

# External indicative audit plan Tonbridge and Malling Borough Council

Year ending 31 March 2024

April 2024

Page 1

# Contents



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## Section

Key matters

Introduction and headlines

Significant risks identified

Other risks

Other matters

Progress against prior year audit recommendations

Our approach to materiality

IT Audit Strategy

Value for Money Arrangements

Risks of significant VFM weaknesses

Audit logistics and team

Audit fees and updated auditing standards

IFRS 16 'Leases' and related disclosures

Independence and non-audit services

Communication of audit matters with those charged with governance

Escalation policy

## Page

3

5

7

10

11

12

13

16

17

18

20

21

23

24

25

26

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Key matters

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## National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from Government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

## Audit reporting delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report [About time?](#) in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our experience of working with the Council, management has been able to provide the draft financial statements prepared to a high standard, supported by strong working papers, and engaged well with the audit process. It is our view that this continues to be critical in enabling timely sign off of the financial statements for the year.

# Key matters

## Our responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, are set out further in this Audit Plan.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Finance and Transformation quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our audit committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector. The annual workshops for year ending 31 March 2024 were held in February 2024, and we are delighted that the Council's finance team were in attendance.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue – refer to page 7.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Tonbridge & Malling Borough Council ('the Council') for those charged with governance.

## Respective responsibilities

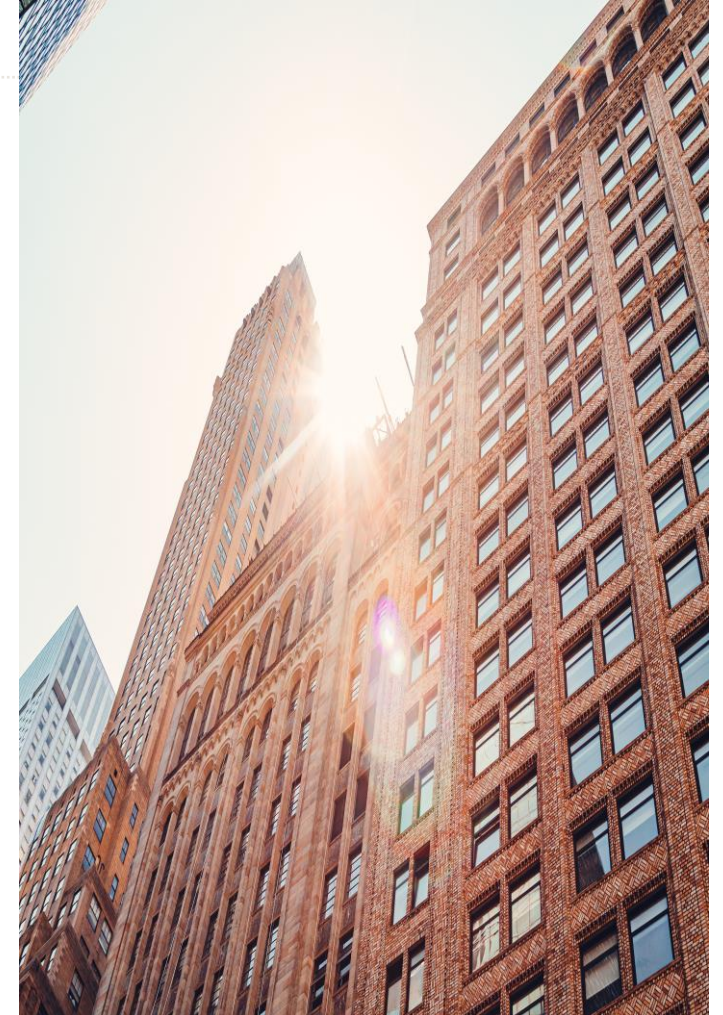
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk-based.



# Introduction and headlines

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk of management override of control (ISA 240 non-rebuttable presumed risk);
- The risk that valuations of land and buildings are materially misstated;
- The risk that the net pension liability/asset is materially misstated; and
- The risk that revenue includes fraudulent transactions (presumed risk under ISA 240 rebutted)

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined planning materiality for the financial statements to be £1,155,000 (PY £1,200,000) for the Council, which equates to approximately 2% of your prior year gross operating costs for the year.

We have determined a specific lower materiality of £100,000 for senior officers' remuneration and termination benefits.

We have set performance materiality of £866,250, 75% of the financial statement materiality..

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £57,800 (PY £60,000).

## Value for Money (VFM) arrangements

At the time of writing, we have yet to conclude our detailed VFM planning and risk assessment procedures. We will update the Audit Committee on the outcome of these planning procedures, our resulting risk assessment and our planned responses to any identified risks of significant weaknesses in arrangements at a future Audit Committee.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

## Audit logistics

Our planning visit was scheduled during March 2024 and our final visit will take place October to December 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Under our new framework contract with PSAA, our scale fee for 31 March 2024 audit will be £139,930 (PY £61,099) for the Council; subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input. The fee for work in relation to ISA 315 is £7,530. The total proposed fee for 2023-24 is £147,460.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.</p>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation effectiveness of management controls over journals.</li> <li>• Analyse the journals listing using data analytics tools and determine the criteria for selecting high risk unusual journals.</li> <li>• Test unusual journals made during the year and at year end for appropriateness and corroboration.</li> <li>• Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness.</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
Risk of fraud and error in revenue recognition (rebutted for all streams)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA 240 and the nature of the Council revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition;</li> <li>• Opportunities to manipulate revenue recognition are very limited; and</li> <li>• The culture and ethical frameworks of local authorities, including that of the Council, meaning that all forms of fraud are seen as unacceptable.</li> </ul> <p>We do not consider this to be a significant risk for the Council.</p>	

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings (£70.9m in 2022-23)</b>	<p>The Council re-values its land and buildings on a rolling programme, such that the intervals between valuations do not exceed five years. This is to ensure that the carrying value of its assets are not materially different from the current value at the financial statements date.</p> <p>The valuation of land and buildings represents a key accounting estimate which is sensitive to changes in assumptions and market conditions. Management has engaged the services of a valuation expert to assist the current value as at 31 March 2024.</p> <p>The Council's land and building comprises of specialised assets, such as leisure centres, and are valued at their depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset (MEA) necessary to deliver the same service potential. In applying this method, key assumptions are made by the valuer to arrive to a value of a modern asset equivalent to the capacity and meeting the location requirements of the services being provided by the replaced asset.</p> <p>We therefore identified valuation of land and buildings as a significant risk, particularly key assumptions and inputs applied by the valuer at financial statement date to determine the current value of the assets.</p> <p><b>Pinpointing the significant risk:</b></p> <p>We plan to pinpoint the significant risk around the following:</p> <ul style="list-style-type: none"> <li>• Assets that are material;</li> <li>• Assets where the change in valuation is outside our expectation based on market indices;</li> <li>• Significant changes in key assumptions applied in valuation of assets from the prior year; and</li> <li>• Other factors considered to increase the risk of material misstatement based on auditor judgement.</li> </ul>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> <li>• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work.</li> <li>• Evaluate the competence, capabilities and objectivity of the valuation expert engaged by the Council.</li> <li>• Write to and discuss with the valuation expert engaged by you, the basis on which the valuations were carried out.</li> <li>• Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding.</li> <li>• Test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register.</li> <li>• Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>



# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of the pension fund net liability/asset (£9.275m net liability in 2022-23)</p>	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The estimation of the pension fund net liability depends on a number of complex adjustments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A small change in the inputs can have a significant impact on the estimated pension fund liability. The Council has engaged a consulting firm of actuaries (Barnett Waddingham LLP) to complete the valuation of the net pension liability as at 31 March 2024.</p> <p>The pension fund valuation is considered a significant estimate due to the size of the numbers involved (net liability of £9.275m as at 31 March 2023, reducing from £58.261m at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. We understand that the upward movement in the pension valuations seen in recent years, may cause a pension asset to be recorded in your balance sheet as at 31 March 2024.</p> <p>We have therefore identified the valuation of the Council's pension fund as a significant risk.</p> <p><b>Pinpointing the significant risk:</b></p> <p>We plan to pinpoint the significant risk around the following:</p> <ul style="list-style-type: none"> <li>• Key assumptions applied by actuary;</li> <li>• Significant changes in assumptions applied from the prior year; and</li> <li>• Material experience gain or losses recorded in the accounting period; and</li> <li>• Other factors considered to increase the risk of material misstatement based on auditor judgement.</li> </ul>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> <li>• Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability/asset is not materially misstated and evaluate the design of the associated controls.</li> <li>• Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>• Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Assess the accuracy and completeness of the information provided by the Council to the actuary to complete the pension fund valuation.</li> <li>• Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.</li> <li>• Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> <li>• Obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> <li>• If a pension asset is recorded, ensuring that the asset recorded in the financial statements meets the requirements of IFRIC 14.</li> </ul>

# Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Fraud in expenditure recognition</b>	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>As most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk that the Council may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures.</p> <p>Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period, but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p> <p>Having considered the risk factors related to this risk and the nature of the expenditure streams at the Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted for the Council's expenditure, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate expenditure recognition;</li> <li>• opportunities to manipulate expenditure recognition are limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Tonbridge &amp; Malling Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>However, we have identified that due to the level of estimation involved in the manual accruals of expenditure and the potential volume of accruals at year end there is an increased risk of error in expenditure recognition.</p>	<p>To address this risk, we will:</p> <ul style="list-style-type: none"> <li>• Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period.</li> <li>• Inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We will also compare listings of accruals to the previous year to ensure completeness of accrued items.</li> <li>• Investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.</li> </ul>

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

Page 11

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
- issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

# Progress against prior year audit recommendations

We identified the following issues in our 2022-23 audit of the Council's financial statements, which resulted in three recommendations being reported in our 2022-23 Audit Findings Report. We have followed up on the implementation of our recommendations and one is still ongoing.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Page 12 ✓	<p><b>Mapping of trial balance to financial statements:</b> Deficiency noted through our journals completeness work, whereby balances are not categorised to the balance sheet as expected. Specifically, the Council includes some debtors and creditors balances within the same account codes. At year end, the debtors and creditors are manually split out to prepare the FS.</p>	<p>Per management comments and our risk assessment procedures, management continues to include some debtors and creditors balances within same accounts codes. However, management has a documented process to split the account balances through topside journals at year end and evidence maintained for audit purposes.</p>
✓	<p><b>Journal authorisation:</b> There is no formal authorisation process in place for journals at the Council. There is a risk that users could post fraudulent journals to manipulate the financial position without detection or could disrupt an audit trail. However, we do not consider the risk to be significant given that there are only six users who have the ability to post journals and any unusual material journals posted could be identified via budgetary monitoring.</p>	<p>Per management comment, for 2023-24 period all journals with a line over £25,000 requires authorisation. This has been implemented for the 2023-24 period and confirmed by our risk assessment procedures. The audit team will confirm during year end audit the full implementation of the recommendation.</p>
Ongoing	<p><b>Fixed asset register (FAR):</b> Deficiency noted in the preparation and maintenance of the Council's FAR, maintained in an Excel workbook with separate tabs for each asset type. This means that there is not one listing of all assets from which sampling, recon, or other checks can be carried out. Additionally, the FAR does not clearly include data needed to determine accounting entries for revaluation movements.</p>	<p>Per management comment, this recommendation was made after using the same format since the inception of capital charges in 1993, that being said management has agreed to review and update these registers, the first being land and buildings which has been reviewed in 2022-23 with other FARs to be reviewed in the forthcoming years.</p>

# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	<p><b>Determination</b></p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality at the planning stage of our audit is £1,155,000 which equates to 2% of your draft gross expenditure for the period.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> <li>– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;</li> <li>– assist in establishing the scope of our audit engagement and audit tests;</li> <li>– determine sample sizes; and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements.</li> </ul>
2	<p><b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <p>We have identified senior officer remuneration and termination benefits as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £100,000 in these areas.</p>

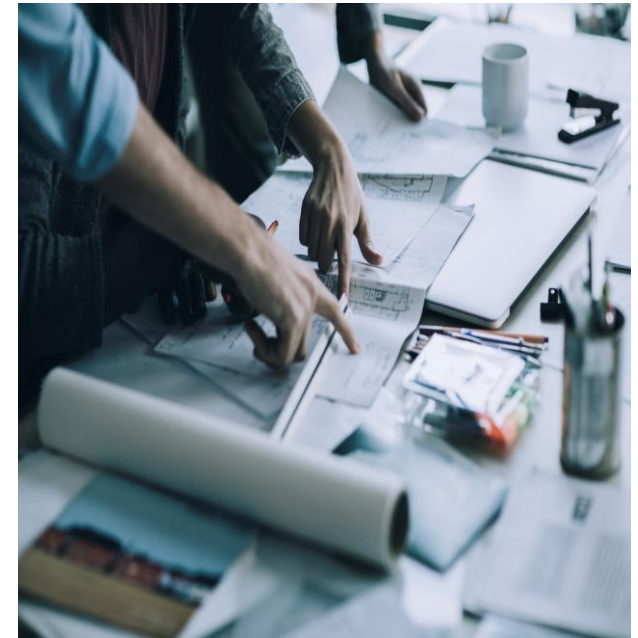
# Our approach to materiality

Matter	Description	Planned audit procedures
3	<p data-bbox="257 526 694 566"><b>Reassessment of materiality</b></p> <p data-bbox="257 574 1019 662">Our assessment of materiality is kept under review throughout the audit process.</p>	<p data-bbox="1041 526 2132 662">We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
4	<p data-bbox="257 694 1019 766"><b>Other communications relating to materiality we will report to the Audit Committee</b></p> <p data-bbox="257 774 1019 1378">Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p data-bbox="1041 694 2132 766">We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p data-bbox="1041 774 2132 893">In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £57,800 (PY £60,000).</p> <p data-bbox="1041 901 2132 1378">If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.</p>

# Our approach to materiality

Page 15

	Amount (£)	Qualitative factors considered
Materiality for the Council's financial statements	1,155,000	<p>We have determined the financial statement materiality based on a proportion of the prior year gross expenditure of the Council. The main users of the Council's accounts primary interest is in the cost of providing services and how the Council manages their spending.</p> <p>As such, we conclude that the gross expenditure is the most appropriate benchmark to set the materiality levels for the Council.</p> <p>Materiality at the planning stage of our audit is £1.155m which equates to approximately 2% of your prior year gross expenditure for the period.</p>
Performance materiality	866,250	<p>Our performance materiality is based on percentage of the headline materiality listed above. The threshold has been adjusted upwards to 75% compared to a 70% applied in prior year.</p>
Materiality for specific transactions, balances or disclosures senior officer remuneration and termination benefits	100,000	<p>We have identified senior officer remuneration and termination benefits as disclosures where we will apply a lower materiality level, as they are considered sensitive disclosures.</p>



# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Integra	Financial reporting (full ledger)	We will obtain an understanding of the information technology general controls over the general ledger and review design and implementation of those controls.  We do not plan to test the operating effectiveness of ITGCs.



# Value for Money arrangements

## Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Page 17



### Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



### Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



### Governance

How the body ensures that it makes informed decisions and properly manages its risks.

# Risks of significant VFM weaknesses

As part of our VFM planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. The risks we identify will be communicated to management and the Audit Committee, along with the further procedures we will perform. We may need to make recommendations following the completion of our work.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Page 18



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

# Risks of significant VFM weaknesses

The Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023-24. We set out our reported assessment below:

Criteria	2022-23 Auditor judgement on arrangements informing our initial risk assessment	Additional risk-based procedures planned
Page 19 Financial sustainability	<b>Amber</b> No significant weakness in arrangements identified, but two improvement recommendations made in relation to developing a transformation programme and improving its workforce strategy.	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place as required by the Code of Audit Practice.
Governance	<b>Amber</b> No significant weakness in arrangements identified, but two improvement recommendations made in relation to improving risk management arrangements and fully integrating performance and financial reporting arrangements.	We will follow up progress against the improvement recommendations made and ensure that our work assesses the current arrangements in place.
Improving economy, efficiency and effectiveness	<b>Red</b> Two significant weaknesses in arrangements identified and two key recommendations made in relation to its performance management and procurement and contract management arrangements.	We will follow up progress against the key recommendations made and ensure that our work assesses the current arrangements in place.

<b>G</b>	No significant weaknesses in arrangements identified or improvement recommendation made
<b>A</b>	No significant weaknesses in arrangements identified, but improvement recommendations made
<b>R</b>	Significant weaknesses in arrangements identified and key recommendations made

# Audit logistics and team



Page 20



## Sophia Brown, Key Audit Partner

Sophia is responsible for the overall client relationship, quality control, provision of the audit opinion, meeting regularly with key internal stakeholders and final authorisation of reports. Sophia will ensure our audit is tailored specifically for you and is responsible for the overall quality of our audit work.



## Lucy Nutley, Senior Manager

Lucy is responsible for overseeing the overall audit management, quality assurance of audit work and output, and liaison with the Audit Committee. Lucy will also oversee the delivery of our value for money work.



## Bheki Dlamini, Audit Manager

Bheki is responsible for the overall audit management, working with the senior members of the finance team, ensuring the delivery of the final accounts audit. He will undertake reviews of the team's work, ensuring quality output and draft reports; ensuring they remain clear, concise and understandable.

## Audited entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit (as per our responses to key matters set out on page 3); and
- respond promptly and adequately to audit queries.

# Audit fees and updated auditing standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Tonbridge & Malling Borough Council to begin with effect from 2018-19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023-24 audit is £139,930 (2022-23 £61,099).

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor’s annual report for the previous audit year (exception for new clients in 2023-24 only)
- Production of the draft audit planning report to audited body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here <https://www.psa.co.uk/appointing-auditors-and-fees/fee-variations-overview/>

## Assumptions

When setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements;
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements; and
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

## Updated auditing standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

# Audit fees

	<b>Proposed fee 2023-24</b>
Tonbridge & Malling Borough Council audit	£139,930
ISA 315	£7,530
<b>Total audit fees (excluding VAT)</b>	<b>£147,460</b>

Page 22

## Previous year

In 2022-23 the scale fee set by PSAA was £42,749. The actual fee charged for the audit was £61,099.

## Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

## Introduction

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”

In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets; and
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset.

## Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

## Planning enquiries

As part of our planning risk assessment procedures, we are assessing the Council's readiness to implement this new accounting standard. This will be reported to the Audit Committee at a later date.

## Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link:

[IFRS 16 Application Guidance December 2020.docx \[publishing.service.gov.uk\]](#)

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings Report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Housing Benefit (Subsidy) Assurance Process	18,400	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £18,400 in comparison to the total fee for the audit of £147,460 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.



# Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		<p>ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.</p> <p>This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.</p> <p>We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.</p>
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	

# Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

**Step 1 - Initial communication with Director of Finance and Transformation (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)**

We will have a conversation with the Director of Finance and Transformation to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

**Step 2 - Further reminder (within two weeks of deadline)**

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

**Step 3 - Escalation to Chief Executive (within one month of deadline)**

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

**Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)**

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

**Step 5 – Consider use of wider powers (within two months of deadline)**

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.



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