

Annual Governance Report

Tonbridge & Malling Borough Council

Audit 2007/08

September 2008

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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.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue 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 you.

Financial statements

- 3 Our work on the financial statements is now substantially complete. The Council has once again produced a good set of financial statements supported by comprehensive working papers. The areas where work remains outstanding are;
 - review of fixed asset accounting and valuations; and
 - receipt of direct confirmation for year end bank balances.
- 4 We anticipate that any remaining work will be completed to allow the issue of our audit opinion by 30 September 2008. Should any significant issues arise from our remaining work we will bring them to the attention of the Chair of the General Purposes Committee.
- 5 Subject to any issues arising from our outstanding work we propose to issue an unqualified audit opinion on the Council's 2007/08 financial statements. A draft auditor's report containing our proposed opinion is at Appendix 2.

Value for Money

- 6 We propose issuing an unqualified value for money conclusion based on our review of the Council's use of resources in 2007/08.

Next steps

- 7 We ask the General Purposes Committee to:
 - consider the matters raised in this report before approving the financial statements; and
 - approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate.

Financial statements and Annual Governance Statement

- 8 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 the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 9 In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 10 In addition, auditing standards require us to report to you:
- the draft representation letter which we are asking management and you 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 have 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
<p>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.</p>	<p>Our work has confirmed that officers have complied with the new SORP requirements in all material respects.</p>

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 Appendix 1 contains the draft letter of representation which we are seeking from management, and which we will ask you to approve on behalf of the Council prior to giving our opinion.

Accounting policies and financial reporting

14 We have considered the qualitative aspects of your financial reporting. The issues we want to raise with you 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>Although our work on fixed assets is yet to be completed, our initial review suggests that this is not a material issue for the 2007/08 accounts. However, 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. 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>
<p>In previous years the Council's financial statements have included balances for</p> <ul style="list-style-type: none"> - Government Grants Deferred; and - Contributions Deferred <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"> - grants and contributions which had been 	<p>It was agreed that these balances would be renamed in the 2007/08 accounts.</p>

Financial statements and Annual Governance Statement

Issue or risk	Finding
received but not spent; and - 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.	

Recommendation
R1 All freehold land should be separately identified in the Council's asset records.
R2 Ensure all planned valuations under the cyclical revaluation programme are completed prior to preparation of the annual accounts.

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 report any errors identified over £110,000 to the General Purposes Committee so that the Committee can consider whether to request the Director of Finance to amend the accounts.
- 16 Our work to date has not identified any errors in the financial statements other than those of a trivial nature.
- 17 A number of amendments and additions to the text of disclosure notes have been agreed with officers to improve the clarity of the financial statements.

The audit report

- 18 We currently plan to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 2 contains a copy of our draft report.

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 require me to report to you.

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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 we therefore propose to issue an unqualified conclusion.

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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; or
 - 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.

Table 3 Audit fees 2007/08

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

- 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"> • do not hold a financial interest in any of our audit clients; • 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 • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
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 – Management representation letter (ISA+580)

To:

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

Tonbridge & Malling Borough Council: Audit for the year ended 31 March 2008

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Tonbridge & 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 2008.

Compliance with the statutory authorities

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

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;

Appendix 1 – Management representation letter (ISA+580)

- 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 basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require/do not 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
- assets pledged as collateral.

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Appendix 1 – Management representation letter (ISA+580)

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.
-

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 additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

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.

Signed on behalf of Tonbridge & Malling Borough Council

.....
Sharon Shelton
Director of Finance

Date.....

As minuted by the General Purposes Committee at its meeting on

Signed..... (Chair)

Appendix 2 – 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 & 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 & 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

Appendix 2 – Audit Report

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.

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 & 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