

Annual Governance Report

Tonbridge & Malling Borough Council

Audit 2008/09

Date August 2009

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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.
-

Ladies and Gentlemen

2008/09 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2008/09, which is substantially complete.

A draft of the report was discussed and agreed with the Chief Executive and Director of Finance in August 2009.

The 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;
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 2); and
- agree your response to the proposed action plan (Appendix 3).

Yours faithfully

Andy Mack
District Auditor
7 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess how well you use and manage your resources to deliver value for money.

Financial statements

- 1 Our work on the financial statements is now substantially complete. As in previous years 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;
 - the need for further evidence to support the write back of balances totalling £294,000 in respect of commuted car parking;
 - the need for a declaration from the former Monitoring Officer confirming that there are no issues to her knowledge requiring disclosure in the accounts, and that there are no related party transactions involving her;
 - review of a draft version of the "Summary of Accounts and Review of the Year" to ensure that the content is consistent with the financial statements; and
 - the need to obtain a signed letter of representation.
- 3 We anticipate that any remaining work will be completed to allow the issue of our audit opinion in advance of the deadline of 30 September 2009. Should any significant issues arise from our remaining work we will bring them to the attention of the Chair of the General Purposes Committee.
- 4 Subject to any issues arising from our outstanding work we propose to issue an unqualified audit opinion on the Council's 2008/09 financial statements. A draft auditor's report containing our proposed opinion is at Appendix 1.

Use of resources

- 5 We propose issuing an unqualified value for money conclusion based on our review of the Council's use of resources in 2008/09.

Next steps

This report identifies the key messages that you should consider before we issue the opinion on the financial statements, value for money conclusion, and audit closure certificate. It 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.

1 We ask the General Purposes Committee to:

- consider the matters raised in the report before approving the financial statements
- agree to adjust the errors in the financial statements which management has decided not to amend, or set out the reasons for not amending the errors
- approve the letter of representation on behalf of the Council before we issue the audit opinion and value for money conclusion (Appendix 2);

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 our findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- Subject to satisfactory clearance of outstanding matters, we plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of our draft audit report.

Key areas of judgement and audit risk

- In planning our audit we identified specific risks and areas of judgement that we have considered as part of my 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 2008 (SORP). There have been a number of changes in the SORP guidance relevant to preparing the 2008/09 accounts | Our work has confirmed that officers have complied with the new SORP requirements in all material respects. |
| The current economic climate has resulted in additional risks for all public sector bodies. The main issue relevant to our opinion audit has been the potential impairment of the Council's fixed assets due to the general fall in property values. | We have reviewed the Council's approach to the valuation and impairment of land and buildings, and concluded that the fixed asset valuations included in the accounts are fairly stated. |
| The Council has a deposit of £1m with Landsbanki, which was taken into the ownership of the Icelandic government in October 2008. The Council has had to consider how | The Council has followed the approach outlined by CIPFA in LAAP Bulletin 82. We have concluded that the balance included in the accounts is fairly stated. |

Financial statements

| Issue or risk | Finding |
|--|--|
| far this asset should be impaired at 31 March 2009. | |
| The Council has had to consider the appropriate treatment of a tax rebate received in June 2009. | This has been appropriately treated as an exceptional item and an adjusting post balance sheet event with the income included in 2008/09 accounts. |

Errors in the financial statements

- 4 The audit of the Council's accounts seeks to ensure that the accounts are materially correct and present fairly the financial transactions of the Council in 2008/09. Materiality is defined in auditing standards as:

"information is material if its omission or misstatement could influence the economic decisions of users 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."

- 5 Our materiality for the audit of the Council's accounts was set at £1,226,000. In accordance with International standards on auditing we also set a threshold below which we judge any errors to be 'trivial' and do not seek any amendments to the accounts. This triviality threshold was set at £12,000. We report any unadjusted errors identified over this level.
- 6 At the date of writing this report there are only two unadjusted errors above our triviality threshold. Details of these errors are given in Table 2 below.
- 7 Other than the errors referred to at Table 2 no adjustments have been required to the amounts included in the draft accounts. However, a small number of amendments and additions to the text of disclosure notes have been agreed with officers. These include providing additional information at Note 16 on the conclusions from the Council's review of fixed assets for impairment at 31 March 2009.

Table 2 Unadjusted errors

| Issue or risk | Finding |
|--|---|
| The Council currently depreciates investment assets. Guidance in the SORP indicates that investment assets should not normally be depreciated. | The depreciation charge to the Income and Expenditure (I&E) account has been overstated by £58,000 in 2008/09. However, there is no impact on the General Fund balance as depreciation charges to |

| Issue or risk | Finding |
|--|---|
| | <p>the I&E account are offset by an adjustment under the SORP accounting framework.</p> <p>The Council revalued all of its investment properties at 31.3.2009. As a result the charging of depreciation has not led to any misstatement of fixed asset valuations on the balance sheet.</p> <p>As there is no net impact on the I&E account officers have decided not to adjust the 2008/09 accounts. However, in future years the charging of depreciation would lead to an understatement of fixed asset balances. Officers have agreed that SORP guidance will be followed for the 2009/10 accounts.</p> |
| <p>There was a £14,000 difference between the contribution due to the NNDR pool as per the Council's ledger records and the amount recorded on the annual NNDR3 return. The amount per the NNDR3 return is correct, but the accounts have been prepared from the ledger records.</p> | <p>This is a minor difference only. However, there is a need to ensure that the NNDR3 return reconciles to the Council's underlying records in future years.</p> <p>Adjusting entries have now been made to the ledger. As this was a minor error officers have decided not to adjust the relevant balances in the 2008/09 accounts.</p> |

Recommendation

- R1** Depreciation should not be charged on investment properties where this is inconsistent with SORP guidance.
- R2** The Council should ensure that the annual NNDR3 return reconciles to underlying records.

Financial statements

Material weaknesses in internal control

- 8 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.
- 9 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.

Letter of representation

- 10 Before we issue the opinion, auditing standards require us to obtain appropriate written representations from management and those charged with governance about your financial statements and governance arrangements. Appendix 2 contains the draft letter of representation we seek to obtain from you.

Accounting practice and financial reporting

- 11 We consider the qualitative aspects of your financial reporting. Table 3 contains the issues we want to raise with you.

Table 3

| Issue or risk | Finding |
|---|---|
| The Council's provision for bad debts in respect of NNDR has reduced from £312,000 at 31 March 2008 to £168,000 at 31 March 2009 following significant write-offs in 2008/09. At the date of writing this report further write-offs of £65,000 have taken place in 2009/10. | The bad debt provision is calculated using an age profile of the outstanding debt, with a varying percentage applied to each age band. In calculating the provision at 31 March 2009 the same percentages have been applied as in previous years. However, given current economic circumstances the risk of default in respect of NNDR debt may have increased. We are satisfied that this would not have a material impact on the financial statements but we recommend the basis for calculating the provision is reviewed for 2009/10. |

Recommendation

R3 The basis for calculating the NNDR bad debt provision should be reviewed for 2009/10.

Value for Money

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. This is known as the value for money conclusion. Our conclusion is informed by our work on the scored use of resources judgement.

Use of resources judgements

- 12 In arriving at our use of resources judgement we have used the methodology set out in the Audit Commission's [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest.
 - 13 We shared initial feedback from our work on use of resources with officers on 7 August. We will advise you of final scores once the Audit Commission's national quality assurance process has been completed on 14 September. We can confirm however that the Council continues to have sound arrangements in place in all the areas we assessed.
-

Value for money conclusion

- 14 We assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission, taking into account the results of our work in assessing your use of resources.
- 15 We intend to issue an unqualified conclusion stating that in 2008/09 the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of our draft report.

Independence

- 16** 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. We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 17** We communicate to you:
- any relationships which we have with members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - our arrangements to ensure independence and objectivity; and.
 - total fees charged to you for audit and non-audit services

Relationships with the Council

- 18** We have not identified any relationships that might affect our objectivity and independence.

Our arrangements to ensure independence and objectivity

- 19** We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 5.

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</p> |

Independence

| Area | Arrangements |
|-----------------|--|
| | <p>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 | The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff has to comply with ethical guidance issued by their relevant professional bodies. |
| Confidentiality | All staff are required to sign an annual undertaking of confidentiality as a condition of employment. |

Audit fees

20 We reported our fee proposals as part of the Audit Plan for 2008/09. The table below reports our current expected outturn fee against that plan.

Table 5 Audit fees

| | Plan 2008/09 | Actual 2008/09 |
|---|---------------|----------------|
| | £ | £ |
| Financial statements (including Whole of Government accounts) | 65,827 | 65,827 |
| Use of resources (including data quality) | 26,757 | 26,757 |
| Total audit fee | 92,584 | 92,584 |
| Inspection | 6,570 | 6,570 |
| Total audit and inspection fee | 99,154 | 99,154 |

- 21 Under the Audit Commission's advice and assistance power we may provide non-audit services to the Council. We have not provided any non-audit services to the Council in 2008/09.

Appendix 1 – Independent auditor’s report to 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 2009 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 & 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 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 Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 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 accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword and the content of 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 Authority in the preparation of the 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 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 financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 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

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

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 May 2008 and updated in February 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 ending 31 March 2009.

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 – Draft letter of representation

Tonbridge & Malling Borough Council: Audit for the year ended 31 March 2009

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 2009.

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.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected 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 as 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.

Appendix 2 – Draft letter of representation

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/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.

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 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. We confirm that it is our current intention to hold those assets classified as long term investments on the balance sheet to the date of maturity.

Appendix 2 – Draft letter of representation

The Annual Governance Report and this letter were considered by Members at the General Purposes Committee on 7 September 2009.

To be signed on behalf of Tonbridge & Malling Borough Council

.....

Sharon Shelton
Director of Finance

Date xx September 2009

As minuted by the General Purposes Committee at its meeting on 7 September 2009

Signed..... (Chair)

Appendix 3 – Action Plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|---|--|--|----------------------|--------|--|------------|
| Annual Governance Report 2008/09 - Recommendations | | | | | | |
| | Depreciation should not be charged on investment properties where this is inconsistent with SORP guidance. | 2 | Principal Accountant | Yes | Agreed, SORP guidance will be followed in 2009/10 Accounts. | March 2010 |
| | The Council should ensure that the annual NNDR3 return reconciles to underlying records. | 2 | Principal Accountant | Yes | Relevant Balances will be adjusted for the 2009/10 statement. | March 2010 |
| | The basis for calculating the NNDR bad debt provision should be reviewed for 2009/10. | 2 | Principal Accountant | Yes | Basis for calculation of the provision will be subject to review in 2009/10. | March 2010 |

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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