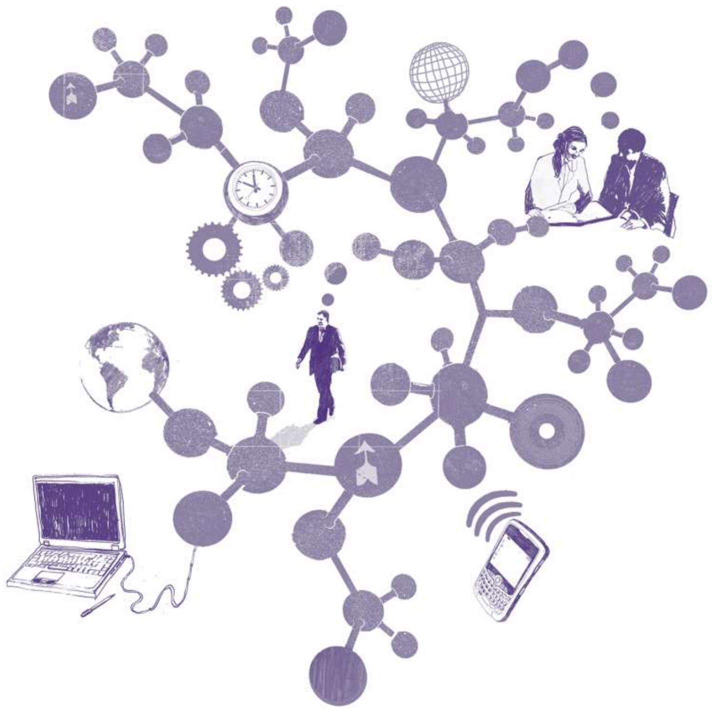
The Audit Findings for the Royal Borough of Kingston upon Thames Council

Year ended 31 March 2017

September 2017



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September 2017

Dear Members of the Audit, Governance and Standards Committee

Audit Findings for Royal Borough of Kingston upon Thames Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of the Royal Borough of Kingston upon Thames Council, the Audit, Governance and Standards Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors, we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Paul Grady
Engagement Lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of the Royal Borough of Kingston upon Thames Council and the preparation of the single entity and group financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion your financial statements give a true and fair view of your financial position and your income and expenditure 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 consider other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, you have put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.
The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by you or brought to the public's attention (section 24 of the Act);
- statutory written recommendations which should be considered by you and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan presented to the Audit, Governance and Standards Committee on 2 March 2017
Our audit is nearing completion. It is subject to the satisfactory completion of the following areas:

- receipt and review of bank letters in respect of St Marys Church of England Primary School and Christ Church of England Primary school confirming the year end balance;
- receipt and review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of the signed version of the Annual Governance Statement;
- final senior management review and quality control procedures;
- updating our post balance sheet events review, to the date of signing the opinion; and
- work in relation to the Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the end of May 2017. This was significantly earlier than previous years and demonstrates the progress you have made in relation to early closure of your financial statements.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting your reported financial position (details are recorded in section two of this report). The draft and final group financial statements for the year ended 31 March 2017 recorded net expenditure of £52,615k.

We have recommended a number of adjustments to improve the presentation of the financial statements.

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

- the draft financial statements were submitted for audit by the end of May 2017. This is a month earlier than the previous year and demonstrates you should be able to meet the early close deadline for next year when statutory deadlines are brought forward;
- working papers were provided in accordance with the agreed protocol. The overall quality of the working papers was good;
- there were a number of presentation and disclosure errors in the draft financial statements which management has agreed to amend. The volume of errors remains higher than other similar bodies, and management should work to address these prior to submitting accounts for audit in future years.

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

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on your financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of your Narrative Report and Annual Governance Statement we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the Annual Governance Statement meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

You are 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.

Findings

Our work identified a control weaknesses in relation to bank reconciliations which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, you had proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to your Audit, Governance and Standards Committee, following the completion of this work. This report is due in January 2018.

Early Close

This year you have bought forward your closedown timetable and presented us with draft financial statements and working paper submissions by 31 May. This represents a significant improvement on the prior year and demonstrates you should be able to meet the statutory earlier deadlines for next year. Whilst working to these tighter timeframes you have identified further opportunities to enhance closedown processes, arrangements and business processes ahead of next year. Successful implementation of this should free up more time to undertake reviews of the draft financial statements ahead of submission for audit. This in turn will enable you to identify more of the presentational errors identified during this year's audit.

Due to the early submission of financial statements we were able to commence our audit in June and substantially complete our detailed testing by Mid July. We had a successful interim audit, with a substantial amount of early audit testing completed prior to the year end. This has helped drive efficiencies within the year end audit process. We found officers quick to respond to audit queries and more engaged in finalising the audit process.

As you finalise the restructure of your finance function with the London Borough of Sutton, you will need to ensure that the momentum built this year is maintained and the lessons leant from undertaking early close are applied to next year's arrangements.

The way forward

Matters arising from the financial statements audit and our review of your arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Interim Section 151 Officer and Head of Finance Strategy and Accounting .

We have made recommendations, which are set out in the action plan at Appendix A. The recommendations have been discussed and agreed with the relevant officers and management.

Acknowledgement

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

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined **overall materiality** to be **£7,725k** (being 2% of 2015/16 gross revenue expenditure).We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £8,712k (being 2% of 2016/17 gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be **clearly trivial** to be **£436k**. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including yourselves, mean that all forms of fraud are seen as unacceptable.	Subject to the satisfactory completion of outstanding work set out on page 5, our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	We have undertaken the following work in relation to this risk: • Review of accounting estimates, judgments and decisions made by management. • Review of journal entry process and selection of large and unusual journal entries for testing back to supporting documentation. • Review of accounting estimates, judgements and decisions made by management. • Review of unusual significant transactions.	Subject to the satisfactory completion of outstanding work set out on page 5, our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets.	We considered the expenditure cycle risk and do not consider it to require additional audit procedures. The lack of specific performance targets which you are required to meet means there is limited incentive for fraudulent manipulation. Your culture means that such manipulation would be seen as unacceptable. The nature of expenditure streams also means that material fraud in expenditure recognition would be difficult to perpetrate and conceal. Our normal substantive audit procedures including work we completed in relation to the risk of management override of controls, operating expenses and employee remuneration adequately address the risk of fraud through provisions and accruals.	Subject to the satisfactory completion of outstanding work set out on page 5, our audit work has not identified any issues in respect of fraudulent expenditure transactions.
Valuation of property, plant and equipment You revalue your assets on a rolling basis. over a five year period. The Code requires that you ensure that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	We have undertaken the following work in relation to this risk: • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work. • Discussions with your valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into your asset register. • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	Subject to the satisfactory resolution of outstanding matters set out on page 5, our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of pension fund net liability Your pension fund net liability, as reflected in the balance sheet, represents a significant estimate in the financial statements.	We have undertaken the following work in relation to this risk: • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Subject to the satisfactory completion of outstanding work set out on page 5, our audit work has not identified any significant issues in relation to the risk identified.

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
Employee remuneration	Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • Documented our understanding of processes and key controls over the transaction cycle. • Undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding. • Testing the year end reconciliation of payroll expenditure recorded in the general ledger to the payroll system. • Substantive procedures to confirm the completeness of payroll transactions.	Subject to the satisfactory completion of outstanding work set out on page 5, our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • Documented our understanding of processes and key controls over the transaction cycle. • Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding. • Tested the year end reconciliation of operating expenditure recorded in the general ledger to the subsidiary system. • Completed unrecorded liabilities testing to assess whether transactions are recorded in the correct period.	Subject to the satisfactory completion of outstanding work set out on page 5, our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • Documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	The Expenditure Funding Analysis needed to be corrected to match the Outturn figures for 2015/16 and 2016/17. The restated Consolidated Income and Expenditure balances also needed to be corrected to include previously excluded support services. You also needed to include an Expenditure and Income analysed by nature note. You have agreed to make the appropriate amendments to your financial statements.

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Achieving for Children Community Interest Company	Yes	Comprehensive	No risks identified. 2016/17 was the third year of consolidation.	• Review of outputs from the statutory audit of AfC performed by Grant Thornton. • Review of accounting estimates, judgements and decisions made by management during the preparation of the consolidated financial statements. • Review of Unusual significant transactions. • Review of disclosures against requirements.	Our audit work has not identified any issues in respect of the consolidation process.
Kingston Theatre LLP (not consolidated)	No	Analytical	No specific risks identified	• Review of financial statements to confirm appropriateness of non-consolidation on the grounds of materiality. • Review of disclosures and critical judgements for non consolidation.	Our audit work has not identified any issues in respect of the consolidation process.

Accounting policies, estimates and 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	• Your primary sources of income are from government and non government grants, contributions, fees and charges as well as collection fund income. • This is recognised appropriately when the risks and reward of ownership have transferred and when it is probable that the economic benefits or service potential have transferred.	• 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.	● **Green**
Judgements and estimates	Key estimates and judgements include: • Useful life of capital assets. • Pension fund valuations and settlements. • Revaluations of property. • Impairments. • Provisions, including provision for business rate appeals. • Accruals of income and expenditure. • Accounting treatment of school assets.	Your accounting policies are appropriate and consistent with accounting standards and the CIPFA Code of Practice on Local Authority Accounting. • You have 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. • In relation to the fair value disclosures for financial instruments, your advisor Arlingclose has prepared the fair value estimate for Public Works Loans Board (PWLB) and Lender Option Borrower Option (LOBO) loans using a market rate which is linked to the prevailing Swap rate. • Individual consideration over property, plant and equipment and business rates are set out later in this report.	● **Green**

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
Going concern	The Interim Section 151 Officer and Head of Finance Strategy and Accounting has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed your assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● **Green**
Business rates provision	You have provided for appeals made by businesses to the Valuation Office Agency over the local rateable value and the impact of the business rates collectable. This is based on anticipated success rates and properties under appeal at the year end.	Your overall approach to business rate appeals provisions is sound and provides a reasonable analysis of the provision required.	● **Green**
Estimates and judgements - property plant and equipment	The accounts set out your programme of revaluations, whereby you have revalued all assets over 1% of the total, properties with a rolling programme covering assets with a carrying value above £1.5m that have not been valued in the past 3 years and any property that has not been revalued for 5 years.	This approach exceeds that undertaken by many other authorities, and we are satisfied that you have satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from its current/fair value at 31 March 2017	● **Green**
Other accounting policies	We have reviewed you policies against the requirements of the CIPFA Code and accounting standards.	You have reviewed your policies against the requirements of the CIPFA Code of Practice. Your accounting policies are appropriate and consistent with previous years.	● **Green**

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to related parties**	• From the work we carried out, we identified a few related party transactions which have not been disclosed. You have made amendments for these in your revised financial statements.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested.
5.	**Confirmation requests from third parties**	• We obtained direct confirmations from the Public Works Loans Board and other lenders for loans and requested from management permission to send confirmation requests to various institutions for bank and investment balances. This permission was granted and the requests were sent. All responses required were returned with no issues identified.
6.	**Disclosures**	• Our review found no material omissions in the financial statements. • We identified a number of presentational and disclosure errors above our reporting threshold of £436k. These are reported on pages 21-23. Management have adjusted for these in the final set of financial statements.
7.	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • The information in the Narrative Statement is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of you acquired in the course of performing our audit, or otherwise misleading. We have not identified any issues we would be required to report by exception. We have requested a small number of enhancements to the Narrative Statement as noted above.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As you exceed the specified group reporting threshold, we are required to examine and report on the consistency of the WGA consolidation pack with your audited financial statements. Work in relation to the Whole of Government Accounts is not yet completed, and will be carried out in September 2017.

Internal controls

	Assessment	Issue and risk	Recommendations
1.	● (amber)	• Our testing of your bank account reconciliations identified a number of transfers between bank accounts. Journals had not been processed to reflect the movement of monies which resulted in large differences within bank reconciliations which netted each other off.	• Prepare journals to ensure the financial ledger is updated to take account of any transfers between bank accounts.

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

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.
Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted and unadjusted misstatements

There were no adjusted or unadjusted misstatements that impact on your financial position. There have been a few disclosure changes that are highlighted on the following pages.

Misclassifications and disclosure changes

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

	Adjustment type	Error Value £'000	Account balance	Impact on the financial statements
1	Disclosure	40	Senior Officer Remuneration note	The Head of Organisation Development and Strategic Business pay, fees and allowances was incorrectly disclosed and needs to be amended from £135k to £95k . Compensation for loss of office was amended from £90k to £130k. This is disclosed due to the sensitive nature of the note.
2	Disclosure	Various	Note 34 – Capital Expenditure and Financing	The 2015/16 Opening Capital Financing Requirement of £269,287k needs to be adjusted to£264,645k, which impacts on the 2016/17 Opening Capital Financing Requirement which needs to be adjusted from £273,029k to £269,288k. Government grants and contributions balance of £15,501k needs to be adjusted to £14,493k and direct revenue contributions and minimum revenue contributions need to be amended from £9,082k and 37,294k to £10,090k to £7,346k respectively.
3	Disclosure	3,885	Note 13 – Property Plant and Equipment	The balance for Surplus Assets does not currently include the reclassification from Other Land and Buildings relating to Hobkirk House. Correcting this results in an increase to surplus assets and a decrease to Other Land and Buildings.
4	Disclosure	10,777	Note 16 – Financial instruments	The balance for Financial Liabilities at amortised costs incorrectly disclosed the pension liability of £223,301 instead of the borrowings balance of £234,078k.
5	Disclosure	607	Note 19 – Cash and Cash Equivalents	The 2015/16 Cash and Cash Equivalents balance did not correctly cast.

Misclassifications and disclosure changes

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

	Adjustment type	Error Value £'000	Account balance	Impact on the financial statements
6	Disclosure	1053	Note 14 Rental Income from Investment Property	2015/6 Rental income from investment properties of £3,229k was incorrectly stated and needs to be amended to £2,176k.
7	Misclassification	Various	The Consolidated Income and Expenditure Statement Re-stated 2015-16 balances	The 2015/16 Comprehensive Income and Expenditure Statement and the Expenditure Funding analysis need updating to match internal reporting.
8	Disclosure	1159	Note 9 – Transfers to and from the Strategic Investment Reserve	The Transfers In and Transfers Out of the Strategic Investment Reserve were incorrectly stated with Transfers In and Transfers Out both understated by £1,159k. There is a nil overall effect on the balance.
9	Misclassification	776	Note 12 – Taxation and Non Specific Grant Income	Community Infrastructure Levy of £776k was included within Other corporate services income on the Consolidated Income and Expenditure Account and Expenditure and Funding Analysis. This should be disclosed within Capital Grants and Contributions balance in the Taxation and Non specific Grant Income note.
10	Disclosure	1,305	Note 32 – Grant Income	Department of Communities and Local Government Grant and Universal Infant Free school meals grants of £1,035k and £1,911k were over £1m and not separately disclosed.

Misclassifications and disclosure changes

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

	Adjustment type	Error Value £'000	Account balance	Impact on the financial statements
11	Disclosure	Various	Note 33 – Related Parties and Interest in companies	There were a few missed disclosures with companies that Members had declared an interest in, which management have agreed should be disclosed. There were adjustments required to match the ledger in relation to expenditure for the following bodies: Kingston Voluntary Action £528k Your Healthcare -£3780k Kingston Carers Network £242k
12	Disclosure	4,000	Note 38 – Defined Benefit Pension Schemes	Note 38 in the draft accounts states that the re-measurement of the net defined liability in the Consolidated Income and Expenditure Statement is £24.45m. However this is not in line with the Consolidated Income and Expenditure Statement which states £28.45m.
13	Disclosure	Various	Note 29 – Exit packages disclosure	The disclosure did not agree to supporting working papers. The note should be updated
14	Disclosure	Various	Consolidated Income and Expenditure Statement and Note 7 Expenditure and Funding Analysis	The Expenditure Funding Analysis needs to be corrected to match the Outturn figures for 2015/16 and 2016/17. The restated Consolidated Income and Expenditure balances also need to be corrected to include previously excluded support services. You also need to include an Expenditure and Income analysed by nature note.

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan that we presented to the Audit, Governance and Standards Committee on 2 March 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- your financial position outturn position for 2016/17
- your arrangements in setting and controlling the budget position. Including the adequacy of your underlying budget assumptions.
- your processes to control and challenge budget overspends where they materialise
- review of the outcomes from your 2016/17 Outcomes Based Budgeting (OBB) exercise and the delivery against savings targets.
- review of your overall arrangements in relation to OBB to assess whether they are fit for purpose.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 27 to 31.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- you had proper arrangements in all significant respects to ensure you delivered value for money in your use of resources.

The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows:

- Enhance the clarity of your reporting of the delivery of savings plans to Members to clarify whether overspends are the result of under-delivery of savings plans or genuine unavoidable demand pressures
- Officers and Members need to work with the Schools Forum and Department for Education to address the funding issues on your Dedicated Schools Grant.

Management's response to these can be found in the Action Plan at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk per the Audit Plan	Work to address	Findings and conclusions
Budget position and medium term financial planning Your 2016/17 forecast outturn at Month 7 was a £1.3m overspend. However, this includes the results of £3.8m of mitigating actions with funding from parking reserves and capital funding. The underlying service related overspend is therefore forecast to be £5.1m. This has been primarily driven by continued demand led pressures in Adult Social Care and Children's Social Care. Should this level of overspend continue to materialise, and with limited further mitigating actions, it would reduce your general fund balance significantly. Your medium term financial planning identifies significant budget shortfalls over the coming years. You have set a balance budget for 2017/18, incorporating over £9m of growth, but requiring the delivery of £13.3m of savings. Over the three year horizon from 2018/19 to 2020/21, you have already identified a further £8m of saving proposals, but will need to find another £22m over this period to close your budget gap, an increase on the same position last year. Your budget also considers your options around Council Tax increases. Delivery of the challenging budget will require substantial oversight and review, and must be underpinned by robust assumptions. Failure to deliver on your plans presents a serious risk to your overall financial health.	We reviewed your arrangements in setting and controlling the budget position. We reviewed the adequacy of your underlying budget assumptions. We reviewed your processes to control and challenge budget overspends where they materialise.	**Summary findings** • 2016/17 underlying outturn position of £4.25m overspend, primarily arising from demand led services. • General fund impact offset by one-off parking/traffic surplus and reduced revenue contribution to highways capital spend, but these cannot be relied upon in future. • Lack of clarity over the delivery of planned savings, which may cast doubt over the achievability of future savings. • Schools overspends against DSG are particularly concerning and need to be resolved. • 2017/18 has set a balanced budget, with improved growth allowances, but substantial savings required. • Budget pressures have led to increase in Council Tax of 1.99% plus a 3% social care precept. • You plan substantial efficiency and transformation savings, with £21m identified up to 2020/21. • In the medium term, you have a budget gap of £9.2m in 2018/19 rising to £22.3m by 2020/21. • The Q1 2017/18 budget monitoring suggest a reduced outturn overspend, reflecting the increased growth incorporated in the budget. • Vigilance over the position and monitoring of growth risks is essential to address future uncertainties. • Budget gaps are large and savings are becoming increasingly challenging to identify and deliver. Assumptions may be optimistic in this respect, particularly in the realisation of challenging efficiency and transformation savings. • This will lead to inevitable decisions around council tax, as well as service delivery in order to meet the forthcoming financial challenges. **2016/17 Financial Performance** Your financial outturn position shows a £1.2m underspend on the general fund. You have therefore been able to maintain your underlying reserve position. However, this position was achieved following a substantial, unbudgeted drawdown from parking and traffic reserves (£3.8m) as well as additional contributions arising from removing revenue expenditure on highways capital works (£1.6m). The underlying service level overspend is therefore £4.25m, with the most significant overspends in Health & Adult Social Care (£3.8m) and Learning and Children's Services (£2.5m). These were offset by underspends elsewhere in the council. Budget control efforts have been in place throughout the year. However, you have ultimately relied on a drawdown of central resources to fund the position. The overspends have been largely driven by demand led services, particularly Residential and Nursing Placements, Home Care, Learning Disabilities and AFC Social Care. These are principally due to the numbers of placements being substantially higher than planned, and is reflective of the low level of growth assumed in the 2016/17 budget (which we highlighted as a risk and an over-optimistic assumption last year). While significantly more growth has been incorporated in your 2017/18 budget, there is no certainty around whether this will be sufficient to address the shortcomings from 2016/17 as well as any further demand pressures for 2017/18 and beyond. Reporting of this outturn has been reasonably consistent throughout the year, and the reporting is clear around the impact of the overspends. These have been clearly communicated to senior officers and members.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Budget position and medium term financial planning (continued)		However, there continues to be a lack of transparency over the delivery of savings programmes. In Adult Social Care alone, the original budget required the delivery of £3.2m of savings in 2016/17, with £12m to be delivered in total. There is a lack of clarity in reporting to members over whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you are not properly able to identify the robustness of future plans and create an assessment as to the deliverability of the £13m of additional savings in the 2017/18 budget. It also hampers your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings. The other major area of overspend in 2016/17 is against the Dedicated Schools Grant (DSG) budget. A carrying overspend arose in 2015/16 of £1.7m. However, the overspend increased substantially in 2016/17 to £4.825m. This was primarily within the High Needs element, and results from costs of supporting educational attainment for children with Special Educational Needs (SEN). The DSG is a ring-fenced fund and the overspend does not currently impact the general fund balance. However, such overspends would normally be expected to be recovered against future DSG allocations or be funded by your general fund. There is no indication that future DSG will be sufficient to address the carrying £6.5m deficit, and you estimate that the deficit could rise to £23m by 2022. It is therefore imperative that you, through members, leaders and the Schools Forum, seek to manage future budgets and engage with the Department of Education to address the funding issues on DSG. You have already identified this as an area to be addressed, and if overspends continue at the current rate with no further mitigating plans or additional funding, this could result in the overspend being funded by the general fund balance, leading to a further deterioration in your financial health and financial viability. **Looking towards 2017/18 and beyond** The future financial challenges are clearly set out in the budget report. For 2017/18, you have set a balanced budget incorporating £2.7m inflationary assumptions and £9.1m of growth, offset by £13.4m of savings required. The underlying assumptions in the 2017/18 budget appear robust. In particular, substantially more growth has been incorporated for 2017/18 than the previous year. Adult Social Care has received £3.8m with Children's services receiving the majority of the remaining growth. This has been funded through the 3% Social Care precept and a 1.99% base council tax increase. Demand growth has now continued for a number of years, and the continuous increases are reflective of the significant challenges you face in setting the baseline budgets. You have acknowledged the overspend is a deficiency within the underlying budget position and have sought to address this in 2017/18. It does remain to be seen whether sufficient growth has been incorporated into the 2017/18 budget to address both the historic overspends and future growth. Accurate monitoring, including effective forecasting, will be essential to achieving the planned outturn position. Budget challenge does take place. However, the overspend in 2016/17 was primarily resolved through one-off corporate actions rather than challenges over specific budgets and budget holders. Again, improved transparency over the delivery of critical savings programmes will be essential to accurately challenging and monitoring budget positions going forward. There is a risk that failure to adequately monitor under-delivery of planned savings could have knock on implications in terms of not fully understanding the drivers behind budget overspends.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Budget position and medium term financial planning (continued)		Over the medium term, your projected gross budget gaps have increased from last year as a result of the financial settlement and changes to expectations. Your published budget papers in March 2017 showed you have a 4 year (by 2020/21) 'gap' of £22m. This gap is after taking into account over £21m of savings you have already identified. In order to close this 'gap', you have evaluated your options around council tax. There has continued to be the clear need in terms of national and local thinking to facilitate additional increases in council tax, particularly from the social care precept. Should you chose to maximise the contribution from council tax increases, this could generate an additional £8.9m of income by 2020/21. This would mean increasing by the maximum 2% and continued 3% increases from the Social Care Precept in each of the years to 2020/21. While this would assist in closing the budget gap, the final decisions will rest with members. A significant, currently unfunded, budget gap would still remain. Overall, the budget plans for 2017/18 are reasonable. However, budget gaps are substantial and, as per the next section, the savings strategy going forward will require further clarity. On-going demand led pressures are likely to continue to manifest and budget assumptions will need to be continually monitored and robustly controlled, and the financial pressures may necessitate the continued increase in council tax. **On that basis we concluded that the risk is currently sufficiently mitigated and you have proper arrangements. However, you will need to closely monitor the situation, and mitigate the associated risks, to maintain this position.**

Key findings (continued)

<table>
<tr><th>Significant risk</th><th>Work to address</th><th>Findings and conclusions</th></tr>
<tr><td rowspan="2">Outcomes based budgeting approach
Your medium term financial plan is prepared using your Outcomes Based Budgeting (OBB) approach. The approach is based on eight Community Outcomes. This has been used to develop savings plans for 2017/18 of £13.3m, with over £21m identified to 2020/21.

The OBB approach was first implemented for the 2016/17 budget round, with substantial savings proposed. The outturn position shows a significant variance against budget, primarily driven by demand led services. It is not clear how this links with achievement against OBB assumptions. Given the scale of the savings required, and the transformation proposed, failure to deliver under the approach will place further pressure on your financial position.</td><td rowspan="2">We will review the outcomes from the 2016/17 OBB exercise and the delivery against savings targets.

We will review your overall arrangements in relation to OBB to assess whether they are fit for purpose.</td><td>Summary findings
• OBB approach planned to deliver substantial savings in 2016/17, but there is a lack of clarity over the delivery of the planned savings and the overall outturn position was a large overspend.
• Similar substantial savings are required for 2017/18. However, there is a lack of clarity over how the OBB approach is different from previous savings initiatives.
• Planned re-alignment of initiatives under ‘no stone unturned’, which will be used for the 2018/19 budget.
• Remains to be seen how successful and transformational these savings will be.
• Number of changes at the SLT level including Director of Finance.</td></tr>
<tr><td>Outcomes based budgeting
In 2016/17, you planned to deliver over £12m of savings through your Outcomes Based Budgeting approach. This approach is designed around a series of ‘community outcomes’, whereby you focus services on priority areas for the council across both People and Place. This was planned to give you greater awareness over the outcomes from savings plans and service delivery, and to focus your activities on these key outcomes. Potentially, this could result in you ceasing to provide certain services that did not work towards the outcomes.

At outturn, your service level overspends were £4.25m, excluding one-off mitigating actions. Some of the largest savings initiatives included the Adult Social Care transformation programme through the Kingston Coordinated Care Programme (£1.5m), the Recommissioning of Refuse and Recycling contracts (£1.2m) and the Enabling Council staffing reductions through the revised operating model (£1.2m).

In your reporting to members, there is limited analysis of the success of these key programmes, and in particular, whether any under-delivery impacted on the financial position. In 2017/18, again, there are similar large savings plans in Income/Cost transfers in Adult Social Care (£1.2m), Highways Capital Spend (£1.5m), Enabling Council savings from redesigned operating model (£1.1m). There is a planned total saving of £13.4m, over £1m more than planned last year.

The Outcomes Based model is a reasonable approach to delivering savings. However, from our review of current and historic savings plans, it is not clear how this is significantly different from the One Council and One Kingston programmes that have gone before. Savings continue to be identified by scheme, and by department, and the only link to the OBB approach is that they are now allocated against a community outcome. It does not appear that there has been a significant shift in either savings identification strategy or the type of savings that are being identified. This suggests that the OBB model is not delivering the type of change you set out to make. We set out over the following paragraphs the revisions you are planning to the existing initiatives.</td></tr>
</table>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Outcomes based budgeting approach (continued)		**No stone unturned** You are currently re-evaluating the way you plan to deliver your future savings. There are a mix of strategies and policies in place including 'Our Kingston' and 'Outcomes Based Budgeting' which were used to deliver your plans for 2017/18. Beyond this, you continue along your vision of becoming an 'Enabling Council' whereby services are publicly designed but not necessarily publicly delivered. You aim to align all of the strategies, policies and plans into a single strategic narrative. 'No stone unturned' is your plan to deliver your Medium Term Financial Plan from 2018 for the 2018/19 budget. This is being developed as a major review of the way resources are used, through re-creating the role of the Council, re-designing work (lean thinking, digital by design, doing things differently), managing demand and enabling communities to be resilient and self sufficient and to increase your commercialism and income generation. To achieve this, you plan a number of workshops across 3 key themes of People, Place and Enabling Council. Over the coming months, the output of these exercises will be presented and agreed by the SLT and the Cabinet. The initiative is at an early stage – and the first series of workshops is currently taking place. It is clear that there needs to be greater clarity over your strategic thinking. There are have been a number of initiatives launched in the past few years; 'Enabling Council', 'Our Kingston', 'Outcomes Based Budgeting' and 'No stone unturned', and there is a lack of clarity over how these operate and function together. Delivering the planned alignment of strategies, policies and plans will be essential to delivering the clarity of vision needed going forward. Your new Chief Executive has promoted the 'no stone unturned' initiative as the way forward for Kingston. It remains to be seen whether this will achieve the planned strategic re-alignment, financial challenge and change you want to see. The 2018/19 budget will be the acid test – it must demonstrate an output that is sufficiently different from existing programmes and lead to genuine transformation. Significant savings will still be required, as the financial challenge is not likely to abate in the medium term. You are unlikely to be able to rely on on-off measures to balance the financial position – reliance on such being an undesirable and unsustainable position in any event - so delivery and close monitoring of the budget will remain essential. There have also been a number of changes at the SLT level, and filling vacant posts, such as the Director of Finance (or equivalent) will be critical to ensure the plans are driven forward appropriately with appropriate leadership cohesion and vision. Overall, you recognise the challenges you face and are planning to re-align your overall strategies under the 'no stone unturned' initiative. Lessons must be learned from previous plans, especially making sure they deliver the transformation that previous efforts have not. **On that basis we concluded that the risk was sufficiently mitigated and you have proper arrangements, although risks require careful consideration to maintain this position**

Section 4: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and **provision of non-audit services.**

Fees

	Proposed fee £	Final fee £
Council audit	110,490	110,490
Audit of Achieving for Children audit shared 50% with London Borough of Richmond upon Thames	14,000	14,000
Grant certification	19,763	TBC
Total audit fees (excluding VAT)	**144,253**	**TBC**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:
- 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to you. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Pooling of Capital Receipts Return	**TBC**
• 50% Achieving for Children Teachers Pension certification 2016/17	**TBC**
Non-audit services	**2,938**
• **50% Achieving for Children Taxation compliance services**	
• **Review of implications of establishing a joint Vehicle company**	**6,950**
• **Financial model for development company**	**43,805**

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as your auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Audit related services				
	Pooling of Capital Receipts Return and Achieving for Children Teachers Pension Certification	TBC	No	Level of fees is significantly below the audit fee. You prepare all the figures for the claim which we independently audit
Non-audit services				
	50% of Achieving for Children Taxation compliance services	2,938	No	This work is undertaken by a completely separate team to that of your main audit team. Tax computations are subject to independent review. Level of fees is significantly below the audit fee
	Review of implications of establishing a joint vehicle company	6,950	No	Level of fees significantly below the audit fee. Work undertaken by a separate team from the audit team.
	Financial Modelling for Development company	43,805	No	Work undertaken by a separate team from the audit team. Work approved by Public Sector Audit Appointments..
	TOTAL	TBC		

Section 5: Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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 at the time of our appointment. 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 NAO (https://www.nao.org.uk/code-audit-practice/about-code/). 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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Prepare journals to ensure the financial ledger is updated to take account of any transfers between bank accounts		The journals were delayed due to workloads at a time of staff changes due to a retirement and a maternity leave. Reconciliations were prioritised and these were kept up to date with the differences being highlighted in the reconciliation between the GL and the bank accounts. This is now up to date.	**Already done and ongoing.** **Victoria Goddard – Executive Head of Finance Shared Service**
2	Enhance the clarity of your reporting of the delivery of savings plans to Members to clarify whether overspends are the result of under-delivery of savings plans or genuinely unavoidable demand pressures		Work has progressed with finance staff and service managers to develop this aspect of reporting for SLT, this will be reflected in future monitoring and budget setting reports to Committees	**Monitoring Reports to September / October 2017 Committees.** **SLT members.**
3	Officers and Members need to work with the Schools Forum and Department for Education to address the funding issues on your Dedicated Schools Grant.		Lobbying of Ministers at DfE and DCLG is already underway and continuing, both by RBK and at a London wide level (including through London Councils and the society of London Treasurers. RBK and AfC are developing an range of actions and will work with the Schools Forum to reduce the overspending in respect of SEN, and to modify the allocation of DSG between schools and centrally retained budgets.	**By 30 November 2017** **Rob Henderson (AfC)** **SLT members.**

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

We anticipate we will provide you with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL BROUGH OF KINGSTN UPON THAMES

We have audited the financial statements of Royal Borough of Kingston (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. 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 interim Section 151 officer and Head of Finance Strategy and Accounting and auditor

As explained more fully in the Statement of Responsibilities, the Interim Section 151officer and Head of Finance Strategy and Accounting 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Interim S151 Officer and Head of finance and Strategy; and the overall presentation of the financial statements.

B: Audit opinion

In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters

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

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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.

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Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017

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 has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

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

30 Finsbury Square
London
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September 2017