



Annual Audit Letter

Year ending 31 March 2018

Tunbridge Wells Borough Council

08 August 2018



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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 Tunbridge Wells Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues 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 and Governance Committee as those charged with governance in our Audit Findings Report on 17 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,384,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 20 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

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

- give an opinion on the Council'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's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 20 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Tunbridge Wells Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

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

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the accounts 10 days before the deadline, releasing your finance team for other work;
- Improved financial processes – we worked with you to streamline your processes;
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports;
- Providing training – we provided your teams with training on financial accounts and reporting.

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

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £1,384,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for cash and cash equivalents disclosure. We set a lower threshold of £500,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

We set a lower threshold of £69,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involved obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they were free from material misstatement, whether caused by fraud or error. This included assessing whether:

- the accounting policies were appropriate, had been consistently applied and adequately disclosed;
- the significant accounting estimates made by management were reasonable; and
- the overall presentation of the financial statements gave a true and fair view.

We also read the remainder of the Annual Financial Report including the narrative report and annual governance statement published alongside the Annual Financial Report to check they were consistent with our understanding of the Council and with the financial statements included in the Annual Financial Report on which we gave our opinion.

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

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

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

Audit of the Accounts

Significant Audit Risks

These were 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>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. . Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; obtained a full listing of journal entries, identify and test unusual journal entries for appropriateness; evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of management's experts used; discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; tested revaluations made during the year to ensure they were input correctly into the Council's asset register; evaluated assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these were not materially different to current value. 	<p>Our audit work did not identify any significant issues in respect of valuation of property, plant and equipment. The Code of Practice for accounting allows flexibility for councils to adopt a rolling basis for the revaluation of assets over a five year period. However, councils have to be satisfied that the adoption of this approach doesn't result in assets' carrying value recorded in the accounts being materially differing from the current value as at the year end balance sheet date. We recommended the Council's consideration of this and its evidence for audit consideration be enhanced.</p>

Audit of the Accounts

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;• evaluated 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;• undertaken procedures to confirm the reasonableness of the actuarial assumptions made;• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	<p>Our audit work did not identify any issues in respect of valuation of pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 20 July 2018, in advance of the national deadline.

Preparation of the accounts

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

Key messages from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 17 July 2018.

The quality of the draft statements presented for audit on 4 June 2018 was good and free of errors. The draft financial statements for the year ended 31 March 2018 recorded 'Total Comprehensive Income and Expenditure' of £8,651k and our work had not resulted in a change to the reported position.

We raised one low priority recommendation for management as a result of our audit work.

Annual Governance Statement and Narrative Report

We were required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website in the Annual Financial Report in line with the national deadlines.

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

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Tunbridge Wells Borough Council in accordance with the requirements of the Code of Audit Practice. We certified the completion of the audit along with the audit opinion on 20 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

We carried out an initial risk assessment in January and February 2018 against the three sub-criteria, considering committee reports, discussions with management, regulatory reviews and sector guidance. We did not identify any significant risk as a result. We communicated this to the Council in our Audit Plan dated 2 March 2018.

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

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

- The Council delivered another strong financial performance during 2017/18 achieving an underspend of £1 million against the cost of services budget of £18.1 million. The underspend comprised of an overachievement in income of £720k and an underspend on costs of £294k. Further details explaining the variances was disclosed in Section 4 of the Narrative Report included in the Annual Financial Report. Arrangements for monitoring performance and reporting of key variances to Cabinet were embedded throughout the Council.

- The Council has proposals for the Civic Development with an expected completion date of 2022/23. The plans include delivering a modern theatre in line with the Council's Five Year Plan. In February 2017, the Council approved moving into RIBA Stage 3 (developed design) for the project to progress. The draft planning framework was subjected to public consultation with many representations resulting in further revisions to the plan. The gross capital expenditure is expected to be up to £90 million with an annual net revenue cost to the Council of £2.3 million. The Council continued to seek professional advice on the robustness of these costings during each stage of the development.
- The Audit and Governance Committee (A&GC) continued to receive regular reports on strategic risks. Each risk owner attended the A&GC on a cyclical basis to present the key risks and mitigations reported in the strategic risk register. A&GC provided a good level of challenge around how the Council was managing each risk.

Overall Value for Money conclusion

We were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

A. Reports issued and fees

We confirm below our final fees charged for the audit and details of non-audit services provided in the year are set out below.

Reports issued

Report	Date issued
Audit Plan	2 March 2018
Audit Findings Report	13 July 2018
Auditor's opinion on accounts	20 July 2018
Auditor's value for money conclusion	20 July 2018
Annual Audit Letter	08 August 2018
Housing Benefit Grant Certification and report	November 2018 (planned)

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	51,230	51,230	51,230
Housing Benefit Grant Certification	12,144	*TBC	**13,925
Total fees	63,374	51,230	65,155

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

* 2017/18 Housing Benefit grant certification work commenced in August 2018.

** 2016/17 Housing Benefit grant certification fee includes £5,000 for additional testing.

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing Benefits Scheme	12,144
- Local objection fee 2016/17	6,565
Non-Audit related services	
- None	

Non-audit services

- For the purposes of our audit we had 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 had 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 were put in place.

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



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