council on 13 July 2004. But the statements were incomplete, with the cash flow statement missing, no note on pension costs and some other notes missing. Members should be assured by the Director of Finance that the accounts are complete before they approve them;
- note 17 to the Consolidated Revenue Account describes any related transactions that readers of the accounts should be aware of. In compiling this note officers circulate a form to all Members and senior officers to disclose whether or not they have any relevant related transactions that they should declare. We have noted in earlier years that a number of officers and Members have been tardy in submitting their returns or not submitting them at all. When the accounts were approved by Members, twenty one (44 per cent) Members and five (15 per cent) officers had not returned the forms. Although forms have now been received, these disclosures are an important demonstration of corporate governance and the Council's record in obtaining these is slow and arduous. In future years we expect Members and officers to return these forms within specified deadlines and certainly before the Council approves the accounts. The name of anyone who has not returned the form should be reported to Council when they approve the unaudited accounts; and

- the basis for establishing the bad debt provision for council tax and NNDR is unclear and may be inadequate. This is an issue that we have raised with officers in earlier years. The Council needs to carry out a detailed exercise to justify the level of bad debt provisions, based on past collection rates and, where appropriate, a review of individual debtors.

We are discussing these and some other more detailed issues with officers, in preparation for the 2004/05 accounts.

Financial standing

The Council's financial position is relatively stable. General Fund balances remain quite low but budget monitoring is robust.

Review of 2003/04

We have expressed concerns in previous Letters about Kingston's low level of balances and reserves. The Council has a General Fund balance target of two per cent of net revenue spend (about £2.9 million) and in recent years the Council has targeted to set aside an amount each year from the annual budget, in order to build up balances. In 2003/04 £0.4 million was set aside and the revenue outturn was in line with budget. The year end balances and reserves position was:

EXHIBIT 2 MOVEMENT IN BALANCES AND RESERVES

Balances and reserves	01/02 £m	02/03 £m	03/04 £m
General Fund	1.7	2.4	2.8
Housing Revenue Account (ring-fenced)	4.7	2.9	2.0
Earmarked Reserves (excluding schools)	7.5	8.7	9.7

The Council's capital expenditure in 2003/04 was £26.5 million compared with a budget of £27.4 million.

The exhibit below shows that the Council has generally maintained its performance in collecting its main income. Performance is around average compared with other London boroughs.

EXHIBIT 3 COLLECTION RATES

Income	02/03	03/04 target	03/04 actual	03/04 London average
Council Tax	96.5%	97.0%	96.6%	95.0%
NNDR	98.4%	99.0%	98.3%	98.4%
Housing rents	94.5%	96.5%	94.9%	95.6%

2004/05 and longer term

For 2004/05 the Council budgeted for net revenue expenditure of £157 million, and set a Band D council tax level of £1,328. As part of the budget, £0.4 million was set aside to further build up General Fund balances.

The latest financial projections for 2004/05 (based on spend to September) shows a potential overspend of around £0.4 million. Management action is in hand to deal with this and it is hoped that there will be no overspend at the year-end.

Pension Fund

The assets of the Council's Pension Fund are, like many local councils, invested over 50 per cent in equities which until March 2000 delivered relatively favourable returns.

The subsequent fall in the value of world stock markets caused a significant deterioration in the overall value of the Pension Fund. With recent improvements in the stock market and increased contributions by the Council, the value of the Fund's net assets has returned to the level of a few years ago.

EXHIBIT 4 PENSION FUND NET ASSETS

Net assets	2001/02 £m	2002/03 £m	2003/04 £m
Start of year	202	200	164
Movement	(2)	(36)	44
End of year	200	164	208

Over the last ten years Fund performance has been a little above average. The annual performance of the Fund compared with others has slipped to below average recently and Fund performance needs to be carefully monitored over both the short and the long term.

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 per cent of accrued liabilities.

Employer contributions have been increased, to help increase the level of the fund, but the latest draft triennial valuation indicates that the funding level has fallen from 80 per cent to around 70 per cent. The Council is considering further increases in the employer contributions to the Fund.

Systems of internal financial control

The Council maintains satisfactory systems of internal control. Internal Audit provides some assurance for management, although it is not completing reviews of all key financial systems.

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.

This year the Chief Executive and Leader signed a Statement on Internal Control, and this was included in the statement of accounts. This was a new and important requirement for all councils this year and it reflects the greater emphasis that is being placed on corporate governance and internal control. The Statement sets out the controls in place and areas where the Council believes action is needed. Amongst these were:

EXHIBIT 5 CONTROL ISSUES IDENTIFIED BY THE COUNCIL

Control issue	Summary of proposed Council action
Risk management	Enhance arrangements by developing risk registers and action plans, with formal monitoring by the Improvement Board and an annual report to the Executive.
Performance management	Further embed through monitoring by Directorate Management Teams.
Housing contract final accounts and rechargeable costs	Resolve outstanding contract and financial issues.

Internal Audit is a key source for providing internal control assurance for the Leader and Chief Executive.

We reviewed Internal Audit in April 2004 and found that three of the twelve core financial systems were not included in the audit programme. These were NNDR, debtors and loans/investments. We also found that a number of audits had not been completed, including the review of the main accounting system.

In signing the Statement the Leader and Chief Executive place extensive reliance on Internal Audit, but as noted above, some of the key financial systems were not audited in the year.

We will be discussing this issue further with the Director of Finance to help ensure that the Council receives adequate assurance on its systems of internal control.

Standards of financial conduct and the 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.

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 has been adopted.

Training in these arrangements has been provided for Members as part of a wider programme. We will shortly be carrying out a survey of officers and Members, which will help re-inforce the importance of ethical governance.

Prevention of fraud and corruption

The Council continues to have generally sound arrangements in place for the prevention and detection of fraud and corruption. The Council has an anti-fraud and corruption policy and it also has a whistleblowing strategy. When we surveyed a number of staff, however, we found a lack of awareness of the whistleblowing strategy, and it needs to be publicised regularly.

Legality of transactions

We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

We made responses to questions from local government electors. There are no matters arising that need to be brought to Members' attention.

Kingston Theatre

In 1998 the Council decided to support Kingston Theatre Trust (the Trust) with the Trust's plans to build and run a theatre in Kingston.

Instead of taking a capital receipt from the Charter Quay developer of £1.7 million the Council received a theatre shell, which it later agreed to lease to the Trust at a peppercorn rent. The Council increased its support in 2000 when, instead of taking a further opportunity to take a capital receipt from the Charter Quay developer of £0.85 million (relating to a further development of the site), it made the £0.85 million receipt available to the Trust to help them fit out the theatre.

In 2000 the Council also made available to the Trust an unsecured loan facility loan of £0.9 million, to cover fixed costs and working capital. Most of the loan facility has now been used. The Council's policy is that financial support is limited to the use of the capital receipts and this loan facility.

The cost of fitting out the theatre was originally estimated at £4.5 million, and is now estimated at £6.0 million. The Trust embarked on a fundraising campaign and the theatre was scheduled to be opened in 2004, later rescheduled to 2005.

The Trust originally planned for a mixed programme of events, similar to that at many provincial theatres. Their business plan indicated that the Trust would break even and would not need any ongoing financial support. We wrote to the Council in 2000 indicating that we considered the project to be high risk as there are very few theatres outside central London operating without annual subsidies.

The current position is that the Trust is planning to produce its own material rather than receive shows from others and it now considers that substantial and regular non-theatre income will be needed. The Trust has not raised sufficient funds to commence fitting out works and will exhaust current loan funds by the end of January 2005. Little work has been done on the theatre shell to date, and it appears unlikely that the revised opening date of September 2005 will be achieved.

The Council has, through its risk management processes, identified the project as high risk, and the Council needs to consider its position carefully. The Council would like a theatre in Kingston, to help develop a more balanced night time economy. This is evident from the significant support already made available (effectively a total of £3.4 million). The Council's policy is not to provide a revenue subsidy to the Theatre, nor to advance further funds. In any consideration of future policy choices the Council should robustly examine all the benefits and risks involved.

Other work

Grant claims

Councils make a number of claims to central government departments for funding for specific services. These require audit certification and the number of claims has grown and audit fees have risen in line with this growth.

In accordance with the principles of strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smallest claims (under £50,000) have not been subject to audit and smaller claims (under £100,000) have received a lighter touch. The approach to larger claims is determined by risk and the adequacy of the control environment.

For Kingston, as an excellent authority, there has been a reduction in the number of claims that the Council needs to submit for certification.

The majority of the Council's claims are well prepared, submitted on time, and supported by adequate working papers.

National Fraud Initiative

The Council took part in the Audit Commission's National Fraud Initiative (NFI) 2002/03.

The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total national savings from the 2002/03 exercise exceeded £83 million.

The Council has been following up the local matches and to-date has identified six fraudulent cases with a value of £9,000.

The Audit Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from councils. Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by councils and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forward

Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this Letter those aspects that have already been completed. The remaining elements, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is on the Audit Commission website www.audit-commission.gov.uk.

We have sought to ensure, wherever possible, that our work relates to the Council's improvement priorities. We will maintain this approach when planning our programme of work for 2005/06. We will meet officers and Members and agree our programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a coordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focusing on councils' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in our 2005/06 audit and inspection plan.

CPA 2005 and beyond

The Audit Commission has also consulted councils on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows.

- Using the Community Plan and shared priority themes to drive the 'achievement' element of corporate assessment.
- Carrying out corporate assessments with Joint Area Reviews of children and young people.
- Having a stronger focus on users and customers.
- Giving a more robust and explicit view of value for money and cost-effectiveness.

Closing remarks

This Letter has been discussed and agreed with the Chief Executive and Director of Finance. A copy of the Letter will be presented to Executive on 18 January and to the Community Leadership and Resources Overview Panel on 10 February.

This is my first Letter as your new Relationship Manager and District Auditor. I am grateful for the Council's positive and constructive approach to our work and I look forward to working with you as you continue to strive to improve services.

Availability of this Letter

This Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.



Derek Elliott
Relationship Manager and District Auditor

January 2005

Status of our reports to the Council

Our annual Audit and Inspection Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual Audit and Inspection Letters are prepared by relationship managers and appointed auditors and addressed to Members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any Member or officer in their individual capacity, or to any third party.

Reports issued in 2004

Report	Date
Grant claims	February
Audit plan	June
Transport inspection	July
Best Value Performance Indicator certificate	September
SAS 610 accounts report to Members	November
Opinion and certificate on the accounts	November
Interim audit	November
Final accounts audit	December
Best Value Performance Plan opinion	December
Best Value Performance Indicators report	December
Waste management inspection	December
Comprehensive Performance Assessment summary report	December

Scope of audit and inspection

Audit

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 and shown in Exhibit 1.

EXHIBIT 1 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES



Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

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

Inspection

Inspection work is based around Section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Audit and inspection fees

Audit area	Plan 2003/04 £000	Actual 2003/04 £000
Accounts	67	67
Financial aspects of corporate governance	56	56
Performance	76	76
Additional fee [^]		10
TOTAL CODE OF AUDIT PRACTICE FEE	199	209
Inspection	32	32
Grant Claim certification	76*	

[^] for dealing with questions from the public about the proposed housing stock transfer

* work in progress but actual expected to be in line with plan