

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.



The Audit Findings Report for the Royal Borough of Kingston upon Thames

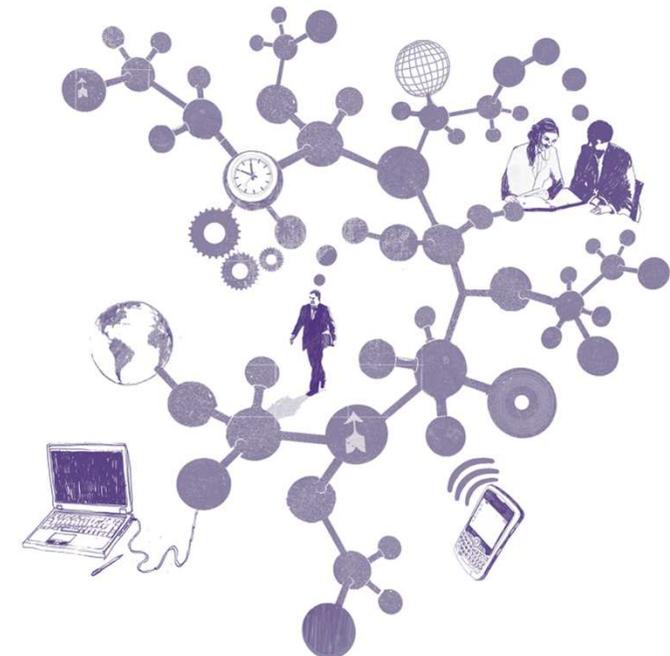
Year ended 31 March 2013

September 2013

Paul Grady
Director
T 020 7728 2681
E Paul.D.Grady@uk.gt.com

Iain Murray
Senior Manager
T 020 7728 3328
E Iain.G.Murray@uk.gt.com

Chris Long
Executive
T 020 7728 3295
E Chris.Long@uk.gt.com



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of the Royal Borough of Kingston upon Thames financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, your financial statements present a true and fair view of the financial position, your expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated May 2013.

Our audit is nearing completion, subject to the satisfactory resolution of the following matters:

- completion of testing on the housing and council tax benefits income and expenditure to provide necessary assurance for our audit
- final quality assurance and completion processes
- receipt and review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- review of the final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion and
- completion of work on the Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

Subject to the satisfactory resolution of the outstanding matters, we anticipate providing an unqualified opinion on your financial statements.

The draft financial statements recorded an accounting surplus on the provision of services of £7,556k. Following our audit, and assuming no other amendments arise from the completion of our outstanding work, the financial statements will show a reduced surplus of £3,862k. This is caused by two errors in the draft Comprehensive Income and Expenditure Statement:

- the incorrect accounting of pensions contributions
- the omission of the costs of an asset disposal

Both of these adjustments are reversed to unusable reserves in the Movement in Reserves Statement and therefore have no impact on the position reported on the general fund in your draft financial statements.

We have also made a number of recommendations for amendment to help management improve the presentation and clarity of the financial statements.

The key messages arising from our audit of your financial statements are as follows:

- the overall level of errors in the accounts has reduced significantly from previous years
- the financial statements were provided for audit in a timely manner, adequately supported by working papers
- the closedown and audit process has not been subject to significant overruns or delays this year

Further details are set out in section 2 of this report.

Value for money conclusion

We are currently considering the impact on our VfM conclusion of Ofsted's inspections of your Children's Services.

We are required by the Code of Audit Practice to consider the impact of findings from inspectors and other regulators which may be relevant to our assessment of your proper arrangements to secure economy, efficiency and effectiveness in your use of resources. Our proposed conclusion is subject to consistency and moderation review which is due to take place shortly. We will update the audit committee with our proposed conclusion at the meeting.

Ofsted published its reports on the inspections it carried out in your Children's Services in July 2012 and June 2013. The reports raised significant concerns about operational practice within Learning and Children's Services, concluding that aspects of these services were inadequate.

The nature of Ofsted's findings raises questions over the effectiveness of your arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance;
- managing risks and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

Management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to you.

We draw your attention in particular to control issues identified in relation to:

- a lack of consistency over the procedures to raise and review journals
- a number of minor control issues arising from our IT audit review

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of your arrangements for securing economy, efficiency and effectiveness in your use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Management and officers have taken action to improve the production and quality of the financial statements. We have noticed continuing improvement in both areas, with a complete set of financial statements being provided in advance of the statutory deadline alongside higher quality working papers. This is the result of an improved closedown process and has allowed us to complete an efficient audit without significant overruns or delays to our planned schedule.

There has been an overall reduction in the number and level of errors. The nature of errors identified predominantly related to the detailed accounting treatment or presentation and typographical inconsistencies. We did not identify any errors that affected the underlying or reported financial position.

Management have expressed a commitment to continue to improve the quality and clarity of your financial reporting. During the audit we held a number of discussions with management on this topic and made a number of suggestions about how presentation and disclosure in the financial statements might be changed to improve clarity and reduce clutter. We look forward to continue to work with management towards this goal.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

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05. Communication of audit matters

Audit findings

In this section we present the work we have undertaken and our findings in respect of: (a) matters and risks identified at the planning stage of the audit, as summarised in our Audit Plan and presented to the Audit Committee on 27 June 2013; and (b) additional matters that arose during the course of our work. The findings presented below are subject to the satisfactory resolution of outstanding matters, as set out on page 5. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 27 June 2013.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards. These findings are subject to the satisfactory resolution of outstanding matters set out on page 5.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls.</p> <p>We set out later in this section of the report our work and findings on journals and key accounting estimates and judgments.</p>

Audit findings against significant risks

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Employee remuneration - Payroll tax obligations understated - Remuneration expenses not correct</p> <p>On 1 April 2012 you introduced a new HR and payroll system through a shared arrangement with other boroughs.</p> <p>Employee data was transferred to the new systems and a number of new controls were introduced.</p>	<ul style="list-style-type: none"> • Review and document the design of the new payroll system • Identification of controls over employee remuneration • Walkthrough of employee remuneration cycle • Attribute testing of employee remuneration • Proof in total of employee remuneration • Review of the calculation of tax, NI, pensions and other deductions • Review of pension disclosures • Review of officer and member remuneration 	<p>Our audit work identified issues in relation to the accounting for IAS19 pension costs. These have been corrected by management. The details of the impact on the financial statements are set out later in this section.</p> <p>We noted some potential control weaknesses regarding the processing of adjustments within the new payroll system. These are set out later in this section.</p> <p>Subject to the satisfactory resolution of outstanding work, we have identified no further issues in relation to employee remuneration.</p>
4.	<p>Property, plant and equipment - Revaluation measures not correct</p> <p>Errors were identified over property, plant and equipment valuation, recording and accounting in 2011/12</p> <p>You engaged a new valuer for 2012/13, and have taken steps to ensure valuations are provided in a timely manner and there is scope for challenge as appropriate.</p>	<ul style="list-style-type: none"> • Review of the new valuation arrangements including an assessment of the competence and objectivity of the new valuer • Identification of controls over the revaluation of property, plant and equipment • Review of the valuation exercise and the Council's response to valuations • Ensure the movement in valuation is in line with expectations • Review the accounting treatment on the fixed asset register 	<p>Our audit work has not identified any issues in respect of valuation of property, plant and equipment.</p>
5.	<p>Transfer of Agresso general ledger database from external provider to in-house</p> <p>In February 2013 your database provider for the Agresso general ledger went into administration.</p> <p>This required a transfer of a significant amount of data onto your own servers at short notice.</p> <p>We reviewed the completeness of data transferred and the adequacy of the new arrangements.</p>	<ul style="list-style-type: none"> • Discussion, review and documentation of the data transfer process and associated controls • Review of the new database and transfer process • Testing to ensure completeness of data transferred 	<p>Our audit work has not identified any issues in respect of the transfer of the Agresso general ledger. The ledger was transferred completely and accurately.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Operating expenses understated</p> <p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to these risks:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • Attribute testing of operating expenses across all material revenue streams • Review of liability balances by supplier • further procedures to gain assurance over completeness 	<p>Our audit work has not identified any significant issues in relation to the risks identified</p>
<p>Welfare expenditure</p>	<p>Welfare benefits improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identification of controls over Housing Benefits and Council Tax Benefits • Walkthrough of the Housing Benefits and Council Tax Benefits cycle • Reconciliation of benefits expenditure per the financial statements to underlying records • Completion of core testing for the certification of the housing and council tax benefits subsidy grant claim 	<p>Our initial audit work on welfare expenditure has not identified any significant issues in relation to the risk identified.</p> <p>We have not yet completed work on the core testing for the certification of housing and council tax benefits subsidy grant claim. This will be completed before signing the audit opinion. Should any significant issues arise that require reporting to you, we will do so before we issue the opinion to enable you to re-consider your approval of the accounts, if necessary.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Housing rent	Revenue transactions not recorded.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Identification of controls over housing rents revenue account • Walkthrough of the housing rents cycle • Reconciliation of housing rents revenue per the financial statements to underlying records • Substantive analytical review of housing rents income • Attribute testing of housing rental revenue 	Our audit work has not identified any significant issues in relation to the risks identified
Property, plant & equipment	PPE activity not valid Revaluation measurement not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Identification of controls over the purchase of property, plant and equipment • Walkthrough of the property, plant and equipment cycle • Sample testing of capital expenditure • Review of capital expenditure budgets in comparison to spend • We did not review assets under construction in detail as they were not significant 	Our audit work has not identified any significant issues in relation to the risks identified

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Your primary sources of income are from government and non government grants, contributions, fees and charges. This is recognised appropriately when the transfer of the risks and reward of ownership have transferred and when it is probable that the economic benefits or service potential have transferred. 	<ul style="list-style-type: none"> Your accounting policy is appropriate and consistent with IAS 18 Revenue and the CIPFA Code of Practice on Local Authority Accounting The extent of judgement involved in revenue recognition is minimal as information is generally readily available The accounting policies as disclosed are adequate. 	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of capital assets – pension fund valuations and settlements – revaluations – impairments – provisions – accruals of income and expenditure – accounting treatment of school assets 	<ul style="list-style-type: none"> Your accounting policies are appropriate and consistent with accounting standards and the CIPFA Code of Practice on Local Authority Accounting Management has exercised judgement in the recognition and valuation of estimates. These are generally based on the best available information (e.g. contracts, previous invoices, schedule of activities etc) or the work of an expert (e.g. actuary, valuer etc). We have reviewed the judgements made and confirmed they have been reasonably applied Management has adjusted the critical judgements in applying accounting policies to reflect changes in on/off balance sheet treatment of Foundation schools. We have reviewed and agreed this amendment. 	
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of required adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which management has agreed to correct. There are no unadjusted non-trivial misstatements.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on reported financial position £'000
1 Youth services expenditure and income was misclassified as 'Cultural and Related Services'. It has been corrected to 'Education and Children's Services' under SerCOP requirements; CIES - Cultural and Related Services CIES - Education and Children's Services	(9,238) 9,238	None	No impact on the reported financial position
2 The wrong value of pensions contributions was written out of the Comprehensive Income and Expenditure Statement and reversed back to the General Fund balance. This has affected various lines within the Net Cost of Services; CIES - Net Cost of Services Movement in Reserves Statement (Employer Pensions contributions charged against the General Fund and HRA balance) Other long term liabilities Unusable Reserves - Pensions reserve	3,027 (3,027)	(2,952) 2,952	No impact of the reported financial position

Adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
6 The Fairlawn/Sherwood asset held for sale was sold in 2012/13 but not written out of the balance sheet, the sale proceeds had been amalgamated with another sale;			
Assets Held for Sale		(1,413)	No impact of the reported financial position
CIES - Gain or Loss on the disposal of non current assets	1,413		
Movement in Reserves Statement – amount of non current assets written off on disposal	(1,413)		
Unusable Reserves – Capital Adjustment Account		1,413	
Overall impact	£0	£0	£0

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to correct in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure – Note 34 Grant Income - Other Contributions	700	(8,493)	The disclosure of Contributions Credited to Services in Note 34 contained £700k of grant income counted twice. This affected the disclosure only and was recorded in the Comprehensive Income and Expenditure Statement correctly.
2 Disclosure	Various	Various	Audit adjustments included within the previous tables have had various knock-on implications for the cash flow statement, adjustments between accounting basis and funding basis under regulations (note 7) and financial instruments (note 15). We have agreed these statements have been amended appropriately.
3 Disclosure	Various	Various	The audit identified a number of typographical and disclosure adjustments which management have amended appropriately.
4 Disclosure	Various	Various	The audit identified a number of minor (£1-2k) casting errors. Management have corrected some of these errors but we note that some remain in the final version of the accounts.
5 Disclosure	Various	Various	We have made a number of suggestions to 'de-clutter' the accounts and remove superfluous information. Management have made some amendments in 2012/13 and have taken on-board the remaining suggestions for 2013/14.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements. We considered these controls to enable us to design audit procedures that are appropriate in the circumstances, but we did not consider them for the purpose of expressing an opinion on the effectiveness of internal control.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.		<p>Journals</p> <p>As reported in our June Audit plan, we identified a lack of consistency over journals procedures i.e. when/who can raise and approve.</p> <p>You have taken action to limit the number of staff who can raise journals directly. This is now limited to the core finance team. Other staff can raise journals through the Central Management Information team on a request basis.</p> <p>A project is underway to ensure journals are appropriately authorised within the Agresso financial system. You anticipate this should be implemented after 2013/14. On this basis we have no specific recommendations to make at this stage</p>	Not applicable
2.		<p>IT Audit</p> <p>Our IT audit has identified a number of recommendations with regard to the key systems used within the council.</p>	<ul style="list-style-type: none"> Information security policies are not subject to frequent updates. We recommend management ensure that all key information security policies are updated at least every 2 years to ensure they remain relevant. No screen lockout threshold is set following a period of inactivity. We recommend screen lockout thresholds are set following a period of inactivity of 15-30 minutes. No automatic leaver notifications are received from HR to enable timely removal of leavers from the network and applications. We recommend automatic procedures to ensure IT/systems teams are notified of leavers by HR at the earliest opportunity. We noted a potentially excessive number of domain administrator accounts. Management should review these to ensure dormant or unused accounts are removed.

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
	●	<p>IT Audit (continued)</p>	<ul style="list-style-type: none"> No formal user access reviews are performed, this is completed on an ad-hoc basis. Management should consider implementing a process to review user accounts on a regular basis to ensure only authorised users have appropriate levels of access for their role and responsibilities. No formal processes are in place for requesting and applying changes to the firewall configurations. A form should be developed for documenting and approving changes to firewall configurations. No formal reviews are undertaken to ensure folder rights within the Agresso general ledger are not accumulated by staff as they move to different internal roles. A standardised folder structure should be developed to ensure efficient management of access rights. A generic user administrator account is used by multiple administrators within the Northgate revenues and benefits system. This could lead to a lack of accountability. We recommend separate user accounts are established for all administrators.
	●	<p>Payroll</p> <p>You introduced a new payroll system in 2012/13. Through our testing and discussion with officers, we noted some teething problems with the new system. This included staff being paid at an incorrect rate and minor coding issues. We are satisfied that these were corrected before year end. However, we have made recommendations to make sure these do not happen in the first instance.</p>	<ul style="list-style-type: none"> Ensure that there are adequate checks of information input into the payroll system, including the correct treatment of overtime payments. Review the payroll coding structure to ensure all pay costs are being adequately recorded and reported.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee we have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from management.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge your decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

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Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council 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.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered your arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that there will be significant financial challenges over the coming years. Although there are savings plans already in place, additional savings of over £17m need to be identified by 2016/17. Management recognises the scale of these challenges and is in the process of taking steps to ensure that sufficient savings will be found without having a serious impact on service delivery. We have issued a separate financial resilience report containing our detailed considerations.

Challenging economy, efficiency and effectiveness

We have reviewed whether you have prioritised your resources to take account of the tighter constraints it is required to operate within. We have completed the following work:

- review of arrangements to improve the safeguarding and looked after children's services, which were rated inadequate by Ofsted.
- the delivery of significant savings through the One Kingston programme and the impact on service delivery.

Value for Money

Key Findings (continued)

Consideration of Other Matters

We are required by the Code of Audit Practice to report by exception on any other significant additional matters that come to our attention and which we consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

In July 2012 Ofsted published its report on the inspection it carried out on your Safeguarding and Looked After Children's services. The report raised significant concerns about operational practice, concluding that these services were inadequate. The nature of Ofsted's findings indicated weaknesses in your arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance;
- managing risks and maintaining a sound system of internal control; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

These weaknesses were reflected in your VfM conclusion as a 'report by exception' in 2011/12.

In June 2013 Ofsted carried out an inspection of your arrangements for the protection of children and assessed them as inadequate. Whilst the report identifies some improvement and a positive direction of travel, the overall assessment of the arrangements remains inadequate. This is in line with your planned timeframe, which anticipated it would take more than 12 months to ensure a robust and embedded improvement framework.

Overall VFM conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, and subject to our consideration of the weaknesses highlighted by Ofsted in their recent inspections of Children's Services, we are satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2013.

The weaknesses highlighted by Ofsted in their recent inspections of Children's Services are relevant to our assessment of your proper arrangements to secure economy, efficiency and effectiveness in your use of resources. We are considering our final proposed conclusion, taking into account these factors. Our proposed conclusion is subject to a moderation and consistency review which is due to take place shortly.

We will update members on the outcome of this process at the Audit committee meeting on 24 September.

Annual Governance Statement

We have carried out a review of your Annual Governance Statement and asked management to consider including information regarding the most recent inspection of your Children's Services by Ofsted. This updated position has been reflected in the final AGS which will be approved by the Audit Committee on 24 September.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>Ofsted’s inspection for your safeguarding services and services for looked after children, reported on 10 July 2012, assessed the overall effectiveness of safeguarding services as inadequate and raised significant concerns about operational practice and aspects of your proper arrangements. children and young people</p>	<ul style="list-style-type: none"> • We have carried out a review of your improvement plans • We have reviewed the information provided to the improvement board including progress made against action plans • We have reviewed and relied on the findings from the Ofsted inspection of arrangements for the protection of Children 	<p>You took prompt action to address the weaknesses identified by the Ofsted report and subsequent improvement notice. You appointed a new Director of Children’s Services, which is a shared post with London Borough of Richmond upon Thames, and developed a detailed action plan. An improvement board with an independent chair is in place and is monitoring progress against actions in the plan.</p> <p>In their June 2013 inspection of arrangements for the protection of children Ofsted noted a number of improvements that have been made in your arrangements in Children’s Services. However they also judged the arrangements overall remained inadequate. This is in line with your planned timescale, which anticipated it would take longer than 12 months to embed the improvements you were planning.</p> <p>The nature of Ofsted’s findings indicate weaknesses in your arrangements for:</p> <ul style="list-style-type: none"> • producing relevant and reliable data and information to support decision making and manage performance; • managing risks and maintaining a sound system of internal control; and • planning, organising and developing the workforce effectively to support the achievement of strategic priorities.
<p>You are in the process of setting up a jointly owned company to deliver children services. As this is a new approach to delivering these services we will need to evaluate plans and progress in introducing more shared services, in particular the Achieving for Children initiative (AfC)</p>	<ul style="list-style-type: none"> • We have discussed progress with key officers and reviewed relevant documentation 	<p>In conjunction with the London Borough of Richmond you have put in place joint governance and project management arrangements to oversee AfC.</p> <p>Key decisions have been taken over the structure and form of the company and you appear to be making good progress against key work streams identified as part of the project.</p> <p>During the year the target date for the company to commence trading slipped to April 2014, but the reasons for taking this decision were sound and do not give us grounds for concern.</p>

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>Your budgets and MTFP for 2012/13, 2013/14 onwards require the delivery of significant levels of savings. You anticipate significant levels of savings will be delivered via the One Kingston programme. Failure to deliver these savings would have a detrimental impact on financial health and resilience. The impact on the way that services are delivered will also impact on securing economy, efficiency and effectiveness.</p>	<ul style="list-style-type: none"> • We have assessed your financial performance in 2012/13 • We have reviewed your budget the medium term financial plans including assumptions made • We have reviewed your arrangements for identifying and delivering savings plans • We have reviewed your progress against savings plans and the adequacy of future plans 	<p>Overall your financial performance in 2012/13 was strong and much better than you were forecasting in the early part of the year. Your budget for 2012/13 included savings of £8.4m and at the year end you achieved an underspend of £669k. This was achieved after making an unbudgeted contribution to reserves of £647k. The underspend has allowed you to increase you general fund balance to £7.8m. Whilst an improved position ,this balance remains relatively low in comparison to other councils and puts greater emphasis on the need to deliver savings in line with the timescales set out in "Destination Kingston" to enhance the robustness of your financial resilience and ability to meet forthcoming financial challenges.</p> <p>There will be significant financial challenges over the coming years. You have savings plans already in place principally through the "One Kingston" programme, but you have yet to identify additional savings of over £17m required by 2016/17. Management recognises the scale of these future challenges and is in the process of taking steps to identify sufficient savings without a serious impact on service delivery. A separate financial resilience report has been issued which includes more details of our findings in this area.</p>
<p>The prior year audit report included recommendations relating to:</p> <ul style="list-style-type: none"> • the completion of an asset strategy • completion of a post implementation review into Education Kingston 	<ul style="list-style-type: none"> • We reviewed progress made in both these areas and held discussions with the officers involved. 	<p>An asset strategy has been prepared during the year and is due to be presented to the Policy and Resources Committee in September 2013.</p> <p>A post implementation review was carried out and this identified a number of learning points. In particular, to improve project management and governance you have established the Shared Service Framework ('The Kingston Test'), which provides support and challenge in a structured way, requiring timely reporting at key stages and the production of evidence to satisfy gateway owners that the project has reached the appropriate level of development and maturity in its lifecycle to proceed to the next stage.</p>

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees proposed for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit	144,720	144,720
Grant certification	27,250	27,250
Total audit fees	171,970	171,970

Fees for other services

Service	Fees £
No other services provided in the year	N/A

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Follow up the IT recommendations in respect of:</p> <ul style="list-style-type: none"> Information security policies are not subject to frequent updates. We recommend management ensure that all key information security policies are updated at least every 2 years to ensure they remain relevant. No screen lockout threshold is set following a period of inactivity. We recommend screen lockout thresholds are set following a period of inactivity of 15-30 minutes. No automatic leaver notifications are received from HR to enable timely removal of leavers from the network and applications. We recommend automatic procedures to ensure IT/systems teams are notified of leavers by HR at the earliest opportunity. We noted a potentially excessive number of domain administrator accounts. Management should review these to ensure dormant or unused accounts are removed. 	Medium	<p>Action has or is currently being taken to address the specific issues raised.</p> <ul style="list-style-type: none"> As a result of the infrastructure refresh programme and the implementation of the ICT Shared Service all ICT Policies are being reviewed. A process of regular review will be put in place for these new policies. Kingston's Information Governance Board met on May 29th and agreed to the implementation of a screen lockout threshold of 5 minutes on all RBK PCs. This will apply to all users and it will not be possible for users to bypass this threshold. This change was implemented in July 2013. ICT will work with the iTrent project team to implement an automated notification of leavers from the iTrent system as soon as practically possible. Accounts are reviewed when administrators leave ICT and when new staff join to ensure appropriate users have the necessary level of rights and removal of accounts that no longer require that level of access. Administrator accounts are also reviewed annually as part of our internal penetration testing. This last took place in December 2012 and did not identify any changes that were required. Dormant accounts are disabled, although still members of these groups, as there are occasions when access may be required. 	<p>March 2014</p> <p>Head of ICT Shared Service</p>
2	<p>Take further action to 'de-clutter' the accounts by removing superfluous content that provides limited value to the reader</p>	Medium	<p>We welcome the opportunity to provide a more concise set of accounts for readers. Previous audits have focused on strict compliance with the accounting framework without consideration for the usefulness of the information provided.</p>	<p>June 2014</p> <p>Capability Lead – Financial Accounting</p>

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report. The wording of the Value for Money conclusion is draft and may change following internal moderation

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE ROYAL BOROUGH OF KINGSTON UPON THAMES

Opinion on the Authority financial statements

We have audited the financial statements of the Royal Borough of Kingston upon Thames for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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 Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Royal Borough of Kingston upon Thames as at 31 March 2013 and of its expenditure and income 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 2012/13.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, *Royal Borough of Kingston upon Thames Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of the Royal Borough of Kingston upon Thames in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Grady
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. The findings below are subject to the satisfactory resolution of the outstanding matters.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you in June 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	Yes – see Section 2
Cost of services – employee remuneration	Employee remuneration	Significant	Remuneration expenses not correct Payroll tax obligations understated	None, subject to the satisfactory resolution of outstanding matters.
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	None, subject to the satisfactory resolution of outstanding matters.
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	None
Cost of services – other revenues (fees & charges)	Other revenues	None		None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		None
Precepts and Levies	Council Tax	None		None

Audit findings

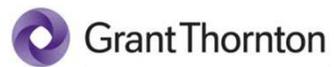
Account	Transaction cycle	Material misstatement risk?	Description of risk	Audit findings
Interest payable and similar charges	Borrowings	None		None
Pension Interest cost	Employee remuneration	None		None
Interest & investment income	Investments	None		None
Return on Pension assets	Employee remuneration	None		Yes – see Section 2
Dividend income from Joint Venture	Revenue	None		None
Impairment of investments	Investments	None		None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		None
Income from council tax	Council Tax	None		None
NNDR Distribution	NNDR	None		Yes – see Section 2
Revenue support grant and other Government grants	Grant Income	None		None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		Yes – see Section 2
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE improperly expensed	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	None
Property, Plant & Equipment	Property, Plant & Equipment	Significant	Revaluation measurements not correct	None
Heritage assets & Investment property	Property, Plant & Equipment	None		None
Intangible assets	Intangible assets	None		None
Investments (long & short term)	Investments	None		None
Debtors (long & short term)	Revenue	None		Yes – see Section 2
Assets held for sale	Property, Plant & Equipment	None		Yes – see Section 2
Inventories	Inventories	None		None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Audit findings
Borrowing (long & short term)	Debt	None		None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	Yes – see Section 2
Provisions (long & short term)	Provision	None		None
Pension liability	Employee remuneration	None		Yes – see Section 2
Reserves	Equity	None		Yes – see Section 2



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