



The Annual Audit Letter for Tonbridge and Malling Borough Council

Year ended 31 March 2017

October 2017

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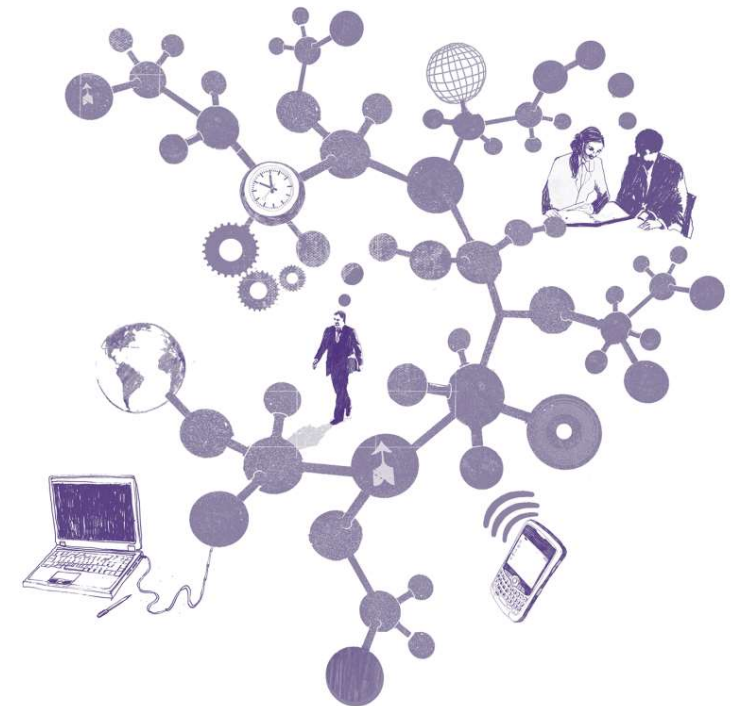
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Tonbridge and Malling Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 4th September 2017.

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 22 September 2017.

Value for money conclusion

We were satisfied that the Council has put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 22 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Tonbridge and Malling Borough Council in accordance with the requirements of the Code on 22 September 2017.

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 this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

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 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £1.212 million, 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.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance 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 adequately disclosed;
- significant accounting estimates made by the Director of Finance and Transformation 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's and with the accounts included in the Statement of Accounts on which we gave 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 was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this 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	Findings and conclusions
<p>Employee remuneration Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Documentation of our understanding of processes and key controls over the transaction cycle Walkthrough of the key controls to assess whether those controls are designed effectively Substantive testing of payroll information for a sample of employees to supporting documentation Review of year end reconciliations to ensure completeness of information in the accounts Trend analysis to assess completeness of payroll information 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Documentation of our understanding of processes and key controls over the transaction cycle Walkthrough of the key controls to assess whether those controls are designed effectively Substantive testing of creditor balances to supporting documentation Testing of new year payments to ensure expenditure had been posted to the correct accounting period 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

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	Findings and conclusions
<p>Employee remuneration Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identification and walkthrough of the Council's controls to ensure that the pension fund net liability is not materially misstated • Review of the competence, expertise and objectivity of the actuary performing the pension fund valuation • Review of the basis for the valuation and assessing the reasonableness of the actuarial assumptions made • Review of the consistency of disclosures in the financial statements with the actuarial report. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them."
(ISA (UK&I) 315)

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 22 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

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 4 September 2017. We did not identify any adjustments affecting your reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of (£3,085k).

The key messages arising from our audit of your financial statements are:

- you employed effective processes for producing accurate and high quality draft financial statements, which were supported by good working papers.
- the changes made to the accounts were minor, either being textual or presentational in nature. Many of the adjustments were below the threshold which requires us to report to Those Charged With Governance.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any issues that have required us to apply our statutory powers and duties under the Act.

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 2016 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 in carrying out our work 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.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed recommendations to address our findings

Overall VfM conclusion

We are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Position On its current trajectory, you have identified a funding gap of £1.9m in their Medium Term Financial Strategy from 2016/17 to 2019/20. However a savings plan has been put in place to manage this overspend during the 3 year course of the Medium Term Financial Strategy to return the position to balance by the end of the period. The longer term picture also looks challenging due to the likely cessation of the Revenue Support Grant, the New Homes Bonus scheme has a 2 year life in its current format before payments reduce, along with changes to other areas such as Business Rates Retention. You will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on your long term financial stability</p>	<p>We reviewed the progress against the 2016/17 financial plan up to the completion of our audit; and obtained an update on your Medium Term Financial Strategy, including progress on identified and unidentified savings required in 2017/18. We also carried out discussions with your progress to date.</p>	<p>You set a balanced budget for the year and achieved an improved year end reported position. The factors behind the improved financial position are an improved performance by a number of individual service budgets, together with management savings on pay costs and better than budgeted performance in major operational income streams which resulted in the contribution of £0.9 million to your general reserves.</p> <p>The programme for compiling your savings plans is based on the processes you put in place as part of your Savings and Transformation Strategy. You identified a savings target of £1.9 million for the period 2016/17 to 2019/20.</p> <p>Following the local government settlement the savings target was revised to £1.6 million for the period 2017/18 to 2020/21 to reflect changes in assumptions in the new homes bonus scheme which will continue to decrease up to 2021/22. Your current projections show that the new homes bonus could be as low as £1.4 million (the current level is £3.8 million). The impact of the reduction in new homes bonus will require further savings to be made in an already challenging environment.</p> <p>Following regular updates to your financial plans and the achievement of ongoing budget reductions, you have in place a 10 year MTFS which requires the successful delivery of a 3 year savings programme of £1.6 million from 2018/19. You are planning to build reserves up to 2019/20 to be able to use the reserves from 2020/21 to achieve a balanced budget. As the savings targets become more challenging you will need to continue to monitor your MTFS closely to ensure assumptions remain appropriate. The savings target currently being addressed requires budget reductions of £0.65m to be in place by April 2018. At the time of preparing this report, we understand that only half of this target has so far been identified. Members and Senior management will need to work closely together in order to ensure that the remainder of the target is achieved within the timescales set.</p> <p>We concluded that you have proper arrangements to plan finances effectively to manage the medium term financial position of the Council. Value</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	45,776	45,776	45,776
Housing Benefit Grant Certification	13,950	*TBC	18,084
Total fees (excluding VAT)	59,726	TBC	63,860

Non- audit services

No non-audit or audited related services had been undertaken for the Council in the year.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

* Audit of Housing benefit subsidy is in progress and will be completed and certified by the 30 November 2017 deadline

Reports issued

Report	Date issued
Audit Plan	13 March 2017
Audit Findings Report	4 September 2017
Auditor's opinion on accounts	22 September 2017
Auditor's value for money conclusion	22 September 2017
Annual Audit Letter	October 2017
Housing Benefit Grant Certification and report	November 2017 (planned)



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