

Annual Governance Report

Tonbridge and Malling Borough Council

Audit 2009/10

Date **September 2010**

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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.
-

Key messages

Ladies and Gentlemen

2009/10 Annual Governance Report

I am pleased to present the results of my audit work for 2009/10.

I discussed a draft of the report with the Director of Finance in August 2010.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements;
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Andy Mack
District Auditor

September 2010

Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	Yes	8
Adequate internal control environment	Yes	9
Value for money	Results	Page
Adequate arrangements to secure value for money	Yes	10

Financial statements

- 1 My work on the financial statements is now substantially complete. As in previous year's the Council's accounts have been produced to a high standard, with only a small number of adjustments required and strong working paper trails to support the financial statements.
- 2 At the date of writing this report the areas where work remains outstanding are;
 - obtaining responses to a small number of audit queries and requests for additional information;
 - reviewing a draft version of the "Summary of Accounts and Review of the Year" to ensure that the content is consistent with the financial statements;
 - considering the additional disclosure required following the recent government announcement that the Consumer Price Index (CPI), rather than the Retail Price Index (RPI) will be used as a measure of price inflation for pensions increases
 - checking a final version of the accounts which contains all agreed amendments; and
 - obtaining a signed letter of representation.
- 3 I anticipate that I will complete any remaining work to allow the issue of my audit opinion by 30 September 2010. Should any significant issues arise from my remaining work I will bring them to the attention of the Chair of the General Purposes Committee.

Key messages

- 4 Subject to any issues arising from the outstanding work I propose to issue an unqualified audit opinion on the Council's 2009/10 financial statements. I have set out a draft auditor's report containing my proposed opinion at Appendix 1.

Value for money

- 5 I intend to issue an unqualified opinion on the arrangements the Council has in place to secure economy, efficiency and effectiveness.

Independence

- 6 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

7 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements;
- agree to adjust the errors in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the errors; (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 8 Subject to the satisfactory completion of outstanding work, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Key areas of judgement and audit risk

- 9 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
The Council has a deposit of £1m with Landsbanki, which was taken into the ownership of the Icelandic government in October 2008. The valuation of this deposit currently reflects an impairment calculated in accordance with CIPFA guidance. We will again need to consider the valuation of this investment in the 2009/10 accounts.	The Council has followed the approach outlined by CIPFA in the update (May 2010) to LAAP Bulletin 82. I have concluded that the balance included in the accounts is fairly stated.
The Council's accounts are prepared using the 'Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009' (SORP). There have been a number of changes in this year's SORP guidance relevant to preparing the 2009/10 accounts.	My work has confirmed that officers have complied with changes to the SORP requirements in all material respects
The Council will again need to consider the impact of current economic conditions on the valuation of its fixed assets.	My work in this area is not yet complete However, the work completed to date indicates that the fixed asset valuations included in the accounts are fairly stated.

Errors in the financial statements

- 10** My audit of the Council's accounts seeks to ensure that the accounts are materially correct and present a true and fair view of the financial transactions of the Council in 2009/10 and its financial position at year end.
- 11** I set the materiality level for this Council at £1,290,000. I also set a threshold below which I judge errors to be 'trivial' and do not seek amendments to the accounts. I have set this level at £12,000.
- 12** At the date of this report I have only identified one unadjusted error above this triviality threshold. Details are included at Table 2 below.

Table 2 Unadjusted errors

Issue or risk	Finding
<p>Classification of Housing and Planning Delivery Grant</p>	<p>The guidance notes supporting the 2009 Statement of Recommended Practice (SORP) indicate that the revenue element of Housing and Planning Delivery Grant should be accounted for as a General Government Grant.</p> <p>The Council received an amount of £489,000 under this heading in 2009/10, but has accounted for it as a specific grant.</p> <p>This error affects a number of entries on the Income and Expenditure Account. However, as there is no net impact on the surplus/deficit for the year, officers have decided not to adjust the 2009/10 accounts.</p>

- 13** My work also identified that;
- the bad debt provision for council tax debtors was understated by £55,000, as the calculation was not based on the correct system report. When allocated across all precepting authorities the impact of this error was trivial to the Council's accounts, but there is a need to review the calculation for 2010/11; and

Financial statements

- arrears for court costs were included in the council tax debtors allocated to precepting authorities. In our view amounts receivable in the form of penalties should be accounted for in the General Fund of the billing authority rather than treated as income to the collection fund. The amounts involved could not be accurately identified but I am satisfied this is not a material issue.

14 No other adjustments were required to the amounts included in the draft accounts. However, I have agreed a number of amendments and additions to the text of disclosure notes with officers.

Recommendation

- R1** Housing and Planning Delivery Grant should be accounted for in accordance with SORP guidance. The current SORP guidance is that the revenue element should be accounted for as a general government grant.
- R2** The calculation of the bad debt provision for council tax should be reviewed to ensure that this is based on the correct system reports.
- R3** Arrears for court costs should not be included as council tax debtors allocated across precepting authorities.

Important weaknesses in internal control

15 A material weakness in internal control is a deficiency in design or operation which could adversely affect the Council's ability to record, process, summarise and report financial and other relevant data. I have not identified any such weakness in the design or operation of internal controls that might result in a material error.

Letter of representation

16 Before I issue my opinion, auditing standards require me to ask management for written representations about your financial statements and governance arrangements, and for these representations to be considered by those charged with governance. Appendix 3 contains the draft letter of representation I am seeking to obtain for 2009/10.

Value for money

I am required to decide whether in 2009/10 the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money conclusion

- 17** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 4.
- 18** I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Glossary

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, and 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 Council 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 closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

On completion of the audit of the accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Materiality

19 Information is material if its omission or misstatement could influence the decisions of readers of the accounts taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.

Qualified

20 The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money 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.

Appendix 1 – Independent auditor’s report to Members of Tonbridge and Malling Borough Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of Tonbridge and Malling Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of 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 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Director of Finance and auditor

The Director of Finance's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the "Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice" are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting 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 accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of 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 accounting 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 accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the Summary of Accounts and Review of the Year. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the 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 accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council’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 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 accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the "Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice", of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

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

Council’s Responsibilities

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and

Appendix 1 – Independent auditor’s report to Members of Tonbridge and Malling Borough Council

governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’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 May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Tonbridge & Malling Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

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

(Officer of the Audit Commission)

16 South Park
Sevenoaks
Kent
TN13 1AN

Date:

Appendix 2 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 3

Description of error	Accounts affected	Value of error
The revenue element of Housing and Planning Delivery grant has been accounted for as a specific grant instead of a general government grant.	I&E account and related notes	<p>General government grants understated by £489,000.</p> <p>There is a matching overstatement of specific grants.</p> <p>No net impact on the surplus/deficit for the I&E account.</p>

Appendix 3 – Draft letter of representation

To: Andy Mack
Appointed Auditor
16 South Park
Sevenoaks
Kent
TN13 1AN

Tonbridge and Malling Borough Council: Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Tonbridge and Malling Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are explained on the attached schedule.

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 Council and Committee meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or 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; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements 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.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For each assumption relating to fair value measurements for financial assets and liabilities, I confirm:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and

Appendix 3 – Draft letter of representation

- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- 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.

Related party transactions

I confirm the completeness of the information disclosed 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

Post balance sheet events

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

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.

It is the Council's current intention to hold those assets classified as long term investments on the balance sheet to the date of maturity.

.The Annual Governance Report and this letter were considered by Members at the General Purposes Committee on 6 September 2010.

Signed on behalf of Tonbridge and Malling Borough Council

.....
Name: Sharon Shelton

Position: Director of Finance

Date

As minuted by the General Purposes Committee at its meeting on 6 September 2010

Signed:.....
(Chair)

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Appendix 4 – Value for money criteria

KLOE	Met
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2009/10 - Recommendations						
R4	Housing and Planning Delivery Grant should be accounted for in accordance with SORP guidance. The current SORP guidance is that the revenue element should be accounted for as a general government grant.	2	Principal Accountant	Yes	Previously accounted for as a specific grant. The grant is now been withdrawn by HM Government. No changes will be made to the accounts for either 2009/10 or 2010/11 statements, particularly given the fact that there is a nil impact on the surplus or deficit for the year.	March 2011
R5	The calculation of the bad debt provision for council tax should be reviewed to ensure that this is based on the correct system reports.	2	Principal Accountant	Yes	Correct figure will be used to calculate provision.	March 2011
R6	Arrears for court costs should not be included as council tax debtors allocated	2	Principal Accountant	Yes	The report from the Revenues System does not disaggregate the costs.	March 2011

Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	across precepting authorities.				Report improvement from the Software Supplier has been requested in order to facilitate this recommendation.	

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, auditing the £200 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.

Copies of this report

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