

The Audit Findings for Tonbridge and Malling Borough Council

Year ended 31 March 2019

29 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Tonbridge and Malling Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 13. We have identified one adjustment to the financial statements that have resulted in no impact to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none">- receipt of an updated valuation of an investment property;- receipt of a letter from the auditors of the Kent County Council Pension Fund;- final senior management quality reviews of work;- receipt of management representation letter; and- review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Tonbridge and Malling Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 16.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and• To certify the closure of the audit.	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>
Acknowledgements <p>We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.</p>		

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 21 January 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 29 July 2019, as detailed in (Appendix E). These outstanding items are listed on page 3.

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.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Tonbridge and Malling Borough Council.

	Council Amount (£)
Materiality for the financial statements	1,218,000
Performance materiality	914,000
Trivial matters	61,000

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 The revenue cycle includes fraudulent transactions</p> <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>Auditor commentary</p> <p>During our audit risk assessment ahead of issuing the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, 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; and • the culture and ethical frameworks of local authorities, including Tonbridge and Malling, mean that all forms of fraud are seen as unacceptable <p>Therefore we did not consider this to be a significant risk for Tonbridge and Malling Borough Council.</p> <p>Through our ongoing risk assessment and performance of audit work, we have made no changes to the our assessment reported in the Audit Plan.</p>
<p>2 Management override of controls</p> <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 Authority 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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£66.3m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- write to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding using information provided by Gerald Eve as an auditor's expert;
- tested revaluations made during the year to see if they had been input correctly into the authority's asset register;
- evaluated 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 at year end; and
- considered the implications of Brexit on the valuation of the Council's asset portfolio

Our audit work has identified control weaknesses relating to the valuation process in respect of valuation of Land and Buildings and Investment Properties (see Appendix A). Additionally, an issue relating to the inclusion of VAT on the valuation of Heritage Assets has led to a material adjustment (see Appendix C).

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Valuation of pension fund net liability

The Authority'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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£61.8 million in the Authority's balance sheet at 31st March 2018) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested 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;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PWC (as auditor's expert) and performed any additional procedures suggested within the report; and
- obtain assurances from the auditor of Kent Superannuation 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.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £774k, and an increase in service costs for the 2019/20 year of £55k.</p> <p>Management's view is that the impact of the ruling is not material for Tonbridge and Malling Council, and will be considered for future years' actuarial valuations.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>We have included this as an uncertainty within Appendix C.</p>

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – NBV £67,982k	<p>Land and Buildings</p> <p>Land and Buildings comprises £67,982k of assets that are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged BPS to complete the valuation of properties as at 1 January 2019 on a five yearly cyclical basis. 82.3% of Land and Building assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £3,017k. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 January 2019, through the application of indices and comparison to valued assets to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Land and Buildings was £68,559k.</p>	<p>We assessed management's estimate for the value of Land and Buildings, Heritage Assets and Investment Property by considering:</p> <ul style="list-style-type: none"> • An assessment of management's expert • The completeness and accuracy of the underlying information used to determine the estimate • The impact of any changes to valuation method • The consistency of estimate against near neighbours/GE report • The reasonableness of increase in estimate • The reasonableness of management's assertion that assets not revalued are fairly stated • The adequacy of disclosure of estimate in the financial statements <p>We identified control weaknesses in relation to the valuation process (see Appendix A). However, overall we consider management's process is appropriate.</p>	
Heritage Assets - £7,961k	<p>Heritage Assets</p> <p>Heritage Assets comprises £7,961k, £7,793k of which is the Tonbridge Castle Gatehouse. Valuations of Heritage Assets may be made by any method that is appropriate and relevant. The Tonbridge Castle Gatehouse was revalued as at 31 March 2019 for insurance purposes. The draft accounts included it at £9,350k. However, audit work identified that this incorrectly included VAT, so a material adjustment of £1,557k was required.</p>		
Investment Properties - £6,490k	<p>Investment Properties</p> <p>Investment Properties comprises £6,210k of commercial and industrial properties and non-operational land. All the investment property portfolio was revalued and there was a £1,480k increase in value of some land due to outline planning permission for new dwellings having been obtained on it. The total year end valuation of Investment Properties was £6,210k.</p>		

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
Net pension liability – £56.7m	<p>The Council's net pension liability at 31 March 2019 is £56.7m (PY £61.8m) comprising the Kent County Council Pension Fund Local Government defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6.5m actuarial gain recognised in the comprehensive income and expenditure statement during 2018/19.</p>	<p>We assessed management's estimate for the net pension liability, considering;</p> <ul style="list-style-type: none"> An assessment of management's expert An assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach The use of PwC as auditor's expert to assess actuary and assumptions made by actuary <table border="1" data-bbox="795 454 1798 848"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.40%</td> <td>2.35% - 2.45%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.45%</td> <td>2.40% - 2.45%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>3.10% - 4.35% scheme-specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>45: 23.7 60: 22.0</td> <td>22.2 – 25.0 20.6 – 23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>45: 25.8 60: 24.0</td> <td>25.0 – 26.6 23.3 – 24.8</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The completeness and accuracy of the underlying information used to determine the estimate The impact of any changes to valuation method The reasonableness of the Council's share of LPS pension assets. The reasonableness of increase in estimate The adequacy of disclosure of estimate in the financial statements The materiality of the impact of the McCloud judgement on the council's liabilities <p>We consider management's process is appropriate.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.40%	2.35% - 2.45%	●	Pension increase rate	2.45%	2.40% - 2.45%	●	Salary growth	3.95%	3.10% - 4.35% scheme-specific	●	Life expectancy – Males currently aged 45 / 65	45: 23.7 60: 22.0	22.2 – 25.0 20.6 – 23.4	●	Life expectancy – Females currently aged 45 / 65	45: 25.8 60: 24.0	25.0 – 26.6 23.3 – 24.8	●
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Assessment

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- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £3,183k	The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. TMBC's share of the provision has increased by £239k in 2018/19 from £2,942k.	<p>We assessed management's provision for NNDR appeals by considering:</p> <ul style="list-style-type: none"> • the appropriateness of the underlying information used to determine the estimate • the impact of any changes to valuation method • the consistency of estimate against peers • the reasonableness of increase/decrease in estimate • the adequacy of disclosure of estimate in the financial statements <p>We consider management's process is appropriate.</p>	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management's going concern assessment is implicit in the forward planning documents such as the Budget 19/20 and Medium Term Financial Strategy. The Council has healthy reserves of £21.5m and £1.25m of General Fund reserves. Whilst local government funding continues to reduce over time, the Council is well placed financially to deliver services for local residents in the longer term

Auditor commentary

- We agree with management's assessment that the Council is a going concern.

Work performed

Auditor commentary

In common with other public sector bodies, even if a local authority were unable to continue as a business, we would normally expect the accounts to be prepared on a going concern basis. This is because there is a public sector interpretation of IAS 1 that means, unless the services provided by a public sector body are likely to be transferred outside the public sector, the financial statements should be prepared on a going concern basis.

A review of the draft financial statements have not identified the existence of going concern events or conditions which cast significant doubt on TMBC's ability to continue as a going concern. There is a significant volume of evidence available to support the conclusion of officers that it is appropriate that the accounts are produced on a going concern basis such as the detailed information on the Council's Budget for 2019/20, the MTFS and the STS

Concluding comments

Auditor commentary

- We are not proposing any qualification to the audit opinion with regards to management's going concern assessment or disclosure.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council, which is included in the Audit Committee papers.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to banks and investment fund managers. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found additional disclosures relating to the new requirements for Financial Instruments of IFRS 9 were required. See Appendix C.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> The draft accounts and supporting working papers were provided to us for audit on 21 May 2019, 10 days before the statutory deadline. This allowed us to pick samples before coming on site. All information and explanations requested from management were provided in good time enabling us to complete our work ahead of schedule.

Other responsibilities under the Code

Issue	Commentary
<p>1 Other information</p>	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> Note that work is not required as the Council does not exceed the threshold.
<p>4 Certification of the closure of the audit</p>	<p>We intend to certify the closure of the 2018/19 audit of Tonbridge and Malling Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

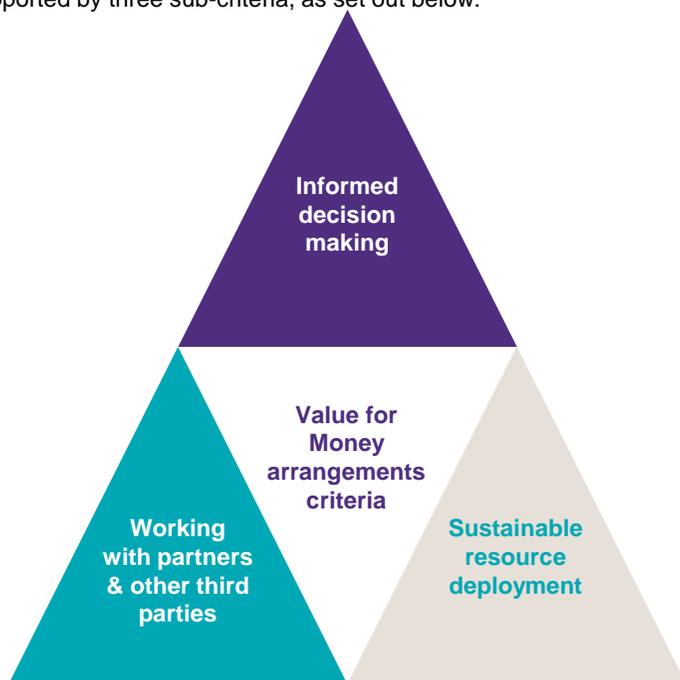
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in December 2018 and January 2019 and identified a significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 21 May 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Understanding the Council's arrangements for planning for the potential of a no-deal scenario on 29th March 2019, and the immediate considerations that would rise from the delivery of Tonbridge and Malling Borough Council's services.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 15 to 16.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Brexit</p> <p>With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments. 	<p>General planning and impact on traffic</p> <p>The council's Brexit preparedness planning has been focused on reacting to this potential no-deal scenario and the immediate considerations that would rise from that applicable to the delivery of Tonbridge and Malling's service. Central Government has warned that a no-deal scenario could lead to 6 months of disruption. Working together with emergency services, County, the NHS and other local authorities through the Kent Resilience Forum (KRF), the council has produced a work plan to address the most significant impacts. Tonbridge and Malling Borough Council has identified the main concern arising from a no-deal Brexit would be the impact of likely major traffic congestion on Kent motorways and major roads resulting from delays at Kent ports. The 'Freight Traffic Management Plan' plan to utilize Operation Fennel, which uses a phased approach to manage the flow of freight and other traffic through Kent's motorways and A-roads. However, experience from Operation Stack in 2015 suggests that even with plans such as these in place, there can still be significant disruption of major and local roads throughout the county. Congestion such as this could impact the council's ability to deliver key services as staff may be unable to get to their places of work and the waste collection services along with their access to Kent County waste transfer stations could be disrupted by traffic jams. We agree that this is the largest and most likely impact on TMBC from a no-deal Brexit scenario.</p> <p>In order to mitigate this risk, the council have taken several actions that are tracked in a Brexit work plan. The actions include starting to procure 100 laptops along with peripherals and software licenses in January 2019, to enable staff to work remotely; liaising with members of the KRF; recruiting additional resilience and emergency planning resource; mapped staff home locations to plan how to get them to work. These are proportional responses to the implications on Tonbridge and Malling of a no-deal Brexit scenario that will help maintain key council services to be delivered in the case of a no-deal Brexit. Additionally, key staff have been sent on operational, tactical and strategic command and control training; and a communication strategy was produced for keeping the public informed of the impact on services.</p> <p>To reclaim the costs of their Brexit preparations, in January, the council applied for £105,000 of funding from the Brexit Contingency Fund that was to be managed by Kent County Council. This funding was to be for the laptops and licenses, additional IT staffing resources to deliver the roll out of the new laptops and emergency planning and resilience staff, and to support the council providing mutual aid to Kent County Council and other Kent districts. However, as a result of a decision from the Ministry of Housing, Communities and Local Government, instead of locally managed contingency funds, each district council in the country was given £35,000 over two years to support Brexit preparedness. Costs for new IT hardware and additional staff in excess of this £35,000 have had to be absorbed by the council. The council already had plans to purchase laptops as part of its digital agenda to enable remote working and resilience. The expenditure on these laptops was brought forwards and focused providing key officers with laptops to enable the council to continue to provide key services in the event of a potential no-deal Brexit causing traffic problems.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> 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>Management response</p> <ul style="list-style-type: none"> The Council continues to focus on reacting to the potential of a no-deal scenario and the immediate considerations that would arise from that applicable to the delivery of services.

Key findings (continued)

	Significant risk	Findings	Conclusion
1	Brexit (Continued)	<p>Finance</p> <p>A financial risk relating to 'Brexit Impact and Economic Stability' has been on the Council's Strategic Risk Register since April 2017 which indicates it has formed part of the council's thinking for a long period. This was upgraded from an amber risk to red in January 2019 to reflect the increased risk of a no-deal Brexit and the potential impact on business continuity this could have.</p> <p>Treasury management planning has taken Brexit into consideration in the Annual Investment Strategy. It has introduced some flexibility on the risk parameters for credit ratings of UK sovereign bonds and UK nationalized or part-nationalised banks in case these are downgraded following a disorderly Brexit.</p> <p>The plans detailed above are all rather short-term plans for a no-deal Brexit. There has not been much planning for the medium- and long-term impact of a variety of Brexit outcomes. This is to be expected as, even into early 2019, the outcome of Brexit negotiations are uncertain so planning assumptions are fluid. As acknowledged in the Strategic Risk Register, we would expect to see reference to any medium- to long-term financial impacts of whichever Brexit scenario occurs / has occurred in the Medium Term Financial Strategy when it is next refreshed.</p> <p>Governance</p> <p>The council's report on Brexit preparedness was prepared on behalf of the Chief Executive and was considered by members in the Overview and Scrutiny Committee January and Cabinet for decision in February. The overseeing of Brexit planning is carried out by Mark Raymond, the council's Chief Corporate Policy Officer and progress against the Brexit work plan is reported to the Executive Management Team each month. These arrangements are sufficient to keep members and senior officers abreast of Brexit planning.</p> <p>Change in the Brexit deadline</p> <p>Following an agreement between the UK central government and the European Union, to move the Brexit deadline back from 29th March 2019 to 31 October 2019, since year end, we have continued to consider how the Council is approaching and managing the risks associated with this risk, especially with the prospect of a no deal departure looming larger. However, as our VFM conclusion relates to the same period as the statement of accounts, evidence of actions taken by the Council since the year end in respect to planning for Brexit has not been referred to above.</p>	

Independence and ethics

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 confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit services were identified. No non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits claim	TBC	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 in 2017/18 was £18,084 in comparison to the total fee for the audit of £35,348 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.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified one 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 2019/20 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	<p data-bbox="194 472 234 505">●</p> <p data-bbox="327 465 837 486">Valuations of PPE and Investment Properties</p> <p data-bbox="327 505 1011 639">Management obtained valuation from their external valuer for a property that was not required as they were planning on using a fair value based on their own knowledge of the property. There was a material difference between the external valuer's valuation and the Council's valuation.</p> <p data-bbox="327 658 1011 739">This indicates that there is a control weakness in the process for communicating between the finance department and the external valuer in setting the terms of the valuation engagement.</p>	<ul data-bbox="1058 465 1980 518" style="list-style-type: none"> <li data-bbox="1058 465 1980 518">• The Council should improve its communication between the finance department and the external valuer. <p data-bbox="1058 536 1313 558">Management response</p> <ul data-bbox="1058 576 1980 654" style="list-style-type: none"> <li data-bbox="1058 576 1980 654">• This issue arose between the timing of instructions to the valuer in October 2018 and circumstances pertaining at the year end. That said agree to review the timeliness and communication of instructions to the valuer going forward.

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 Borough Council's 2017/18 financial statements, which resulted in 1 recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1 ✓</p>	<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. <p>Recommendation</p> <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 	<ul style="list-style-type: none"> Management reviewed the accounting policy for Council Tax and National Non-Domestic Rates revenue as part of their update of accounting policies in preparation for the implementation of IFRS Revenue from Contracts with Customers. They sought comment from the auditors prior to the accounting policies' approval by Audit Committee.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
1 Heritage Assets The valuation of the Tonbridge Castle Gatehouse as part of Heritage Assets erroneously included VAT.	-	1,557	nil
Overall impact	nil	1,557	nil

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Financial Instruments	<p>Additional disclosure was required relating to:</p> <ul style="list-style-type: none"> Contractual nature of debtors that meet the definition of financial instruments; and The statutory override to account for any changes in the fair value of the pooled property investments that Any gains or losses credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are reversed out through the Movement in Reserves 	<ul style="list-style-type: none"> Additional disclosures should be added. <p>Management response</p> <ul style="list-style-type: none"> Actioned at the time of the audit. 	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Reason for not adjusting
<p>1 Potential impact of the McCloud judgement</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £774k, and an increase in service costs for the 2019/20 year of £55k.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties both relating to the outcome of the appeal process at this point in time, and relating to the estimation of the impact on the Council's liability.</p>	<p>The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.</p>

Impact of prior year unadjusted misstatements

We have not identified any adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements

Fees

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

Audit Fees

	Proposed fee (£)	Final fee (£)	2017/18 fee (£)
Council Audit	35,348	40,548	45,776
Total audit fees (excluding VAT)	35,348	40,548	45,776

The change in final fee is due to additional work that performed in connection with the 2018-19 statutory audits of the Council. The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 and property, plant and equipment needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of these areas this year to reflect this. Additionally, there was a sector-wide issue relating to the impact of the McCloud judgement on the pension net liability. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements. Finally, we identified issues relating to the valuation of heritage assets and investment property that led to further work being required. We have increased the volume and scope of our audit work to reflect this.

Additional fees are subject to PSSA Ltd approval.

Non Audit Fees

Fees for other services	Fees (£)
Audit related services:	
• Grant Certification	TBC
	TBC

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Tonbridge and Malling Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tonbridge and Malling Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you [where](#):

- the Director of Finance and Transformation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Transformation has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance and Transformation is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based

on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Transformation and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Transformation. The Director of Finance and Transformation is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Transformation determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Transformation is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Audit opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements ~~as a whole, are~~ free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken ~~on the basis of~~ these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Tonbridge and Malling Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's

report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]



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