

Tonbridge and Malling Borough Council Audit Progress Report and Sector Update

Year ended 31 March 2023

24 July 2023



Contents

Section	Page
Introduction	3
Progress at July 2023	4
Audit deliverables	6
Infrastructure assets update	7
Sector update	8

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction

Your key Grant Thornton team members are:

Sophia Brown

Key Audit Partner, Engagement Lead

T 020 7728 3179

E Sophia.Y.Brown@uk.gt.com

Ghufran Ahmed

Engagement Manager

T 020 7728 2029

E Ghufran.Ahmed@uk.gt.com

Usman Rasheed

Audit Assistant Manager

T 020 7728 2751

E Usman.Rasheed@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at July 2023

Financial statements audit

We undertook our initial planning for the 2022-23 audit in February 2023.

Our initial planning included:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Council makes material estimates for the financial statements
- Early work on emerging accounting and auditing issues
- Determining planning materiality and significant risks

In April 2023 we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2022-23 financial statements.

We started work on the final audit of your financial statements for 2022-23 from the week commencing 3 July 2023. The audit work is underway, and we will report our work in the Audit Findings Report, and aim to give our opinion on the Statement of Accounts by 30 September 2023. There are no matters to report as of the date of this report.

The deadline for publishing audited local authority accounts is 30 September for 2022-23 onwards.

Value for Money

Under the 2020 Code of Audit Practice, for local government bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

The National Audit Office (NAO) have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 2022-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN 03 and issue their Auditor's Annual Report when their work is complete.

The Auditor's Annual Report should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

The audit work is underway and we anticipate issuing our Auditor's Annual Report along with the Audit Finding Report on 25 September 2023, subject to completion of outstanding audit procedures.

Other areas

Meetings

We met with Finance Officers in March and July 2023 as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in July 2023 to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Accounts Workshop in February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Council are set out in our sector update section of this report.

Audit fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2022-23 is the fifth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018-19 to 2021-22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your S151 Officer including any proposed variations to the scale fee set by PSAA Limited, and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit deliverables

2022-23 Deliverables

	Planned date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2022-23 financial statements and to issue a commentary on the Council's value for money arrangements in the Auditor's Annual Report.</p>	April 2023	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the September Audit Committee.</p>	September 2023	Not yet due
<p>Auditor's Report</p> <p>This includes the opinion on your financial statements.</p>	September 2023	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>	September 2023	Not yet due

Infrastructure assets update

Background

Most local government (LG) entities, excluding police bodies, will own infrastructure assets. The balances for highways authorities will be particularly significant and are likely to be material. For LG entities with material infrastructure assets there is therefore a potential risk of material misstatement related to this balance.

The inherent risks which we identified this year in relation to infrastructure assets were:

- An elevated risk of the overstatement of gross book value and accumulated depreciation figures, due to lack of derecognition of replaced components
- A normal risk of understatement of accumulated depreciation and impairment as a result of failure to identify and account for impairments of infrastructure assets, and an over or understatement of cumulative depreciation as a result of the use of inappropriate useful economic lives (UEls) in calculating depreciation charges.



The full report can be found [here](#).

How these issues have been addressed?

Since these issues were first identified we have been working with CIPFA and the English and Scottish Governments to find both long-term and short-term solutions which recognise the information deficits and permit full compliance with the CIPFA Code. It has been recognised that longer-term solutions, by way of a Code update, will take several years to put into place and so short-term solutions have been put in place in the interim. These short-term solutions include the issue of Statutory Instruments (SIs) by government and an update to the CIPFA Code.

The CIPFA Code update was issued on 29 November 2022. The English SI was laid before Parliament on 30 November 2022 and came into force on 25 December 2022 – see [The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2022 \(legislation.gov.uk\)](#). CIPFA issued [CIPFA Bulletin 12 Accounting for Infrastructure Assets Temporary Solution](#) on 11 January 2023, which includes further guidance and illustrative examples on the depreciation of infrastructure assets and the associated useful economic lives (UEls).

Where the infrastructure asset balances are material to your financial statements, we are currently considering how the SI and Code update have been considered by the Council, e.g. how derecognised components have been accounted for and how the financial statement disclosures have been updated. We are currently carrying out further audit procedures to assess the material accuracy of in year movements for the year ended 31 March 2023, including infrastructure asset additions, impairments and depreciation charges.

Sector update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up-to-date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

Table 1 Audited accounts published by target date over the last six years

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report](#)

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Local government procurement and contract management

Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector¹. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

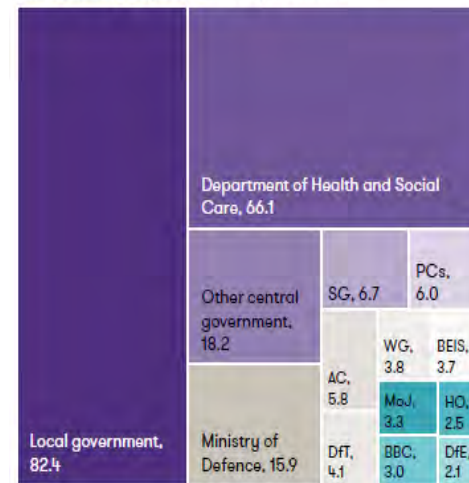
- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[Full report here](#)

More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

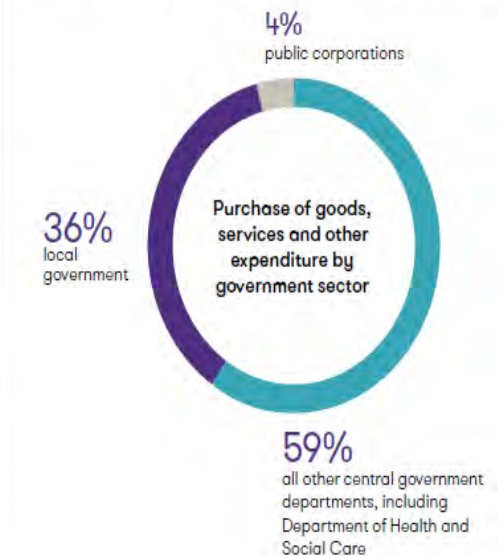
UK public spending

Public spending on goods and services, £ billions - analysis by segment and department²



- PCs Other Public Corporations
- DfT Department for Transport
- WG Welsh Government
- HO Home Office
- DfE Department of Education
- SG Scottish Government
- AC Academies
- MoJ Ministry of Justice
- BBC British Broadcasting Corporation
- BEIS Department of Business, Industry Strategy

Goods, services and other expenditure by segment⁴



¹ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
² Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021
³ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
⁴ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

SEND deficits kept off budgets for another three years

The government has allowed councils to keep deficits on spending for children with special educational needs and disabilities off their balance sheets for a further three years.

The government's local government finance policy statement published on 12 December 2022 says that the statutory override for the Dedicated Schools Grant (DSG) will be extended for the next three years, from 2023-24 to 2025-26.

Councils use the high needs funding block of the DSG to fund Send provision. But for many authorities, the cost of this has been outstripping the amounts provided by tens of millions of pounds, leading to a total deficit estimated at more than £2bn.

The statutory override means that any DSG deficits are not included in council's main revenue budgets. Before today's announcement, it had been due to expire in 2023. Last year, Matt Dunkley, chair of the Association of Directors of Children's Services' resources and sustainability policy committee, said: "We think the cumulative high needs block deficits of local authorities are approximately £2.3bn."

In June, the government launched the £85m Delivering Better Value in Send programme, that involves specialist advisors probing 55 councils' financial data to try and cut their DSG deficits. The Chartered Institute of Public Finance and Accountancy, a partner in the programme, said the scheme would provide "project management, change management and financial modelling capacity".

The programme is running alongside the Department for Education's 'safety valve' support scheme that offers bailouts for the councils with the largest Send spending deficits, in return for them implementing stringent reforms.

About 40 councils are expected to receive safety valve funding, meaning that the two programmes together will include about two thirds of councils with responsibility for Send. Also in June, the then children's minister Will Quince wrote a letter to council chief executives warning that a "significant number of councils are "running services that are not sustainable, and instead jeopardise the longevity of that crucial support".



Stonewall Gold Employer: Grant Thornton's LGBTQIA+ inclusion journey

Background

15 Feb 2023, Stonewall, Europe's largest charity for Lesbian, Gay, Bi, Trans, and Queer (LGBTQIA+) rights, launched its widely anticipated Top 100 Employers List – recognising us for our work in supporting LGBTQIA+ colleagues to be the best versions of themselves at work and awarding us Gold Employer, the highest award.

We're proud to announce that we've ranked among the UK's leading employers from the public, private, and third sectors in the Stonewall Workplace Equality Index (WEI). We've also been recognised as a Gold Employer. Overall, we've ranked 38th in the latest WEI results, and 26th in the private sector, and 9th in the financial services sector.

Sustainability: Finance at the heart of decision making

In November 2022 CIPFA published an article on public sector specific response to climate change. Below is an extract from CIPFA's website:

Role of the finance profession

Finance and accounting professionals need to move beyond simply measuring and reporting the impact of climate change, environmental regulation, supply chain pressure and rising energy costs. They must focus on understanding those implications and integrating them into financial management and business planning. The ability to integrate climate risks into overall operational risks is a major challenge. The finance profession will need to be able to collect data from different professions (scientists, valuation experts, biologists, meteorologists etc) and be able to understand but also challenge assumptions and projections. The importance of effective communication to both internal and external stakeholders must not be underestimated. Climate reporting should result in decision makers having all the information necessary to be effective, to measure progress and to hold those responsible to account.

Opportunities and risks must be identified and stress tested using various scenarios, including temperature rises of 2C and more. The impact of collapsed ecosystems must not be ignored – from rising sea levels to food scarcity and the mass migration of people whose land is no longer inhabitable. We need honesty, transparency and above all leadership to tackle the climate issues that exist and lie ahead.

Conclusion

The current focus on net zero emissions by 2050 misses the point that climate change is already happening. There is an urgent need for adaptation measures to be introduced that allow the UK to live with higher temperatures, wetter winters and warmer, drier summers. At the moment we are severely under prepared. This is a call for urgent action from government, both at central and local level. The IPCC recommended threshold of limiting temperature rises to 1.5C is **set to be broken**. Temperature rises above 2.5C will mean ecosystems will collapse which will have severe repercussions on our society as a whole. CIPFA and ICAEW share the view that the finance function has an important role to play in combating climate change. We would like to see the finance profession taking the lead for the public sector in its efforts to tackle climate change”.

[Click here for link to the article](#)

Audit market developments

Financial Reporting Council Report On The Quality Of Local Audit

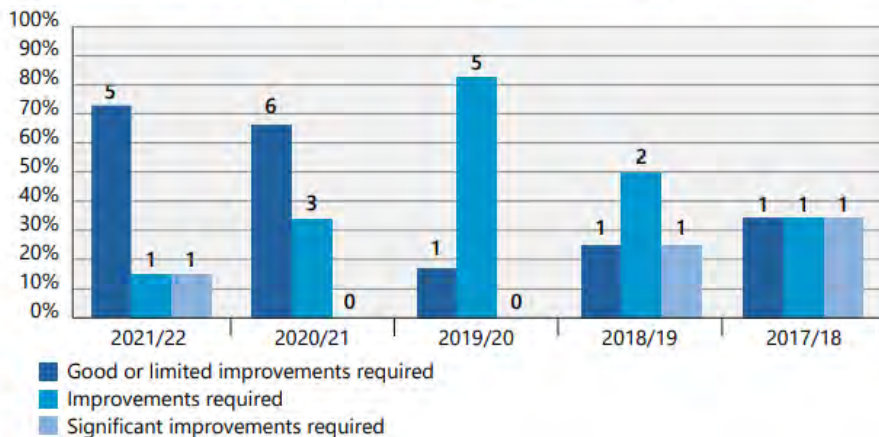
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



Audit market developments (continued)

Local Government external audit procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

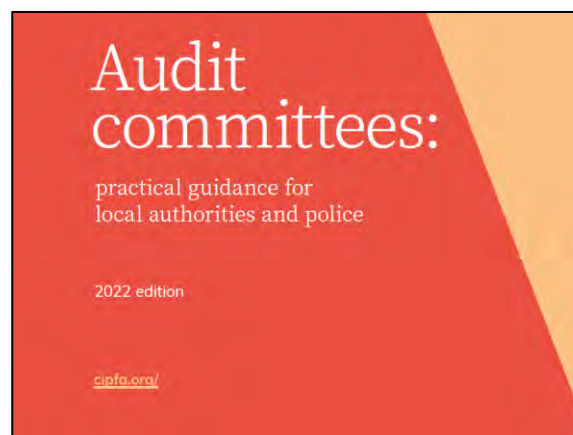
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
 - Governance, Risk and Control
 - Accountability and Public Reporting
 - Assurance and Audit arrangements
 - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)





© 2023 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.