

# Annual governance report

Royal Borough of Kingston upon Thames

Audit 2010/11



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# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my 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.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Traffic light explanation

Red ■ Amber ◆ Green ●

## Audit opinion and financial statements

- I have completed my work on audit of the financial statements. I plan to issue an unqualified opinion on the financial statements. The financial statements presented for audit by the deadline were complete and accounting policies had been tailored for the Council.

This was the first year of IFRS implementation and I have agreed changes to the financial statements with management.

## Value for money

- I assessed the Council's arrangements for securing value for money against the criteria issued by the Audit Commission. I propose issuing an unqualified conclusion as I am satisfied there are proper arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources.

## Closing remarks

- I would like to express my appreciation for the cooperation shown by officers to my team.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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## I ask you to confirm to me

### **I ask the Audit Committee to:**

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - taken note of the errors identified that management have declined to adjust for (Appendix 3);
  - approve the letter of representation (proforma at Appendix 4) on behalf of the Council before I issue my opinion and conclusion; and
  - agree your response to the proposed action plan (Appendix 5).
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# Financial statements

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**I have completed my work on audit of the financial statements. I plan to issue an unqualified opinion on the financial statements. The financial statements presented for audit by the deadline were complete and accounting policies had been tailored for the Council. This was the first year of IFRS implementation and I have agreed changes to the financial statements with management.**

## **Opinion on the financial statements**

- 1** My work on the financial statements is substantially complete. I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.
- 2** The Council has placed more focus and resources on closedown this year, producing the accounts in line with its timetable and supported by good quality working papers. Officers have responded promptly to audit queries and the majority of work has been undertaken at an earlier stage than the previous year.
- 3** Although I have identified errors in the financial statements, this is in the context of significant changes in the Code of Practice for Local Authority Accounting which the Council has to follow. The introduction of International Financial Reporting Standards (IFRS) has caused a number of changes in how items are treated in the statements and a significant increase in the amount of disclosure required. Officers worked extremely hard to produce a set of statements by the deadline for the previous Committee meeting. The number of changes identified by audit are relatively small, and officers have agreed several changes to notes which are generally to enhance the original version rather than because the Council failed to meet the requirements.

## **Errors in the financial statements**

- 4** The draft financial statements were presented for audit on 22 June 2011 and approved by the Executive Committee on 29 June 2011, in advance of the statutory deadline. I identified material errors and non-trivial errors and uncertainties which I am required to report to you. A schedule of adjusted errors made to the accounts is provided at Appendix 2 of this report.
- 5** I identified a material error in respect of the treatment of the Horsefair site leased to the John Lewis Partnership, which has arisen from the transition to IFRS. The Council presented this as an investment property valued at £16.6 million. The International Accounting Standards Board's

commentary on the revision to International Accounting Standard (IAS) 17 states that a lease of 999 years transfers substantially all the risks and rewards associated with an asset to the lessee (John Lewis) and it should therefore be accounted for as a finance lease with the Council as lessor. The Council has restated the financial statements to remove the asset from the balance of investment property and to write out the associated balance to the capital adjustment account. It has recognised a debtor based on the net present value of minimum lease payments under the lease of £5 million with an equivalent credit to the deferred capital receipts reserve. Officers have also restated Note 10 on financing and investment income and expenditure to reflect the treatment of lease income, and Note 41 on leases to reflect the recategorisation of the lease from an operating to a finance lease.

**6** The Council has reworked the Cash Flow Statement so that it complies more fully with the updated requirements of the Code and is consistent with movements on other statements. I am satisfied that it is materially correctly stated as a result. **(R1)**

**7** I also identified material errors in prior year comparative figures in Note 7 Adjustments between Accounting Basis and Funding Basis under Regulations, which arose from inconsistencies between different statements. The Council has amended these so they are internally consistent. It has also amended the table in Note 54 showing the restated Movement in Reserves Statement for 2009/10 to reclassify movements that occurred on transition so they are more accurately presented.

**8** The Council agreed to make non-trivial amendments to the Comprehensive Income and Expenditure Statement to charge £1,192k of redundancy costs to the relevant service cost, rather than being shown under non-distributed costs. This does not affect the overall net cost of services.

**9** The Council agreed to make non-trivial amendments to the Balance Sheet to:

- present amounts owing to the South London Waste Partnership, Pension Fund and Trust Funds gross rather than netted off the cash and cash equivalents balance (effect £1,058k);
- reflect changes made to the audited South London Waste Partnership accounts, reducing debtors and creditors by £1,856k; and
- net off monies owed to the Council by a school of £339k.

**10** The Council has also agreed to reclassify or correct figures in disclosure notes. None of these are material or affect the council's reported financial performance in year but are important to fully comply with the requirements of the Code. The Council has also corrected inconsistencies in the restated comparative figures for 2009/10 in the Movement in Reserves Statement and supporting note. More information is given in Appendix 2:

**11** My work has identified errors which management has declined to amend. I ask you to include in the Letter of Representation a schedule of these errors and the reason for not amending them. More information on these is provided in Appendix 3:

- Treatment of vehicles leased by the Council (estimated value £546k) arising from change to IFRS; **(R2)**
- Depreciation for assets reclassified from investment property to property, plant and equipment within the 2009/10 restated balances because of change to IFRS (estimated value £85k) **(R2)**
- Consistency of movements on the capital adjustment account with movements on the balance of Property, plant and equipment within the 2009/10 restated balances; **(R2)**
- Analysis of the age of financial assets within Note 15 Financial instruments arising from change to Code; **(R3)** and

- Disclosure of contingent rents receivable on operating leases where the Council is the lessor arising from change to Code. **(R3)**

## Recommendations

### Recommendation

- R1** Ensure information on receipts and payments is available from the ledger in a format to allow easy compilation of the Cash Flow Statement in line with the requirements of the Code.
- R2** Provide an explanation within the Letter of Representation to justify the decision not to amend the financial statements for items identified within Appendix 3.
- R3** Ensure information is available for all disclosure requirements of the Code.
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# Financial statements

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The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

12 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. I reported these risks to the Audit Committee in my Audit Plan in March 2011 and set out below my findings against these risks.

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## Key audit risks and my findings

Key audit risk	Finding
<p><b>1. Implementation of International Financial Reporting Standards (IFRS)</b></p> <p>2010/11 is the first year when Councils have to prepare financial statements under IFRS. The Council is not as far advanced as other London boroughs in identifying the changes in accounting practice and changes to accounting treatment required under IFRS. The range of disclosures required under the new CIPFA Code of Practice is also significantly greater than previously required.</p> <p>The risk is the Council's statements are materially misstated because of failure to implement the new standards and make the required disclosures.</p>	<p>I have reviewed the Council's accounting policies and supporting evidence to confirm the appropriate treatment of particular transactions and assets and liabilities under the new accounting framework.</p> <p>I have substantively tested transactions, assets and liabilities to ensure that they are correctly treated under the new financial framework.</p> <p>I have reported above errors where the Council did not fully meet the requirements of the new standards and disclosure requirements of the Code. These have now been addressed and the financial statements are materially fairly stated.</p>

## Key audit risk

### 2. Valuation of property assets

In the previous two years we have reported to those charged with governance on the valuation basis of the Council's dwellings and other land and buildings. The change to IFRS will lead to changes in the basis of valuing these assets. In particular, the definition of an investment asset is narrower under IFRS than under UK GAAP.

The risk is the basis of classification and the valuation of the Council's property assets are materially misstated in its statements.

### 3. Capital expenditure

Last year, I reported weaknesses in the Council's procedures for accounting for expenditure on assets. The risk is the value of fixed assets is materially misstated because of expenditure that does not meet the definition of capital expenditure under IAS16.

### 4. Testing of estimates and journals

The clarified International Standards on Auditing (UK and Ireland) (ISAs (UK&I)) require me to do more work to understand the basis of material accounting estimates in your accounts. I also need to do more work to test material journals processed in closing the accounts and preparing your financial statements. This is particularly so where there is a significant gap between the Council's financial performance and its target for the year.

## Finding

I have documented and tested the Council's controls for classifying assets as held for investment or operational purposes, and reviewed the guidelines given to experts appointed to value the Council's assets. I have gained assurances from Valuers about their independence, objectivity and professional qualifications and confirmed that they carried out valuations in line with professional guidance.

I have reviewed the Council's valuation of property assets at 31 March 2011 and consideration of movements in the value of similar assets since the last date of valuation. I have found these entries to be materially fairly stated and consistent with the requirements of the Code.

I have tested a sample of additions to the Council's assets to ensure that they are fairly treated as capital expenditure, and have not identified any errors this year. The balance of Property, Plant and Equipment is materially fairly stated.

Officers stated that, as part of the One Council Programme, they had drawn up processes for ensuring correct capitalisation of expenditure, capital accounting and education of officers for 2011/12.

My review of the Council's process for identifying and calculating material accounting estimates and my testing confirmed the reasonableness of these estimates.

I reviewed the controls for processing journals and procedures for ensuring that these fairly present the transactions. Together with my sample testing of material year-end adjustment journals, I found no errors.

Key audit risk	Finding
<p><b>5. Related party transactions</b></p> <p>The Code and financial reporting standards require the Council to disclose all related party transactions which may be significant. Several new Members were elected in 2010. The risk is that transactions are not disclosed which would materially affect a reader's understanding of the Council's activities.</p>	<p>I reviewed the procedures for identifying related parties and recording transactions with them. I found that the Council had appropriate arrangements to identify all significant relationships and had made sufficient disclosure of related party transactions in the financial statements.</p>

## Significant weaknesses in internal control

**13** I am required to report weaknesses within internal controls identified during the audit that I consider to be significant and require the attention of senior officers and the Audit Committee. These weaknesses are only those I identified during the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

### Internal control issues and my findings

Description of weakness	Potential effect	Management action
<p><b>1. General ledger – authorisation of journals</b></p> <p>As I have previously reported, the Council does not require all journals, particularly those processed in Corporate Finance, to be authorised by a senior officer.</p>	<p>There is a risk of processing fraudulent or incorrect transactions. If there is not a robust process to check this.</p> <p>As a result we have extended our testing of material journals within the post-statements audit, and are satisfied that no fraudulent or incorrect journals have been identified.</p> <p>However, we would recommend that senior officer review and authorisation are required for journals in order to enhance the control environment and reduce audit procedures. <b>(R5)</b></p>	<p>Management affirms that it relies on the professionalism and integrity of officers and that review of budget monitoring statements would identify any significant misclassifications or unexpected entries.</p> <p>In addition, the One Council Programme includes reviewing Agresso to designate between an officer inputting a journal and an officer authorising this journal before posting.</p>

Description of weakness	Potential effect	Management action
<p><b>2. Payroll</b></p> <p>SLAs are in place for the outsourced services provided by 2e2 for Agresso and Selima for the Vision system. However, independent assurance over the integrity of the arrangements is not available or obtained by the Council.</p>	<p>There is a risk of incorrect processing and posting of payroll transactions prepared for the Council by outsourced service providers.</p> <p>As a result, internal audit have undertaken additional testing on payroll controls. We have also undertaken testing to satisfy ourselves the reconciliations from the payroll system to the general ledger and financial statements are free from material misstatement.</p>	<p>The introduction of a new payroll system through will look to address these risks, with third-party assurances and controls incorporated as part of the contract terms.</p>

## Recommendation

**R4** Ensure all journals are reviewed and authorised by separate officers.

**R5** Incorporate requirement for third party assurances and testing of controls into contract terms for new payroll provider.

# Financial statements

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## Quality of your financial statements

- 14** I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.
- 15** The Council provided a complete set of financial statements on 22 June 2011 together with good working papers in line with our agreed timetable. Officers have provided additional working papers and responded to audit requests promptly.
- 16** The implementation of International Financial Reporting Standards (IFRS) for the first time impacted on both the accounts preparation and audit process. The introduction of the new Standards has increased the workload of officers significantly this year, alongside their other responsibilities. In line with other councils, they commented that they would have appreciated more time earlier in the year to fully explore some of the more technically complex accounting requirements. This may have helped avoid some of the later emerging issues, particularly around the treatment of leases.
- 17** The Council should ensure it plans ahead for future changes in the accounting framework, in particular CIPFA's Code of Practice on Transport Infrastructure Assets so it agrees treatment with auditors at an early stage.
- 18** Improvements were made in year to processing of accounting entries within the general ledger. This reduced the level of external manual adjustments and provided a clearer trail from ledger analysis to the financial statements, addressing difficulties I reported in the 2009/10 Annual Governance Report. The audit trails for debtors and creditors balances were also improved, aiding the timing and completion of related testing.

## Recommendation

- R6** Ensure early planning and agreement of treatment with auditors is undertaken ahead of future changes in the accounting framework, in particular CIPFA's Code of Practice on Transport Infrastructure Assets.
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## Letter of representation

- 19** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. I have attached a proforma letter at Appendix 4, which management has tailored.

# Value for money

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**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

**20** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

**21** I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

**22** I carried out an initial risk assessment and identified areas for further review, which I carried out in the Adult Social Care directorate. I have agreed a more detailed report on this review with officers, including recommendations for improvement. I set out below a summary of my considerations from the risk assessment and the more detailed review.

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## Value for money criteria and my findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Officers and members recognised the significant financial challenges affecting the Council, and the need for all departments to identify savings in 2010/11 and future years, above those identified in Destination Kingston. Each directorate drew up a list of potential savings which were scrutinised by the Director of Finance to ensure they were robust. Directors are held to account for delivering savings and there is clear ownership of the medium-term financial strategy by officers and members.</p> <p>The Council's savings plans going forward are supported by clear analysis and have been risk-assessed for achievability and impact on service users. For example, the Director of Adult Social Care sought independent challenge to ensure the robustness of savings plans.</p>

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>An assessment of the realism and robustness of plans to increase income from fees and charges has also been considered.</p> <p>The Council has identified the impact of savings plans on its staffing levels. It has also developed a more coordinated approach to asset management, setting up a dedicated corporate property function, so it makes more informed decisions about using and disposing of its property.</p> <p>Officers meet regularly to discuss performance against budget and action taken on variances. All savings plans are monitored and officers are responsible for finding extra savings if plans can not be achieved. The Council achieved a £71k surplus in 2010/11, a considerable achievement given it had identified a potential £2 million overspend during the year.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council has challenged how it provides or commissions services, including whether it should provide certain services at all, as part of the One Council One Kingston programme. The transforming social care project includes longer term work which is intended to make care more accessible and responsive to service users and more efficient to deliver. It understands the resources needed to achieve this plan, assesses the risk of non-achievement and monitors delivery of savings against plan.</p> <p>The Council is aware of areas of high cost and is able to model likely demand based on demographic information. It recognises whether it can control the drivers affecting demand and cost of services, and plans savings accordingly. It has set out challenges to these services and has taken steps to improve commissioning. It acknowledges it needs to do more work to identify, measure and report outcome indicators for the impact of changes on service quality.</p> <p>The Council recognises the impact of its plans on partners in the public and voluntary sectors. It is working with them to agree how to provide essential services in a different but more efficient way, including assessing whether other providers have the capacity to take over services currently provided directly.</p> <p>The Council has a good record of delivering services at a comparatively low cost. The achievement of a surplus demonstrates it has been able to achieve further savings this year.</p>

# Appendix 1 – Draft audit report

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## **Independent Auditor's Report to the Members of the Royal Borough of Kingston upon Thames**

### **Opinion on the Authority accounting statements**

I have audited the accounting statements of the Royal Borough of Kingston upon Thames for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Royal Borough of Kingston upon Thames in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Director of Finance and auditor**

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of the Royal Borough of Kingston upon Thames' affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Opinion on the pension fund accounting statements**

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Royal Borough of Kingston upon Thames in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

## **Respective responsibilities of the Director of Finance and auditor**

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the Pension Fund Annual Report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword and the content of the Pension Fund Annual Report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, the Royal Borough of Kingston upon Thames put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the accounts of the Royal Borough of Kingston upon Thames and the Royal Borough of Kingston upon Thames Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Lindsey Mallors  
Officer of the Audit Commission  
Audit Practice  
Audit Commission  
1<sup>st</sup> Floor, Millbank Tower  
Millbank  
London  
SW1P 4HQ

30 September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Investment property	The John Lewis site was accounted for as an investment property, however was found to be a finance lease under Code requirements. This also affects long-term debtors, deferred capital receipts reserve, capital adjustment account and associated notes, plus notes 10, 41 and 54.	n/a	n/a	16,600 (capital adjustment account)	16,600 (investment property)
				5,000 (long term debtors)	5,000 (deferred capital receipts reserve)
Cash flow statement	We identified discrepancies and errors within the original cash flow statement and related notes 25 to 27. The Council prepared a revised version that we have agreed to supporting working papers and other figures in the statements.	n/a	n/a	n/a	n/a

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Net Cost of Services - redundancy costs	The Council recorded redundancy costs under Non-Distributed Costs rather than being charged to each service as required by the Code. This has now been corrected.	1,192 (net cost of services - various)	1,192 (non-distributed costs)	n/a	n/a
Short term debtors Short term creditors	A balance of £339k owed by a school to the Council was incorrectly included within debtors.	0	0	339 (creditors)	339 (debtors)
Cash and cash equivalents Short term creditors	The Council netted off balances due to its Pension Fund, South London Waste Partnership and Trust Funds from cash and cash equivalents disclosed in its balance sheet.  These have been amended to disclose cash gross and the amounts due under creditors. The balance sheets at 1 April 2009 and 31 March 2010 have also been restated.	0	0	1,058 (cash and cash equivalents)	1,058 (creditors)
Short term debtors Short term creditors	The Council updated its statements to reflect changes to the audited South London Waste Partnership accounts.			1,856 (creditors)	1,856 (debtors)
Notes 7 Adjustment between funding basis and accounting basis under regulations	Inconsistencies were identified between 2009/10 comparative figures disclosed in this note and other disclosures in the statements. All inconsistencies were corrected on Note 7 and did not affect the restated financial statements, only classification within this note.	n/a	n/a	n/a	n/a

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 12 table (iii) Capital commitments	The value of commitments disclosed for Primary School Expansion Schemes was understated by £358k	n/a	n/a	n/a	n/a
Note 28 Amounts reported for resource allocation decisions	Note 28 was reanalysed to reflect entries elsewhere in the financial statements and reconcile gross expenditure to that disclosed in the Comprehensive Income and Expenditure Statement. The original disclosure overstated income and expenditure by £451k.	n/a	n/a	n/a	n/a
Note 45 Termination benefits	The liabilities originally disclosed were overstated by £196k (2010/11) and £73k (2009/10).	n/a	n/a	n/a	n/a
Note 54: Material differences between IFRS and SORP	The Council has represented the note headed "restated movement in reserves statement 31 March 2010" to better reflect what the movements relate to. There is no impact on the restated balances for 2009/10.	n/a	n/a	n/a	n/a

The Council also agreed to reclassify amounts in Notes 40 and 41 to more accurately reflect where capital expenditure was incurred and the timing of receipts under lease payments respectively. Officers have also agreed to enhance the disclosure of movements in Note 7 supporting the Movement in Reserves Statements, and other disclosure notes, to make the statements more understandable and to improve compliance with the Code.

# Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Property, Plant and Equipment Long Term Creditors	Vehicles leased by the Council, currently treated as operating leases, should be classed as finance leases.			546 (PPE)	546 (LT creditors)
Property, Plant and Equipment	For investment property reclassified as property, plant and equipment under IFRS, depreciation was not charged in the restated Comprehensive Income and Expenditure Statement, and balances were incorrectly stated	85 (service cost)	85 (MiRS)	85 (PPE)	85 (Capital Adjustment Account)

		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	Nature of required adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Capital Adjustment Account	There are discrepancies of £347k in respect of depreciation, and £954k in respect of assets disposed, between movements in the capital adjustment account for 2009/10 as disclosed in Note 7 and movements on property, plant and equipment for 2009/10 as disclosed in Note 12.	n/a	n/a	n/a	n/a
Financial Instruments	The Council has not disclosed analysis of financial instruments that are past due at the end of the reporting period but not impaired.	n/a	n/a	n/a	n/a
Operating Leases	The Council is unable to provide analysis of contingent rents for operating leases where they are the lessors.	n/a	n/a	n/a	n/a

# Appendix 4 – Letter of representation

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To: Lindsey Mallors  
District Auditor  
Audit Commission  
Millbank Tower  
Millbank, London  
SW1P 4HQ

## **Royal Borough of Kingston upon Thames - Audit for the year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Royal Borough of Kingston upon Thames, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effect of the uncorrected financial statements misstatement detailed in Appendix 3 to your Annual Governance Report is not material to the financial statements. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows:

- Treatment of vehicle operating leases
- Treatment of prior year depreciation for restated property, plant & equipment

- Inconsistencies in prior year figures for movements on capital adjustment account and property, plant and equipment
- Analysis of financial assets past due date not impaired
- Analysis of contingent rents for operating leases

### **Supporting records**

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For material estimates (depreciation, accruals, annual leave accrual, fair value disclosures, valuation of fixed assets and actuarial valuations), I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the process;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures;
- the completeness and appropriateness under the financial reporting framework; and
- that subsequent events do not require adjustment to accounting estimates and disclosure included within the financial statements.

### **Related party transactions**

I confirm that I have disclosed the identity of Royal Borough of Kingston upon Thames related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

### **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

### **Signed on behalf of Royal Borough of Kingston upon Thames**

I confirm that this letter has been discussed and agreed by the Executive Committee on 29 September 2011.

Signed

Leigh Whitehouse  
Director of Finance  
29 September 2011

Councillor Derek Osbourne  
Leader of Council and Chair of Executive Committee  
29 September 2011

# Appendix 5 – Action Plan

## Recommendations

### Recommendation 1

Ensure information on receipts and payments is available from the ledger in a format to allow easy compilation of the Cash Flow Statement in line with the requirements of the Code.

<b>Responsibility</b>	Toby Clarke, Capability Lead – Financial Accounting
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<b>Priority</b>	Medium
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<b>Date</b>	March 2012
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<b>Comments</b>	This will be dealt with by the Council's work on redesigning its chart of accounts in the general ledger to ensure the data required to complete the Cash Flow Statement efficiently is readily available and provides a clear audit trail.
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### Recommendation 2

Provide an explanation within the Letter of Representation to justify the decision not to amend the financial statements for items identified within Appendix 3

<b>Responsibility</b>	Leigh Whitehouse, Director of Finance
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<b>Priority</b>	High
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<b>Date</b>	28 September 2010
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<b>Comments</b>	Actioned in the Letter of Representation.
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## Recommendations

### Recommendation 3

Ensure information is available for all disclosure requirements of the Code.

**Responsibility** Toby Clarke, Capability Lead – Financial Accounting

**Priority** High

**Date** March 2012

**Comments** The transitions to International Financial Reporting Standards (IFRS) produced a high volume of additional disclosure. Two disclosures have been identified as missing from the 2010/11 Statement of Accounts and work is already underway to ensure the data required to complete these disclosures is readily available. Looking forward a robust process is in place to ensure that any new requirements from CIPFA's accounting framework are reflected in the Statement of Accounts and that the Council's auditors are engaged in year to pass opinion on intended treatments.

### Recommendation 4

Ensure all journals are reviewed and authorised by separate officers.

**Responsibility** Jeremy Randall, Head of Finance – Strategy & Accounting

**Priority** Medium

**Date** December 2011

**Comments** Work is underway to ensure a revised process ensuring the appropriate separation of responsibility.

## Recommendations

### Recommendation 5

Incorporate requirement for third party assurances and testing of controls into contract terms for new payroll provider.

**Responsibility** Jeremy Randall, Head of Finance – Strategy & Accounting

**Priority** Medium

**Date** March 2012

**Comments** The Council will be changing its payroll provider from 1 April 2012 and work is underway in conjunction with neighbouring boroughs to implement and provide the assurance framework required. For the 2011/12 financial year remedial work will take place with the Council's current payroll provider and the Council's internal audit function to ensure satisfactory third party assurance.

### Recommendation 6

Ensure early planning and agreement of treatment with auditors is undertaken ahead of future changes in the accounting framework, in particular CIPFA's Code of Practice on Transport Infrastructure Assets.

**Responsibility** Toby Clarke, Capability Lead – Financial Accounting

**Priority** High

**Date** March 2012

**Comments** In light of the experience of the high volume of change in the accounting treatment of certain items with the introduction of International Financial Reporting Standards (IFRS), officers are committed to an increased level of planning and engagement with auditors in year to ensure the correct treatment and approaches are being adopted. Highway assets are an example of a known future change but this approach will be adopted for all future changes to the accounting framework. Closer working with the auditors has already begun in relation to the 2010/11 audit and this will continue during the year in the future

# Appendix 6 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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**0844 798 7070**

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- any director/member or officer in their individual capacity; or
- any third party.



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September 2011