

The Annual Audit Letter for Tonbridge and Malling Borough Council

Year ended 31 March 2019

August 2019



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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 2019.

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 29 July 2019.

Our work

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.

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,218,000, which is 1.96% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 29 July 2019.
Whole of Government Accounts (WGA)	We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

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 29 July 2019.
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 2019. We will report the results of this work to the Audit Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Tonbridge and Malling Borough Council in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

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 July, delivering the financial statements 2 days before the deadline, releasing your finance team for other work.
- Improved financial processes – we worked with you to streamline your processes including the valuation of fixed assets.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- 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 2019

Audit of the Financial Statements

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 financial statements to be £1,218,000, which is 1.96% 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 financial statements, the narrative report, annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 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 Financial Statements

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 land and buildings</p> <p>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.</p> <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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; wrote 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 	<p>Our audit work identified control weaknesses relating to the valuation process in respect of valuation of Land and Buildings and Investment Properties. Additionally, an issue relating to the inclusion of VAT on the valuation of Heritage Assets has led to a material adjustment.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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>Valuation of net pension liability</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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. • Considered the potential impact of the McCloud judgement on the pension fund net liability. We were satisfied that this had not resulted in a material difference in the 2018/19 accounts. 	<p>Our audit work has not identified any issues in respect of valuation of the valuations of the pension fund net liability.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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>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>As part of our audit work 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>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 29 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements 10 days ahead of 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.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 29 July 2019.

In addition to the key audit risks reported above, we identified some minor misclassification and disclosure changes that management have adjusted for in the final set of accounts.

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.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

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.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Tonbridge and Malling Borough Council in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

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 2019.

Value for Money conclusion

Value for Money Risks

Significant risk	Findings	Conclusion
<p data-bbox="58 311 91 334">1</p> <p data-bbox="128 301 203 325">Brexit</p> <p data-bbox="128 347 464 515">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 data-bbox="128 536 453 561">In response to this risk we will:</p> <ul data-bbox="128 582 499 801" 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 data-bbox="522 301 961 325">General planning and impact on traffic</p> <p data-bbox="522 347 1653 765">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 data-bbox="522 786 1653 1008">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 data-bbox="522 1029 1653 1356">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 data-bbox="1690 301 1835 325">Auditor view</p> <ul data-bbox="1690 347 2001 622" 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 data-bbox="1690 644 1949 668">Management response</p> <ul data-bbox="1690 689 2001 901" 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.

Value for Money conclusion

Value for Money Risks

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>	

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	35,248	40,448	45,776
Housing Benefit Grant Certification	10,500	TBC	18,084
Total fees	45,748	TBC	63,860

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £35,248 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. 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.	£1,600
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,200
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. In addition, 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.	£2,400
Total		£5,200

Fee variations are subject to PSAA approval.

A. Reports issued and fees continued

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

Fees for non-audit services

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

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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