



Annual Audit Letter

Year ending 31 March 2018

Tonbridge and Malling Borough Council

August 2018



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Your key Grant Thornton team members are:

Ciaran McLaughlin

Director

T: 020 7728 2319

E: ciaran.t.mclaughlin@uk.gt.com

Andy Ayre

Engagement Manager

T: 020 7728 2328

E: andy.j.ayre@uk.gt.com

Hazel Strudwick

Audit In-Charge

T: 01293 554035

E: hazel.j.strudwick@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tonbridge and Malling Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 23 July 2018.

Our work

| | |
|---|---|
| Materiality | We determined materiality for the audit of the Council's financial statements to be £1,212,000, which is 2% of the Council's gross revenue expenditure. |
| Financial Statements opinion | We gave an unqualified opinion on the Council's financial statements on 27 July 2018. |
| Whole of Government Accounts (WGA) | We completed work on the Council's consolidation return following guidance issued by the NAO. |
| Use of statutory powers | We did not identify any matters which required us to exercise our additional statutory powers. |

Respective 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 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 financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

| | |
|-------------------------------------|---|
| Value for Money arrangements | We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 July 2018. |
| 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 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter. |
| Certificate | We certify that we have completed the audit of the accounts of Tonbridge and Malling Borough Council in accordance with the requirements of the Code of Audit Practice. |

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July 2018, delivering the accounts audit opinion four days before the deadline, releasing your finance team for other work.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

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
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's accounts to be £1,212,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £61,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts and the narrative report, annual governance statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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>Improper revenue recognition Under ISA 240 (UK) there is a 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 ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Tonbridge and Malling Borough Council, mean that all forms of fraud are seen as unacceptable | <p>Therefore we do not consider this to be a significant risk for Tonbridge and Malling Borough Council.</p> <ul style="list-style-type: none"> – review and testing of revenue recognition policies – performance of attribute testing on material revenue streams – review of unusual significant transactions |
| <p>Management override of controls 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. We identified management override of controls as a risk requiring special audit consideration.</p> | <p>The following audit work has been performed:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • review of the rationale for any change in accounting policies or unusual significant transactions • testing of journal entries | <p>Our audit work has not identified any issues in respect of management override of controls.</p> |

Audit of the Accounts

Significant Audit Risks

These are the significant 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>Valuation of property, plant and equipment The Council revalues its land and buildings on a rolling quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p> | <ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work Consideration of the competence, expertise and objectivity of any management experts used. Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. | <p>We identified an error in the valuation of three leisure centres. For their valuation, the external valuer had used Gross Internal Areas for these three properties that did not match those held by the in-house property team. This meant the valuations had been based on incorrect inputs since 2012/13 and led to an overstatement of £2,920k as at 31 March 2018. The prior year statements have not been adjusted, however the valuation as at 1 April 2017 has been adjusted to reflect the effect on the opening balance. These have been adjusted in the Statement of Accounts.</p> |
| <p>Valuation of pension fund net liability 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 identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p> | <ul style="list-style-type: none"> Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out Undertake procedures to confirm the reasonableness of the actuarial assumptions made. Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. | <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability. We did identify one inconsistency in the disclosure of the actuarial assumptions which has been corrected. The salary increase assumption for the basis of estimating assets and liabilities for members of the LGPS was stated as 2.4%. As per the actuary report, it should have been 3.45%. This was correct in the final version of the Statement of Accounts.</p> |

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

However, for 2017/18 the Accounts and Audit Regulations 2015 required the period of public inspection of the Statement of the Accounts to include the first 10 working days of June 2018. The Council did not publish its inspection notice until 10 June 2018 with an inspection period covering the period 11 June 2018 to 20 July 2018. As a result it has not complied with the Accounts and Audit Regulations 2015. Management have agreed to ensure appropriate arrangements to ensure compliance are put in place for 2018/19.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 23 July 2018.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked management to address for the next financial year:

- Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements.

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 in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Tonbridge and Malling Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 overleaf.

Overall Value for Money 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 2018.

Value for Money conclusion

Key Value for Money Risks

| Risks identified in our audit plan | How we responded to the risk | Findings and conclusions |
|---|--|--|
| <p>Financial Health</p> <p>The December 2017 provisional Local Government financial settlement to 2019/20 anticipates a £1.6m (56%) decrease in the Settlement Funding Assessment and a £0.4m (12%) decrease in New Homes Bonus grant funding compared to 2016/17. Based on the above, amongst other things, latest projections point to a funding gap of circa £1m to be addressed over the short to medium term. You have already delivered around £3.0m in savings over the last 4-5 years. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council</p> | <p>We reviewed your Medium Term Financial Plan, including the robustness of assumptions. We will reviewed savings plans and revenue generating schemes. We discussed your plans and outcomes with management, as well as reviewing how finances are reported to Councillors.</p> | <p>The Council has a well-established Medium Term Financial Strategy (MTFS) covering a 10 year period. The MTFS continues to be updated at least annually and to be aligned with the Council's annual budget-setting process.</p> <p>The Council continues to face significant financial pressures associated with reductions in central government funding and the ongoing implications of a major business ratepayer going into administration in February 2015. The February 2018 revision of the MTFS has identified a funding gap of around £1.0m over the three year period until April 2021. This is an improved position compared to the funding gap of £1.6m identified in the February 2017 MTFS. The Council continues to address this gap in a structured way, breaking down the gap into tranches of £350k, £350k and £300k to deliver over the 3 year period. This will allow time for effective project planning and implementation.</p> <p>The outturn balance on the General Revenue Reserve at 31 March 2018 exceeded that forecast in the MTFS by £640k, enabling you to transfer £500k to Property Investment Fund Reserve to generate increased investment income in the future. The favourable variance against estimates was mostly due to one-offs including the benefits arising from the Business Rates Retention Scheme and management savings on the salary bill. In the final outturn reported to council for 2017/18 you were able to increase your yearend contribution to the General Revenue Reserve to £698k from the £435k anticipated in the Council's budget. Overall the assumptions within the MTFS appear prudent and in line with the council's strategy.</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> |

Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

We have not completed any other audit related or non-audit related services in 2017/18.

Reports issued

| Report | Date issued |
|-----------------------|----------------|
| Audit Plan | 3 April 2018 |
| Audit Findings Report | 23 July 2018 |
| Annual Audit Letter | 30 August 2018 |

Fees

| | Planned £ | Actual fees £ | 2016/17 fees £ |
|-------------------------------------|---------------|------------------|-------------------|
| Statutory Council audit | 45,776 | 45,776 | 45,776 |
| Housing Benefit Grant Certification | 18,084 | TBC | 15,950 |
| Total fees | 63,860 | TBC | 61,726 |

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

Fee variations are subject to approval by Public Sector Audit Appointments Ltd.

Action plan

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|------------|---|---|
| 1 ● | <ul style="list-style-type: none"> Although the Council's accounting policies provide information on revenue recognition in respect of Council Tax and National Non-Domestic Rates, they would be improved by a more explicit policy in respect of General Fund Revenue. | <ul style="list-style-type: none"> Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements. <p>Management response</p> <ul style="list-style-type: none"> We will undertake a review of this policy for the 2018/19 Statement |

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Tonbridge and Malling Council's 2016/17 financial statements, which resulted in 1 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendation and note it is still to be completed and is a repeated recommendation for 2017/18.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|------------|---|---|
| 1 X | <ul style="list-style-type: none"> Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements. | <ul style="list-style-type: none"> We will undertake a review of this policy for the 2018/19 Statement |

Assessment

- ✓ Action completed
- X Not yet addressed



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