



The Annual Audit Letter for Tunbridge Wells Borough Council

Year ended 31 March 2017

October 2017

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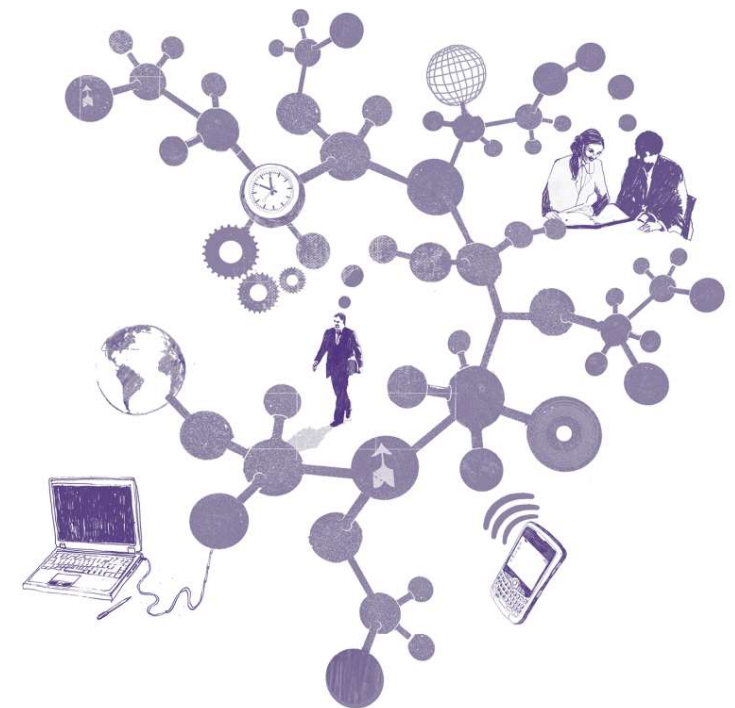
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Executive summary

Purpose of this letter

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

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee (as those charged with governance) in our Audit Findings Report on 20 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2017.

Value for money conclusion

We were unable to issue our conclusion until we have completed our consideration of matters that have been brought to our attention as noted below. We were satisfied that these matters do not have a material effect on the financial statements.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts. A local government elector made an objection to the annual accounts in respect of expenditure on the civic centre redevelopment requesting a report in the public interest. We are currently considering the objection.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Governance Committee.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.38 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for cash and senior officer remuneration of £0.5 million.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Finance and Corporate Services are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts – Tunbridge Wells Borough Council

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>Operating expenses We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> creditors and accruals understated or not recorded in the correct period. 	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle; undertook walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; reviewed year end account reconciliations; sample tested operating expenditure during the year; tested the year end payables; tested for unrecorded liabilities and manual accruals. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Employee remuneration We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> employee remuneration accruals understated 	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle; undertook walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; reviewed year end reconciliations of the payroll to the ledger; completed sample testing of payroll transactions during the year; completed directional analytical review using trend analysis. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Audit of the accounts continued – Tunbridge Wells Borough Council

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 property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of management experts; • reviewed the instructions issued to valuation experts and the scope of their work; • discussed with the valuer, the basis on which the valuation was carried out and challenged key assumptions; • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding; • tested revaluations made during the year to ensure they were inputted correctly into the Council's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Valuation of pension fund net liability Your pension fund asset and liability as reflected in your balance sheet represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • documented the controls put in place by management to ensure that the pension fund liability is not materially misstated; • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p> <p>We used an auditor's expert to provide assurance on the Council's actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable in most cases although in some instances the assumptions fall outside of expected ranges. Looking at the impact of all assumptions holistically, we obtained sufficient assurance that the pension fund liability was not materially misstated.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2017, in advance of the 30 September 2017 national deadline. The draft financial statements for the year ended 31 March 2017 recorded 'Other Comprehensive Income and Expenditure' of £8,694k and our work had not resulted in a change to the reported position.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers.

Key messages arising from the audit of the accounts

We reported the key messages from our audit of the accounts of the Council's accounts to the Audit and Governance Committee on 25 July 2017 which included the following:

- the quality of the draft statements presented for audit on 1 June 2017 was good and free of errors;
- the finance team responded promptly and comprehensively to audit requests and queries;
- for the second year running, the audit was completed two months before the statutory deadline. From 2017/18, the accounts deadlines move forward and the Council will be required to present the draft financial statements for audit by 31 May. The Council's finance team has demonstrated it has the capability and capacity to meet the earlier deadline.

Annual Governance Statement and Narrative Report

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

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. As a result of our risk assessment, we reported to the Audit and Governance Committee that we had not identified any significant risks requiring further work.

In arriving at our conclusion, our main considerations included the following:

- The Council delivered another strong financial performance during 2016/17 achieving an underspend of £770k against the cost of services budget of £16,126k. The Council had arrangements in place that monitored financial performance and the reported key variances to Cabinet quarterly. These variances were properly disclosed to stakeholders in Section 4 of the Narrative Report.
- The Council had arrangements in place that continuously updated the medium term financial strategy (MTFS). The MTFS is updated annually and the most recent Plan covered the 5 year period from 2017/18 and 2021/22. The MTFS is linked to the Five Year Plan and sets out the key budget assumptions. Along with other districts, the Council is facing reductions in central government funding, with Revenue Support Grant decreasing from £834k in 2016/17 to £(606)k payment to central government by 2019/20. At the time of writing (June 2017), the overall budget set showed total net additional costs not yet met by identified savings totalling £3.4 million over the 5 year period covered by the MTFP.

- Work is continuing to identify the required medium to longer term savings and it includes the consideration of alternative income generation plans. During 2016/17, the Council purchased one commercial property which was appropriately disclosed in the notes to the accounts (Note 12 Investment Property).
- The Council's risk management arrangements were sound. The Audit and Governance Committee (A&GC) received regular reports on strategic risks. We noted good practice where the individual risk holders attended the A&GC on a cyclical basis to present the key risks and mitigations reported in the strategic risk register. We observed a good level of challenge and discussion during Committee meetings particularly around the adequacy of mitigating controls against each key risk.
- The Council continue to work in partnerships with other Kent authorities to achieve a better outcome for residents. Recently, the Cabinet resolved to support the West Kent Public Health Preventative Service model, a partnership agreement between Kent County Council, Tonbridge and Malling Borough Council, Sevenoaks District Council and Tunbridge Wells Borough Council. The aim is to work together to deliver the West Kent Public Health Preventative Services model over the three years 2017/18 to 2019/20.

Overall VfM conclusion

We are unable to issue our conclusion until we have completed our consideration of matters that have been brought to our attention. We were satisfied that these matters do not have a material effect on the financial statements.

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	51,230	51,120	51,120
Audit of subsidiary Company Tunbridge Wells Property Holdings Co	n/a	n/a	5,000
Housing Benefit Grant Certification	8,925	*TBC	12,144
Total fees (excluding VAT)	60,155	51,230	68,474

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

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

Non- audit services

No non-audit or audited related services had been undertaken for the Council in the year (£2,000 in 2015/16 tax advisory).

Reports issued

Report	Date issued
Audit Plan	4 April 2017
Audit Findings Report	25 July 2017
Auditor's opinion on accounts	27 July 2017
Auditor's value for money conclusion	27 July 2017
Annual Audit Letter	October 2017
Housing Benefit Grant Certification and report	November 2017 (planned)



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