

# Annual governance report

Tonbridge & Malling Borough Council

Audit 2010/11



# Contents

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- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Before I complete my audit.....4**
- Financial statements .....5**
  - Opinion on the financial statements .....5
  - Errors in the financial statements .....5
  - Corrected errors .....6
  - Uncorrected errors .....7
- Value for money.....12**
- Appendix 1 – Draft audit report.....14**
- Appendix 2 – Amendments to the draft financial statements .....17**
- Appendix 3 – Draft Letter of Representation .....19**
- Appendix 4 – Glossary.....22**

**Traffic light explanation**

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 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.**

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

## Audit opinion and financial statements

Subject to receipt of a letter of representation and closing checks I intend to issue an unqualified audit opinion on the 2010/11 financial statements.

The Council's 2010/11 accounts were once again prepared to a high standard, with only a small number of amendments required. The Council has dealt successfully with the challenges posed by the first

year implementation of International Financial Reporting Standards (IFRS).

## Value for money

I intend to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council's underlying financial position is strong. It continues to have an effective financial planning framework and appears well-placed to address the financial pressures it faces over the medium term.



# Before I complete my audit

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## I confirm to you

My report 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.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

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## I ask you to confirm to me

### I ask the General Purposes Committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2); and
  - approve the letter of representation (Appendix 3) on behalf of the Council before I issue my opinion and value for money conclusion.
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# Financial statements

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**Subject to the completion of outstanding work I plan to issue an audit report including an unqualified opinion on the financial statements.**

## **Opinion on the financial statements**

My work on the financial statements is now substantially complete. The areas where work remains outstanding are;

- obtaining a signed letter of representation; and
- checking a final version of the accounts which contains all agreed amendments.

I anticipate that any remaining work will be completed to allow the issue of my audit opinion in advance of 30 September 2011.

Subject to the outstanding work I propose to issue an unqualified audit opinion on the Council's 2010/11 financial statements. A draft auditor's report containing my proposed opinion is at Appendix 1.

This is the first year the Council has been required to prepare financial statements under International Financial Reporting Standards (IFRS). Preparing IFRS accounts has involved a significant amount of work for the Council's finance team, including

- review of transactions to identify the appropriate accounting treatment under the new framework;
- restatement of the Council's balance sheets at 1 April 2009 and 1 April 2010; and
- work to produce a number of new disclosure notes.

Throughout 2010/11 the Council has had an effective framework in place to complete this work. The Council's first year IFRS accounts have been prepared to a high standard, with only a small number of adjustments required and strong working paper trails to support the accounts.

## **Errors in the financial statements**

My audit seeks to ensure that the accounts are materially correct and present fairly the financial transactions of the Council. The concept of materiality is defined at Appendix 4. For the 2010/11 accounts I have set materiality at £1,318,000.

Under International Standards on Auditing I also set a threshold below which I assess any errors to be 'trivial' and do not ask for the accounts to be amended. For 2010/11 this triviality threshold is set at £13,000. Under auditing standards where I identify errors above this triviality threshold I must request management to amend the accounts. Where management chooses not to do so, I will draw this to the attention of the General Purposes Committee and ask the Committee for its view on the effect of any uncorrected errors on the accounts.

## **Corrected errors**

Details of the amendments to the accounts which involve amounts above my triviality level are given below. Further details are given at Appendix 2.

### *Contributions under Section 106 agreements*

The Council has treated all contributions received under Section 106 agreements as long term liabilities. However, under IFRS contributions of this kind are treated as liabilities only where there are outstanding conditions which could lead to repayment. Sample audit testing identified contributions of £744,000 under one agreement which did not have any outstanding conditions. This balance has now been transferred to reserves under "Grants & Contributions Unapplied".

Officers have still to complete a review of the remaining Section 106 agreements to ensure that all contributions are correctly treated. The value of the contributions still to be reviewed is below my materiality level. I understand this work will be completed to support the 2011/12 accounts.

### *Updated actuarial report*

The draft accounts were based on the most recent report received by the Council from the actuaries of the Kent Pension Fund. After the accounts were prepared the actuary updated his report, sending a revised version to the Council on 24 June 2011. The Council has now amended the accounts to reflect the updated report. The effect is to reduce the Pensions Liability on the balance sheet by £862,000.

### *Exceptional item*

From April 2011 public service pensions will be uprated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This will reduce the Council's pension liabilities arising from past service. In the draft accounts a one-off reduction of £8,218,000 in past service costs was included on the "Non-Distributed Costs" line of the Comprehensive Income and Expenditure Statement. Given its size and nature we agreed with the Council that this amount should be moved to a separate line and described as an Exceptional Item.

### *Other amendments*

I have agreed various other minor amendments to a number of disclosure notes. None of these are significant to highlight in this report.

### **Uncorrected errors**

There are no errors above my triviality threshold which management has decided not to amend.

# Financial statements

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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.

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

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## Key audit risk and our findings

Key audit risk	Finding
<p><b>Implementation of IFRS</b></p> <p>The 2010/11 financial statements will be produced in accordance with International Financial Reporting Standards (IFRS). The new standards will require authorities to restate their 2009/10 accounts, including the opening balance sheet at 1 April 2009.</p>	<p>I have monitored the Council's progress with IFRS implementation throughout 2010/11. The Council has had a strong framework to support the introduction of the new standards.</p> <p>I performed a detailed review of the restated 2009/10 accounts. These were produced to a tight timetable and supported by strong working paper trails. I agreed a number of minor amendments before the figures were incorporated in the draft 2010/11 accounts.</p>
<p><b>Deposit with Icelandic Bank</b></p> <p>The Council has a deposit of £1 million with Landsbanki, which was taken into the ownership of the Icelandic government in October 2008. This investment was impaired at 31 March 2010. I will again consider the valuation of this investment in the 2010/11 accounts.</p>	<p>The Council has followed the approach suggested by CIPFA in its most recent guidance to authorities (LAAP Bulletin 82 Update 4, issued May 2011).</p> <p>I have concluded that the balance included in the accounts is fairly stated.</p>



# Financial statements

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## Significant weaknesses in internal control

**I did not identify any significant weaknesses in the system of internal control**

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 weaknesses in the design or operation of internal controls that might result in a material error in your financial statements.

# Financial statements

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## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

There are no matters I wish to bring to your attention.

# Financial statements

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## Letter of representation

Before I issue my opinion, auditing standards require me to ask management and those charged with governance for written representations about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation.

# Value for money

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**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of these areas is set out below.

I intend to issue an unqualified conclusion stating that in 2010/11 the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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## Value for money criteria and our findings

Criterion	Findings
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council's underlying financial position is strong. At 31 March 2011 general fund balances and general revenue reserves totalled £8,015,000. The Council has been able to make a contribution of £481,000 to the general revenue reserve in 2010/11 despite significant financial pressures.</p> <p>The Council has a history of strong financial management. During 2010/11 it has again demonstrated a clear corporate focus on financial planning and early action to deal with financial pressures.</p> <p>The processes to support the medium term financial strategy (MTFS) are well-established. However, the Council has performed a further detailed review of the strategy during 2010/11, using an extended 10 year planning framework. The updated MTFS is robust. Despite the difficult financial environment the Council is well-placed to address the potential funding gaps identified over the lifetime of the MTFS.</p>

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**2. Securing economy efficiency and effectiveness**  
**The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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In recent years the Council has had a strong record of achieving efficiency savings. During 2010/11 the Council has again demonstrated a strong understanding of its cost base and a culture of cost challenge. It continues to investigate opportunities for service efficiencies, for example through shared services arrangements with Gravesham BC. There is a clear focus on prioritising resources within a sustainable medium term planning framework.



# Appendix 1 – Draft audit report

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TONBRIDGE & MALLING BOROUGH COUNCIL**

### **Opinion on the Authority accounting statements**

I have audited the accounting statements of Tonbridge & Malling Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, 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 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Director of Finance and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of Tonbridge & Malling Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion, the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

## **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Tonbridge & Malling Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## **Certificate**

I certify that I have completed the audit of the accounts of Tonbridge & Malling Borough Council 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

Audit Commission, Millbank Tower, Millbank, London SW1P 4HQ

xx September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
A contribution received under a Section 106 agreement was incorrectly treated as a long term liability.					
	Long Term Liabilities: Grants & Contributions in Advance			744	
	Reserves: Grants & Contributions Unapplied				744
Pension disclosures did not reflect the closing assets of the Kent Pension Fund.	The accounts have been updated to reflect the latest actuarial report. The effect is to increase the actuarial gain on the Comprehensive Income & Expenditure Account (CIES) and				

	Comprehensive income and expenditure statement	Balance sheet
reduce the pensions liability on the balance sheet.		
CIES: Actuarial gain	862	
Movement on Reserves Statement: Contribution from CIES to reserves	862	
Balance Sheet: Pensions Liability		862
Balance Sheet: Pensions Reserve		862



# Appendix 3 – Draft Letter of Representation

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To: Andy Mack  
Appointed Auditor  
Audit Commission  
1<sup>st</sup> Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ

## **Tonbridge & Malling Borough Council - Audit for the year ended 31 March 2011**

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 2011.

### *Compliance with the statutory authorities*

I have fulfilled 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 which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### *Supporting records*

All relevant information and access to persons within the entity has 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 financial statements.

### *Irregularities*

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### *Accounting estimates including fair values*

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### *Related party transactions*

I confirm that I have disclosed the identity of Tonbridge & Malling Borough Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

### *Subsequent events*

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Tonbridge & Malling Borough Council

.....

Sharon Shelton  
Director of Finance

Date

I confirm that this letter has been discussed and agreed by the General Purposes Committee on 5 September 2011.

Signed

.....

(Chair)

Date

# Appendix 4 – Glossary

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## Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

## 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 financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion [where there is no regularity leg]

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## [Where there is a regularity leg]

- I find that some spending or income was irregular.

## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## 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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;



- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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**0844 798 7070**

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

