

Annual Governance Report

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Date: September 2007

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# **Annual Governance Report**

**Tonbridge and Malling Borough Council**

**Audit 2006/07**

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Author Lindsey Mallors

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

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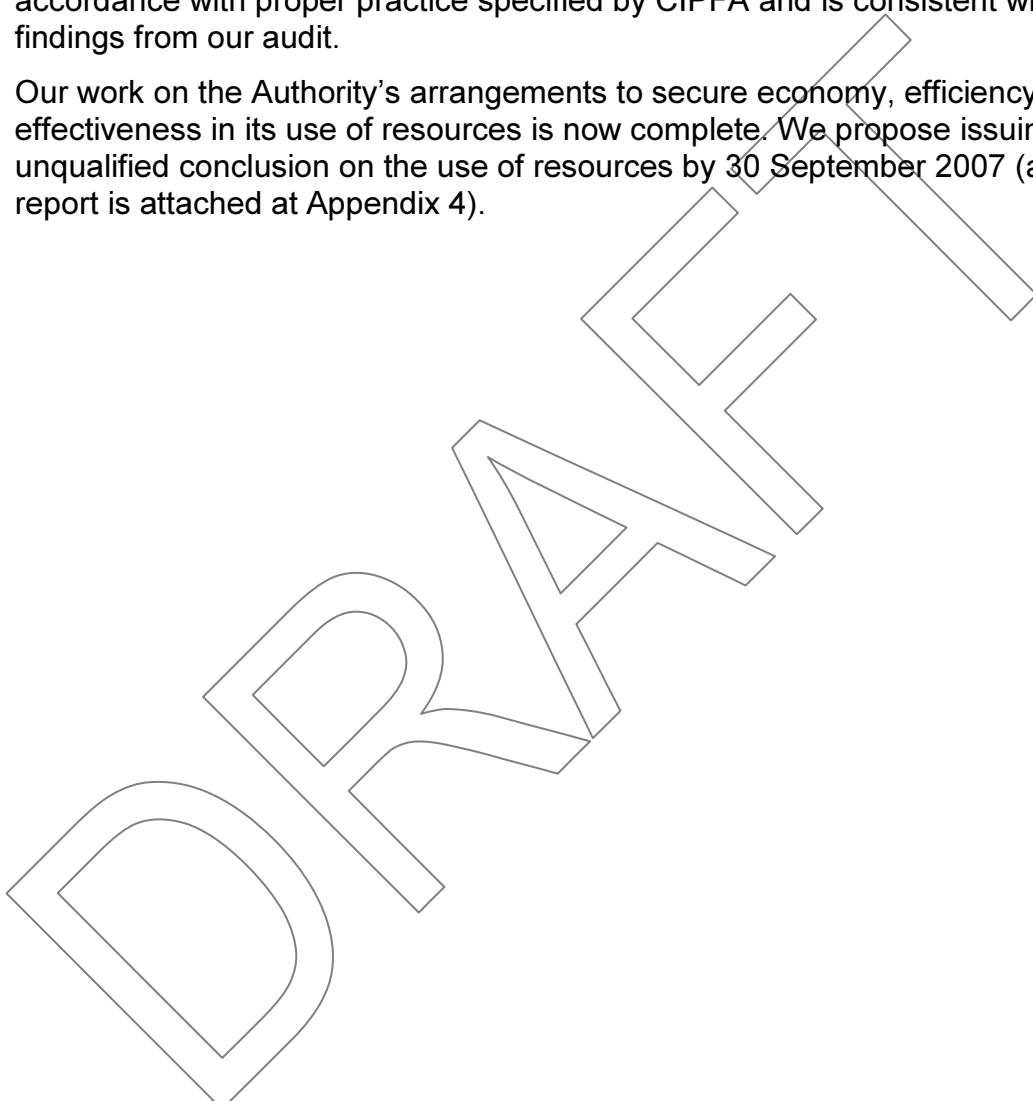
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## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the General Purposes Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the General Purposes Committee on 26 September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - approve the representation letter on behalf of the Authority and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to your Audit Committee on 26th June 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

## Key messages

- 6 Our work on the financial statements is now complete. We propose issuing an unqualified audit opinion by 30 September 2007 (a draft report is attached at Appendix 4).
- 7 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.
- 8 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources by 30 September 2007 (a draft report is attached at Appendix 4).



## Audit status

- 9 At the date of issue of this report our detailed audit is now complete.
- 10 The Authority has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Authority's assistance and co-operation.

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## Accounts and Statement on Internal Control

- 11 Our work on the financial statements is now complete.
- 12 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 13 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 14 The final draft of the letter of representation has been attached as Appendix 5.

### Unadjusted misstatements

- 15 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. There are no unadjusted misstatements for us to bring to the attention of members.

### Adjustments to the financial statements

- 16 We are also required to bring to your attention misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are recorded in full at Appendix 6 but we provide an analysis of the most significant items below for your attention.
- 17 Note 17 - Capital Commitments was understated by £132k in respect of four projects completed in 2006/07 where an agreement has been made with Kent County Council for a contribution. An adjustment has been made to Note 17 to reflect these additional commitments. An additional paragraph has also been included for 'budgeted' amounts of £300k in respect of capital projects that the Authority will contribute towards.



## Accounting practices

- 18 We are also required to report to you our view on the qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.
- 19 Our 2005/06 Annual Governance Report raised concerns over capital budgeting and monitoring procedures at the authority and recommended that schemes are periodically re-appraised with any surplus budgets identified to maximise effective use of funds available. A review of capital expenditure during 2006/07 identified expenditure, net of government grants of £2,257k compared to an initial budget of £4,191k and a revised budget of £4,389k indicating no apparent improvement to the monitoring process. The main variances were attributable to slippage and underspend against budget. It is considered that capital project monitoring needs to be strengthened in order to provide assurance that money spent against budget is being properly managed and reported to members. The risk is that capital accruals and commitments are not being properly identified and therefore may not be disclosed in the accounts, as noted in paragraph 17 above 'Adjustments to the financial statements'.
- 20 Officers have stated that new procedures are being implemented during 2007 with the aim of improving capital project management. We will continue to monitor the situation as part of our 2007/08 interim audit.
- 21 A review of the debtor control account reconciliations identified periods when no reconciliations had been undertaken. Further investigation identified 5 out of the 12 monthly reconciliations had not been performed during 2006/07. This was primarily due to the Chief Cashier leaving the Authority half way through the year with the responsibility falling on the Exchequer Assistant to complete this task. Officers also brought to our attention that the Bank reconciliation had not always been carried out on a timely basis. Having identified these problems officers have taken the appropriate steps to ensure that reconciliations are carried out on a monthly basis with effect from the 2007/08 financial year.
- 22 Despite requests from officers, related party returns have not been received from two ex-councillors, Lavery and Munro, as required by the SORP and ISA+550. The Authority should ensure that if all returns are not received before the audit commences satisfactory alternative evidence has been obtained in accordance with the SORP.

### Recommendations

- R1 Officers should strengthen capital project management procedures as a priority and implement appropriate arrangements to ensure that money spent against budget is being managed and reported effectively.*
- R2 Monthly key control account reconciliations should be performed on a timely basis and monitored by senior officers to prevent the weakening of the Councils systems of internal control.*

## Systems of internal control

- 23 As part of our audit, we consider the systems of accounting and financial control and report to you any material weaknesses identified. Whilst we have identified some areas where improvements can be made to the Authority's systems of internal control, there are no issues of a material nature that we need to bring to the attention of the Council.
- 24 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 25 We have also reviewed whether the Statement of Internal Control has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.

## Use of resources

### Work performed

- 26 The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources - the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion included the following elements:
- data quality work; and
  - the best value performance plan.
- 27 Details of our conclusion for each of the criteria specified by the Audit Commission are set out in Appendix 7.

### Data quality work

- 28 Our data quality review is now complete, and there are no matters that we need to bring to the attention of members. We will be discussing our findings from this audit with the relevant officers shortly, and a report and action plan will be presented to a future meeting of the Audit Committee.

### Best value performance plan

- 29 Our work in respect of the Authority's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 annual audit and inspection letter. No recommendations were made to the Audit Commission or the Secretary of State.

## Audit fee update

- 30 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the outturn fee against that plan.

**Table 1**

	Plan 2006/07	Actual 2006/07
Accounts and Statement on Internal Control	£58,315	£58,315
Use of Resources	£28,748	£28,748
<b>Total Audit Fees</b>	<b>£87,063</b>	<b>£87,063</b>
Relationship management	£1,575	£1,575
Direction of Travel review	£1,828	£1,828 est.
<b>Total inspection fee</b>	<b>£3,403</b>	<b>£3,403</b>
<b>Total audit and inspection fee</b>	<b>£90,466</b>	<b>£90,466</b>
Grant certification work	£29,000	£29,000 est.

- 31 The analysis above shows that our audit fee has been contained within the totals you have already agreed.

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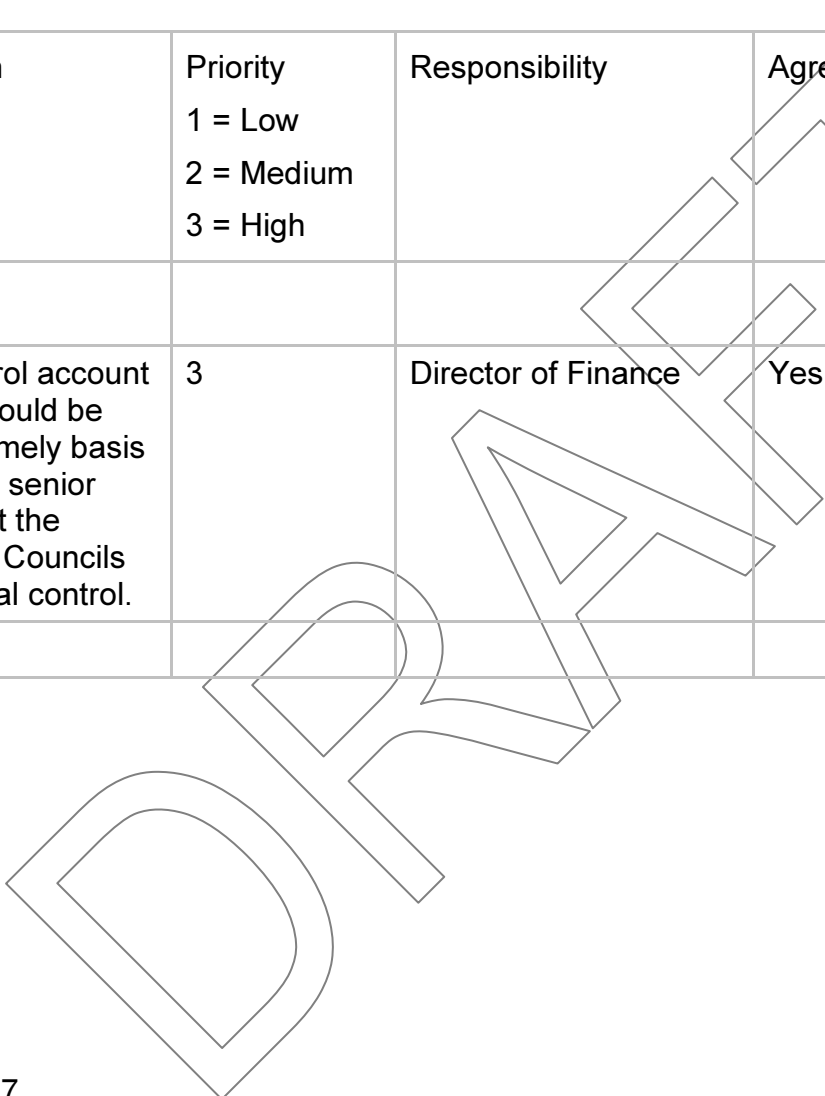
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## Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
9	Officers should strengthen capital project management procedures as a priority and implement appropriate arrangements to ensure that money spent against budget is being managed and reported effectively.	3	Director of Finance in conjunction with Corporate Management Team	Yes	A revised budgetary control procedure was agreed by Management Team and implemented in April 2007. Following discussions at Corporate Management Team to strengthen this further thorough and robust review of the Capital Program expenditure profile will take place at the revised estimate stage with Chief Officers being asked to provide schedules to match the budget against the program of work being undertaken. This revised schedule will be presented to the Finance	Nov 2007 - Jan 2008

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Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
					and Property Advisory Board in January 2008.	
9	Monthly key control account reconciliations should be performed on a timely basis and monitored by senior officers to prevent the weakening of the Councils systems of internal control.	3	Director of Finance	Yes	Key control accounts now have monthly deadlines to be reported to Management when completed.	April 2007



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## Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.

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## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	May 2006	May 2006	Audit Committee
Use of resources assessment	November 2007		Management
Data Quality report	October 2007		Management
Annual governance report	September 2007	September 2007	General Purposes Committee
Opinion on financial statements	September 2007	September 2007	The Authority
Value for money conclusion	September 2007	September 2007	The Authority
Final accounts memorandum	October 2007		Management
Relationship Manager's Letter	March 2008		Members

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## **Appendix 4 – Proposed auditor's report**

### **Independent auditor's report to the Members of Tonbridge and Malling Borough Council**

#### **Opinion on the financial statements**

I have audited the financial statements of Tonbridge and Malling Borough Council for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Tonbridge and Malling Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### **Respective responsibilities of the Chief Finance Officer and auditors**

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 and its income and expenditure for the year then ended.

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Signature .....(Lindsey Mallors , District Auditor)

Date.....

Address: 16 South Park  
Sevenoaks  
Kent TN13 1AN

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

### **Authority’s Responsibilities**

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

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and

- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

## Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for other local government bodies specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Tonbridge and Malling Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

## Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 in December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

## Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature ..... (Lindsey Mallors , District Auditor)

Date .....

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Kent TN13 1AN

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## Appendix 5 – Management representation letter

Lindsey Mallors  
District Auditor  
The Audit Commission  
16 South Park  
SEVENOAKS  
Kent  
TN13 1AN

Contact	Mrs S J Shelton
Direct line	01732 876092
Email	<a href="mailto:sharon.shelton@tmbc.gov.uk">sharon.shelton@tmbc.gov.uk</a>
Fax	01732 873530
Your ref	
Our ref	F/1/RR.5.5
Date	30 August 2007

Dear Lindsey

### **Audit for the year ended 31 March 2007 - Letter of Representation**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other senior officers of Tonbridge & Malling BC, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

#### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Committee meetings, have been made available to you.

#### **Specific representations**

There are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

#### **Related party transactions**

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and, where appropriate, adequately disclosed in the financial statements.

### **Contingent liabilities**

There are no other contingent liabilities other than those that have been properly recorded and disclosed in the Statement of Accounts. In particular:

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties other than those already disclosed in the financial statements .

### **Going Concern**

There are no events, conditions or related business risks which cast doubt over the Council as a going concern.

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

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

In all material respects, the expenditure and income disclosed in the financial statements has been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

### **Restoration of Hadlow Tower**

The Council has agreed to stand as financial guarantor in respect of a loan granted of £100,000 by the Architectural Heritage Fund to the Vivat Trust for the restoration of Hadlow Tower pending receipt of grant monies (£2,000,000) from the Heritage Lottery Fund. The Chief Solicitor and Director of Planning, Transport and Leisure have confirmed that the loan guarantee agreement ends on 6 June 2009.

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**Post balance sheet events**

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Tonbridge & Malling Borough Council.

Signed

Name: Sharon Shelton  
Position: Director of Finance  
Date: 30 August 2007

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## Appendix 6 – Summary of adjusted misstatements

- 1 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Note 17 - Outstanding capital commitments	Understatement of capital commitments disclosed in the notes to the accounts £132k.	0	0	0	0
Net Effect	Nil				

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## Appendix 7 – Value for money conclusion

- 1 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

Code Criteria	Description	VFM Conclusion criteria met?
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Yes
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Yes
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Yes
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Yes
5	The body has put in place arrangements to maintain a sound system of internal control.	Yes
6	The body has put in place arrangements to manage its significant business risks.	Yes
7	The body has put in place arrangements to manage and improve value for money.	Yes
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Yes
9	The body has put in place arrangements to ensure that its spending matches its available resources.	Yes
10	The body has put in place arrangements for managing performance against budgets.	Yes

Code Criteria	Description	VFM Conclusion criteria met?
11	The body has put in place arrangements for the management of its asset base.	Yes
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes

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