

# Annual Governance Report

Tonbridge and Malling Borough Council

Audit 2007-2008

September 2008



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

## Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is now complete. It identifies the key issues brought to the attention of those charged with governance prior to issuing our opinion, conclusion and certificate.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to those charged with governance.

## Financial statements

- 3 Our work on the financial statements is now complete. The Council has once again produced a good set of financial statements supported by comprehensive working papers.
- 4 We issued an unqualified audit opinion on the Council's 2007/08 financial statements dated 30 September 2008. Our report is attached at Appendix 1.

## Value for Money

- 5 Our work on the value for money conclusion is also complete. We issued an unqualified value for money conclusion on 30 September 2008.

## Next steps

- 6 An action plan is included as an attachment to this report.

# Financial statements and Annual Governance Statement

- 7 The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. Council members have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that those charged with governance consider our findings before adopting the financial statements and the Annual Governance Statement.
- 8 At Tonbridge and Malling Borough Council those charged with governance for this purpose are the General Purposes Committee. We presented our findings to the General Purposes Committee on 24 September 2008.
- 9 In planning our audit we identify specific risks and areas of judgement that we have focused on during our audit. We report to those charged with governance the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to those charged with governance:
  - the draft representation letter which we ask management and those charged with governance to sign;
  - our views about the Council's accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our report;
  - weaknesses in internal control; and
  - certain other matters.

## Key areas of judgement and audit risk

- 11 In planning our audit we identified key areas of judgement and audit risk that we considered as part of our audit. Our findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
The Council's accounts are prepared using the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 (SORP). There have been a number of substantive changes in the SORP guidance relevant to preparing the 2007/08 accounts, in particular around capital accounting and accounting for financial instruments.	Our work has confirmed that officers have complied with the new SORP requirements in all material respects.

### Draft representation letter

- 12** Before we issue our opinion, auditing standards require us to obtain from management written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
  - you have approved the financial statements;
  - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
  - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
  - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
  - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
  - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
  - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
  - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate; and
  - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
  - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 13** A standard version of the representation letter which we seek from management was included in our draft annual governance report. We received a final version of the Council's letter of representation on 24 September 2008, after this had been considered by the General Purposes Committee.

Accounting policies and financial reporting

14 We have considered the qualitative aspects of your financial reporting. The issues raised with those charged with governance are detailed below.

**Table 2 Accounting practice and financial reporting**

Issue or risk	Finding
<p>Guidance in the SORP indicates that freehold land should not normally be depreciated.</p> <p>Valuations obtained in previous years for a number of the Council's assets have not split out separate land and buildings components, with depreciation then calculated on the aggregate value. Freehold land may therefore have been incorrectly depreciated for these assets.</p>	<p>Calculations by the Council indicated that cumulative depreciation had been overstated, and the value of fixed assets understated, by £374,000 due to the depreciation of freehold land.</p> <p>This amount was not material to the accounts. However, it was above the "triviality" threshold which requires us to seek an amendment to the accounts. As the amount involved was not material, management chose not to adjust the accounts as explained in the letter of representation which we received on 24 September 2008.</p> <p>To ensure that depreciation charges are correctly calculated in future years there is a need to ensure that all freehold land is separately identified in the Council's asset records.</p>
<p>The Council revalues its assets on a cyclical basis. In 2007/08 two assets due for revaluation under this cyclical programme were not revalued prior to preparation of the Council's accounts.</p>	<p>The Council has now obtained valuations for the two assets involved. These indicate that the values included in the Council's 2007/08 accounts are understated, but by an amount below the Audit Commission's triviality threshold. The Council therefore proposes to update the relevant asset records in 2008/09.</p> <p>However, in future years there will be a need to ensure that all planned valuations under the Council's cyclical programme are completed in a timely manner to allow updating of asset valuations in the financial statements.</p>

## Financial statements and Annual Governance Statement

Issue or risk	Finding
<p>In previous years the Council's financial statements have included balances for</p> <ul style="list-style-type: none"> <li>• Government Grants Deferred; and</li> <li>• Contributions Deferred.</li> </ul> <p>Review of these balances in 2007/08 indicated that the contents could be more accurately described, to distinguish between</p> <ul style="list-style-type: none"> <li>• grants and contributions which had been received but not spent; and</li> <li>• grants and contributions which had been spent, but where the relevant amount needed to be retained on the balance sheet and written out over future years, being released to offset depreciation charges on the relevant fixed assets.</li> </ul>	<p>It was agreed that these balances would be renamed in the 2007/08 accounts.</p>
<p>During 2007/08 the Council created a provision of £300,000 for costs associated with the redevelopment of Tonbridge Town Centre.</p> <p>Review of the relevant accounting standards indicates that it would have been more appropriate to account for this balance as an earmarked reserve.</p>	<p>The balance was not material, but above the triviality threshold which requires us to seek an amendment to the accounts.</p> <p>This issue was identified at a relatively late stage of the audit. Management decided not to amend the accounts as explained in the letter of representation which we received on 24 September 2008.</p> <p>However, the accounting treatment of this balance should be reviewed for 2008/09.</p>

Recommendation
<p><b>R1</b> All freehold land should be separately identified in the Council's asset records.</p>
<p><b>R2</b> Ensure all planned valuations under the cyclical revaluation programme are completed prior to preparation of the annual accounts.</p>
<p><b>R3</b> Review the accounting treatment of the provision for costs associated with the redevelopment of Tonbridge Town Centre.</p>

### Errors in the financial statements

- 15 Our materiality for the audit was set at £1.1 million. In accordance with ISA+ 320 we also set a threshold below which we judge any errors to be trivial and do not seek amendments to the accounts. This 'trivial' threshold was set at £110,000. We reported errors identified over £110,000 to the General Purposes Committee so that those charged with governance could consider whether to request the Director of Finance to amend the accounts.
- 16 Details of the unadjusted misstatements above our triviality threshold were included in the letter of representation which we received on 24 September 2008. This letter included management's explanation as to why the misstatements had not been adjusted and was approved by the General Purposes Committee.
- 17 A number of amendments and additions to the text of disclosure notes were also agreed with officers to improve the clarity of the financial statements.

### The audit report

- 18 We issued an unmodified report, including an unqualified opinion on the financial statements, on 30 September 2008. A copy of our report is at Appendix 2.

### Material weaknesses in internal control

- 19 We have not identified any weakness in the design or operation of internal control that might result in a material error in your financial statements of which you are not aware.
- 20 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

### Other matters

- 21 There are no other matters that auditing standards required us to report to those charged with governance.



# Value for money

- 22 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. We assess your arrangements against 12 criteria specified by the Commission. Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission.
- 23 We have assessed the arrangements of the Council as adequate in all 12 areas and issued an unqualified value for money conclusion on 30 September 2008.

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# Formal audit powers

24 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
  - making a decision that might give rise to unlawful expenditure;
  - taking an unlawful course of action that would give rise to a loss; or
  - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

25 We have not and do not propose to exercise these powers.

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# Independence

- 26 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 27 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 28 We communicate to you:
- any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
  - total fees charged to you for audit and non-audit services; and
  - our arrangements to ensure independence and objectivity.

## Relationships with the Council

- 29 We have identified no relationships that might affect objectivity and independence.

## Audit fees

- 30 We reported our fee proposals as part of the Audit Plan for 2007/08. The table below reports our current expected outturn fee against that plan.

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**Table 3      Audit fees 2007/08**

	<b>Plan</b>	<b>Actual</b>
Financial statements	62,990	65,990
Value for Money	27,855	27,855
National Fraud Initiative	625	625
<b>Total audit fee</b>	<b>91,470</b>	<b>94,470</b>
Inspection	6,440	6,440
<b>Total audit and inspection fee</b>	<b>97,910</b>	<b>100,910</b>

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- 31 The increase of £3,000 for our work on financial statements reflects the need for additional testing on financial systems over and above that originally anticipated, and work associated with some accounts issues.

### Our arrangements to ensure independence and objectivity

32 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 4.

**Table 4 Arrangements to ensure independence and objectivity**

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> <li>• do not hold a financial interest in any of our audit clients;</li> <li>• may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and</li> <li>• may not enter into business relationships with UK audit clients or their affiliates.</li> </ul> <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> <li>• the general requirement to carry out work independently and objectively;</li> <li>• safeguarding against potential conflicts of interest;</li> <li>• acceptance of additional (non-audit) work;</li> <li>• rotation of key staff;</li> <li>• other links with audited bodies;</li> <li>• secondments;</li> <li>• membership of audited bodies;</li> <li>• employment by audited bodies;</li> <li>• political activity; and</li> <li>• gifts and hospitality.</li> </ul>
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

# Appendix 1 – Audit report

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

### Opinion on the financial statements

I have audited the Authority accounting statements and related notes of Tonbridge and Malling Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of 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 Director of Finance and auditor

The Director of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I 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 Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting 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 Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, 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 Authority accounting statements and related notes 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 Authority accounting statements and related notes.

### **Opinion**

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

### **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 regularly to review the adequacy and effectiveness of these arrangements.

## Appendix 1 – Audit report

### 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 principal local authorities. 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.

### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities 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 ended 31 March 2008.

### Best Value Performance Plan

The previous appointed auditor issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 in December 2007. She 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.

Andy Mack  
District Auditor  
Audit Commission  
16 South Park  
Sevenoaks  
Kent  
TN13 1AN

30 September 2008

## Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 All freehold land should be separately identified in the Council's asset records.	3	Principal Accountant	Yes	Freehold land will be identified during 2008/09 and accounting changes made at this time.	December 2008
7	R2 Ensure all planned valuations under the cyclical revaluation programme are completed prior to preparation of the annual accounts.	3	Principal Accountant	Yes	Protocol identified internally and will be shared with external valuers for revaluations due in 2008/09	December 2008
7	R3 Review the accounting treatment of the provision for costs associated with the redevelopment of Tonbridge Town Centre.	3	Principal Accountant	Yes	The accounting treatment of the provision for costs associated with the redevelopment of Tonbridge Town Centre will be reviewed in 2008/09 and adjusted accordingly as appropriate.	December 2008



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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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## Copies of this report

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