

# The Annual Audit Letter for Tonbridge & Malling Borough Council

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**Year ended 31 March 2016**

October 2016

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tonbridge & Malling Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 5 September 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 27 September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 27 September 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 27 September 2016.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the 2015/16 claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our 2015/16 Certification Report.

### **Working with the Council/Authority**

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,236,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £62,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and are adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is risk based and our assessment of risk was based on a thorough understanding of the Council's business. Overleaf we set out the key risks we identified, the work we performed in response to those risks and the results of our work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Employee remuneration understated</b></p> <p>For all Councils employee remuneration is a significant element of total expenditure. We designed our work to address the risk that the amount included in the Council's accounts for expenditure on employee remuneration was understated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>• gained an understanding of processes and key controls</li> <li>• performed a "walkthrough" of the key controls to assess if these were designed effectively</li> <li>• tested payroll information for a sample of employees to supporting documentation</li> <li>• reviewed yearend reconciliations to ensure the information in the accounts was complete</li> </ul> <p>We did not identify any issues to report.</p>
<p><b>Operating expenses understated</b></p> <p>For all Councils operating expenditure is a significant element of total expenditure. We designed our work to address the risk that in the Council's accounts creditors had been understated or had not been recorded in the correct period.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>• gained an understanding of processes and key controls</li> <li>• performed a "walkthrough" of the key controls to assess if these were designed effectively</li> <li>• tested creditor amounts to supporting documentation</li> <li>• tested 2016/17 payments to ensure that these had been posted to the correct accounting year</li> </ul> <p>We did not identify any issues to report.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts. The value of the pension fund net liability is estimated by specialist actuaries.</p> <p>We performed work to address the risk that the Council's pension fund assets and liabilities were incorrectly valued.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>• gained an understanding of processes and key controls</li> <li>• performed a "walkthrough" of the key controls to assess if these were designed effectively</li> <li>• reviewed the competence, expertise and objectivity of the actuary performing the pension fund valuation</li> <li>• reviewed the basis for the valuation and assessed the reasonableness of the actuarial assumptions made</li> <li>• reviewed the consistency of disclosures in the financial statements with the actuarial report</li> </ul> <p>We did not identify any issues to report.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 5 September 2016.

The Council's draft accounts were approved for issue ahead of the national deadline and were prepared to a high standard. We did not identify any adjustments which required an amendment to the primary financial statements. We agreed a small number of adjustments to disclosure notes.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were published with the draft accounts ahead of the national deadline. The documents were prepared in line with relevant guidance. They were also consistent with our knowledge and with the supporting evidence provided by the Council.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## **Key findings**

Our first step was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf. Following our work we concluded that the risks identified were sufficiently mitigated and that the Council had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

## **Overall VfM conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial planning</b> The Council is facing further significant reductions in government funding in future years, and will need an effective financial planning framework to manage the impact of these changes.</p>	<p>We updated our understanding of the Council's medium term financial planning framework and it's planned approach to addressing future reductions in central government funding.</p>	<p>The Council has a well-established Medium Term Financial Strategy (MTFS) which covers a 10 year forecast period. The strategy is updated annually and aligned with the Council's annual budget-setting process.</p> <p>The Council continues to face significant financial pressures following reductions in central government funding and the implications of a major business ratepayer going into administration in February 2015. In the period under review a funding gap of £1,825,000 was identified over the lifetime of the MTFS. The Council continues to address this gap in a structured way, with the introduction of a comprehensive Savings and Transformation Strategy and planned "tranches" of savings over the lifetime of the MTFS to allow time for effective project planning and implementation.</p> <p>The Council achieved its planned savings target of £200,000 for inclusion in 2016/17 base budgets and has a clear and credible framework for delivering the savings of £625,000 in 2017/18 base budgets anticipated under the MTFS.</p> <p>We concluded that although the Council faces significant pressures it continues to have a robust financial planning framework. There is a clear understanding of the financial risks facing the Council and of the implications of current decisions over the medium term.</p> <p>On this basis we concluded that the risk identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>



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# Working with the Council

## **Our work with you in 2015/16**

We are pleased to have worked with the Council in a positive and constructive relationship over the past year.

In 2015/16 we continued to share our insights through attendance at Audit Committees, in our Audit Committee update reports and in regular meetings with officers. We also shared our national thought leadership reports on a number of topics, including;

- Transforming the financial reporting of local authority accounts
- Better together: Building a successful Joint Venture Company
- Reforging local government: Summary findings of financial health checks and governance reviews; and
- Knowing the Ropes – Audit Committee Effectiveness Review.

We continue to run local workshops each year to update Councils on key issues ahead of preparing the annual accounts. During 2015/16 we also provided responses to a number of technical queries from officers and continued to work with you to help streamline the processes for preparing and auditing the Council's accounts.

We look forward to working with you again in 2016/17.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Council	45,776	45,776	61,035
Housing Benefit Grant Certification (indicative)*	18,084	TBC	18,600
<b>Total fees (excluding VAT)</b>	<b>63,860</b>	<b>TBC</b>	<b>79,635</b>

## Fees for other services

Service	Fees £
Audit related services	None
Non-audit services	None

\*Our work on the Council's 2015/16 housing benefit claim is in progress.

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016
Certification Report	January 2017 (planned)



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