

# Annual Audit Letter

Royal Borough of Kensington and Chelsea

Audit 2010/11



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## Traffic light explanation

Red  Amber  Green 

# Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of the Royal Borough's financial statements; and
- my assessment of the Royal Borough's arrangements to achieve value for money in its use of resources.

Key audit risk	My findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Value for money

I issued an unqualified conclusion stating the Royal Borough had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Audit opinion and financial statements

I issued an unqualified opinion on the financial statements.



# Current and future challenges

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Economic downturn and pressure on the public sector

The Royal Borough has continued to manage its budget effectively. Nevertheless, it faces continuing challenges to balance its financial position, reflecting a number of financial pressures, including reductions in central government grant and local income streams. The latest budget monitoring reports show that the Royal Borough is on track to meet its budget for 2011/12, delivering its £23 million savings plans. It plans for further savings amounting to £20 million over 2012/13 and 2013/14. Maintaining financial management disciplines therefore remains important as the Royal Borough responds to the challenges faced.

Tri-borough

In May 2011, the Royal Borough agreed plans to combine certain services with the City of Westminster Council and the London Borough of Hammersmith and Fulham. Children's services and libraries are the first services to be shared under this 'tri-borough' programme and discussions are ongoing with Central London Community Healthcare NHS Trust over the further integration of adult social care. In addition, there are some 'bi-borough' initiatives involving the Royal Borough and the London Borough of Hammersmith and Fulham, including the appointment of a joint chief executive from October 2011. The tri-borough programme's objective is to improve people's lives across the three boroughs whilst delivering significant savings to the partners that can be used to protect front-line service provision. Demonstrating the improvement and efficiency outcomes – and embedding sound governance arrangements to underpin the initiative - will be critical to the Royal Borough's (and its partners') continuing achievement of value for money in the use of resources.

Financial statements

Following the introduction of International Financial Reporting Standards (IFRS) in 2010/11, the framework for preparing local government financial statements will remain relatively stable in 2011/12. This affords the Royal Borough the opportunity to reflect on the format and content of its first set of financial statements produced under IFRS. There are also some additional requirements for the 2011/12 financial statements that will require particular consideration, notably:

- responding to changes to the Housing Revenue Account financing system; and
- accounting for tangible heritage assets in accordance with FRS 30: Heritage Assets.

The Audit Commission's Audit Practice will be running a series of workshops in early 2012 to brief finance teams on the impact of these changes.

# Financial statements and annual governance statement

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**The Royal Borough's financial statements and annual governance statement are important means by which the Royal Borough accounts for its stewardship of public funds.**

## **Royal Borough financial statements**

I issued an unqualified opinion on the Royal Borough's financial statements on 26 September 2011 following their approval by the Audit Committee on 21 September 2011. Despite the challenges presented by the introduction of IFRS, the draft statements presented for audit were of a good standard and required few amendments, demonstrating the effectiveness of the Royal Borough's closedown procedures and quality review processes. Detailed findings from my audit were set out in my annual governance report that was presented to the Audit Committee on 21 September 2011.

## **Pension fund financial statements**

I also issued an unqualified opinion on the pension fund financial statements on 26 September 2011. Whilst there were improvements in the quality of the draft pension fund financial statements presented for audit this year, I identified a number of continuing weaknesses in the Royal Borough's arrangements for the preparation of those financial statements. These mainly related to working papers provided to support the figures and disclosures in the financial statements. My detailed findings were set out in my pension fund annual governance report that was considered by the Audit Committee on 21 September 2011. Action has been agreed with officers for 2011/12 to address the recommendations set out in my report.

## **Whole of government accounts**

Whole of government accounts (WGA) are commercial-style accounts covering the public sector and include some 1,700 separate bodies. Local authority auditors are required to submit an audited 'pack' to the Department for Communities and Local Government by the end of September. This incorporates the auditor's assurance statement on each local authority's WGA submission. I received the Royal Borough's pack to schedule and issued my assurance statement on 26 September 2011. There are no issues that I need to bring to Members' attention arising from my work.

**Certification of the 2010/11 audit**

I certified the completion of the audit of the Royal Borough's 2010/11 accounts on 26 September 2011.

# Value for money

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**I considered whether the Royal Borough was managing and using its money, time and people to deliver value for money (VFM). I assessed the Royal Borough's performance against the criteria specified by the Audit Commission and have reported the outcome as the VFM conclusion.**

I assessed the Royal Borough's arrangements to secure economy, efficiency and effectiveness in its use of resources against two criteria specified by the Audit Commission. My overall conclusion was that the Royal Borough had adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources for 2010/11.

My conclusion against each of the criteria is set out below.

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## Value for money criteria and key messages

Criterion	Key messages
<b>1. Financial resilience</b> <b>The organisation has proper arrangements in place to secure financial resilience.</b>	<p>I assessed the Royal Borough's systems and processes to secure financial resilience. My work in particular considered the Royal Borough's arrangements for:</p> <ul style="list-style-type: none"><li>■ budget-monitoring and securing the planned financial outturn for 2010/11; and</li><li>■ budget-setting for 2011/12 and medium-term financial-planning.</li></ul> <p>I was satisfied the Royal Borough had proper arrangements in place to secure financial resilience.</p>
<b>2. Securing economy efficiency and effectiveness</b> <b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	<p>I assessed the Royal Borough's arrangements for prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. My work in particular considered the Royal Borough's arrangements for delivering its savings plans for 2011/12 and the medium term. I was satisfied the Royal Borough had proper arrangements in place for securing economy, efficiency and effectiveness.</p>

## Criterion

## Key messages

The Royal Borough has approved ambitious proposals for sharing services, premises and management capacity in partnership with the City of Westminster Council and the London Borough of Hammersmith and Fulham. I therefore also reviewed the initial proposals and concluded there was no impact on my 2010/11 VFM conclusion. The effectiveness of the proposals will, however, be reviewed further as part of the 2011/12 conclusion in the context of:

- short and medium-term financial planning (including savings projections) and supporting budgetary processes;
  - the methodology for the attribution of costs and savings; and
  - governance arrangements to support the joint management of services.
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# Other work

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## **Grant claims**

My work is continuing in relation to the certification of 2010/11 grant claims, where the deadline for the final claim covered is not until 31 December 2011. As for 2009/10, I will report the findings of this year's certification programme in my 'certification of claims and returns - annual report' on completion of my work. My report will be presented to the Audit Committee on 4 January 2012. The findings will be in line with those reported in the 2009/10 annual report that I presented to the March 2011 Audit Committee. There are no issues that I need to raise in advance of my report.

# Closing remarks

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## Reporting during the year

I have discussed and agreed this letter with the Joint Chief Executive and the Town Clerk and Executive Director of Finance. I will present the letter to the Audit Committee on 4 January 2012 and Cabinet on 5 January 2012. A copy will be provided to all Royal Borough Members.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the reports issued to the Royal Borough during the year.

Report	Date issued
Opinion audit plan	January 2011
Certification of claims and returns - annual report (2009/10)	February 2011
Annual governance report – main financial statements	September 2011
Annual governance report – pension fund financial statements	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Certificate of completion of the audit	September 2011

## The externalisation of the Audit Practice

In July 2011, Department for Communities and Local Government Ministers confirmed that the work of the Audit Commission's in-house Audit Practice would transfer to the private sector through a contractual outsourcing exercise. The Audit Commission is therefore carrying out a procurement process to allow private-sector bidders to compete for this audit work. This will mean the work currently undertaken by the Audit Practice, including the Royal Borough's audit, will be outsourced from the audit of the 2012/13 accounts.

Against this background, my focus remains:

- fulfilling my remaining responsibilities – completing my work for 2010/11 and delivering the Royal Borough's 2011/12 audit - to the high standards the Royal Borough expects and deserves; and
- managing a smooth transition to the Royal Borough's new audit provider for 2012/13.

### **A final word**

The Royal Borough has taken a positive and constructive approach to my work. I would like to thank the Royal Borough's staff for their support and co-operation during the course of the 2010/11 audit.

Michael Haworth-Maden

District Auditor

November 2011

# Appendix 1 - Fees

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	Actual	Proposed	Variance
Main audit fee (notes 1 and 2)	£295,000	£295,000	---
Pension fund fee (note 3)	£39,800	£35,000	£4,800

Note 1: The Audit Commission scale fee for the Royal Borough is £345,000. The 2010/11 fee is some 14 per cent below the scale fee, amongst the lowest in London.

Note 2: The fee excludes Audit Commission rebates amounting to £31,916.

Note 3: The additional fee reflects the continuing weaknesses in the Royal Borough's arrangements for the preparation of the pension fund financial statements (see the 'financial statements and annual governance statement' section of this letter).

Note 4: The 2010/11 grant certification programme remains in progress. I will provide an update on the outturn fee at the Audit Committee on 4 January 2012.

# Appendix 2 - Glossary

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## **Annual governance statement**

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the audited body on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## **Audit opinion**

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

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

## **Opinion**

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

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

## **VFM conclusion**

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

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

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