

# Annual governance report

Tunbridge Wells Borough Council

Audit 2011/12



# Contents

---

Key messages .....	3
Before I give my opinion and conclusion .....	4
Financial statements .....	5
Value for money .....	9
Fees .....	12
Appendix 1 – Draft independent auditor’s report .....	13
Appendix 2 – Draft letter of management representation .....	18
Appendix 3 – Glossary .....	21

# Key messages

---

**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

My audit is now substantially complete. I expect to issue an unqualified audit opinion after the Audit and Governance Committee on 26 September 2012.

The Council produced a high quality draft set of accounts by the 30 June 2012 deadline. The accounts were supported by good quality working papers and officers were prompt and helpful in responding to queries from the audit team.

## Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. I have considered your arrangements to:

- secure financial resilience; and
- secure economy, efficiency and effectiveness.

The Council continues to have strong arrangements in place to ensure value for money. This includes:

- strong strategic leadership by members and senior officers
- robust financial planning over the medium term; and
- high quality financial monitoring.

## Certificate

I plan to issue my certificate by 30 September 2012.

# Before I give my opinion and conclusion

---

**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Audit and Governance Committee to:**

- take note of the uncorrected adjustments to the financial statements included in this report (appendix 2); and
- approve the letter of representation (appendix 2), on behalf of the Authority before I issue my opinion and conclusion.

# Financial statements

---

The Authority's financial statements and annual governance statement are important means by which the Authority accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

## Opinion on the financial statements

Subject to final audit closing procedures, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## Amendments to the Accounts

There were no significant amendments to the accounts arising from my audit which I need to report to you.

## Significant risks and my findings

I reported to you in my March 2012 Audit Plan the significant risk that relevant to my audit. I report to you my findings below:

---

Table 1: **Table 1.Risks and findings**

Risk	Finding
<b>Valuation of property, plant and equipment (PPE)</b> The Council is required to value most types of PPE at fair value (except for infrastructure, community assets and assets under construction which are valued at historic	The Council carries PPE in the balance sheet at fair value. For freehold and leasehold properties (the majority of the Council's property holding) fair value is determined in accordance with Royal Institute of Chartered Surveyors' RICS valuation principles for

## Risk

cost). Accounting for PPE crosses over many areas within the financial statements and the values at Tunbridge Wells are significant, (£74 million valuation at 31 March 2011). Because the accounting is complex and includes material estimations, there is potential for material error.

### Heritage Assets

The 2011/12 code adopts the requirements of FRS 30 Heritage Assets. As a result there are changes to the valuation and disclosure requirements of Heritage Assets and adopting this new standard is a change in accounting policy.

The Council holds various collections in its museum and art gallery and will need to assess these against the new accounting requirements and also identify any other Heritage Assets (for instance properties) which it may

## Finding

particular asset types:

- Existing Use Value (operational assets);
- Market Value (investment properties)
- Depreciated Replacement Cost (specialist assets with no market)

The Council uses independent valuations provided by its external valuers to inform it of current valuations; a rolling programme of valuations is carried out to ensure that whole portfolio is revalued every five years.

All estimates carry with them a degree of uncertainty. In the case of valuation of PPE, this is minimised by using suitably qualified independent valuers and the application of appropriate valuation principles.

The risk of error at the Council is further minimised by officers closely scrutinising the output from the valuer and questioning any unusual trends or items. In respect of the 2011/12 valuation exercise this has included further consideration of the change of valuation basis of the Weald Leisure centre, where the valuation basis has changed from Existing Use to Depreciated Replacement Cost. The Council's valuer considers there to no longer be an active market for this type of leisure centre.

I am satisfied that these items have been appropriately addressed between the Council and the valuer.

The Council has properly recognised Heritage Assets in its financial statements in 2011/12. As this is a material change in accounting policy it has required the Council to re-present the comparative balance sheet for the two preceding financial years.

I have tested a sample of the assets that are now recognised in accordance with the new policy and have no matters to report.

hold.

## Significant weaknesses in internal control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

### Municipal Mutual Insurance £104,000

The Council has included a contingent liability in its financial statements in respect of Municipal Mutual Insurance Limited (MMI) claims of £104,000. Based on information provided in MMI's accounts and the outcome of a recent Supreme Court Judgement, it is my view that all councils should now consider whether a provision is required in respect of MMI. In the worst case scenario at Tunbridge Wells, this could be up to the full amount of the contingent liability (£104,000). The Council's own estimate is that a provision of no more than 10% of the full amount (£10,400) would be appropriate. Officers have prepared a separate briefing note for Members which provides further detail to support this estimate.

The Council does not propose to include a provision in the 2011/12 accounts in respect of MMI. It informs us that it is monitoring the situation and is prepared to make a provision based on quantified information from MMI. In view of the relatively small sums involved, which is below the trivial audit

level; I am content with this as a proposed course of action. The Council should be alert to any changes in circumstances which impact on this in the future.

## **Whole of Government Accounts**

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. Subject to the final completion of my audit testing, I have no matters to report.



# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my March 2012 Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Authority has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 2: **Value for money conclusion criteria and my findings**

Criteria	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The quality of financial leadership and governance inside an organisation is vital in meeting the current difficult financial challenges and for securing financial resilience into the future. Although good basic systems, controls and processes are important, it is the overall financial culture that makes the difference. Tunbridge Wells Borough Council has a strong and effective culture of financial leadership. It has officers who are knowledgeable and experienced, who have been able to respond to the scale of financial challenges arising from cuts in government funding.</p> <p>Tight financial control is maintained over revenue budgets; over successive years the annual out turn has been managed in line with the budget. For 2011/12 this allowed for planned drawing from the general fund balance which now stands at £13.3 million. The Council has recognised the significant financial challenges that exist to balance future revenue budgets without calling on reserves and is working</p>

Criteria	Findings
	<p>on delivery of savings strategies to achieve balanced budgets in the future..</p> <p>The Council's financial planning and modelling extends to the medium and longer term. This allows it to take decisions in a planned way, allowing for the lead-in time that is necessary in implementing change.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council has continued to implement the policies of its 'strategic compass'; Customers, People and Providing Value, which focus on securing continued economy, efficiency and effectiveness for local taxpayers. Progress at delivering the projects and actions which underpin the compass are regularly monitored and reported to Cabinet and the Audit Committee, since it was approved in July 2011. Of the 77 actions, at March 2012:</p> <ul style="list-style-type: none"> <li>■ 27 had been completed and achieved</li> <li>■ 30 were underway and on target</li> <li>■ 20 were not yet due for completion.</li> </ul> <p>The actions encompass a broad range of service priorities and have been scoped to identify efficiency, improve customer experience and improve ways of working.</p>

In my March 2012 Audit Plan I reported to you the significant risk that was relevant to my conclusion. I have set out below the findings of my work.

Table 3: **Significant risk**

Risk	Finding	Impact on VFM conclusion
<p>The external financial environment continues to be a very challenging one for all local authorities. The need to maximise the efficient use of resources cuts across all of the Council's operations and is reflected</p>	<p>The Council recognised the significance of the financial challenges it faced early and started its addressing the financial challenges through a range of measures which have enabled it to continue to operate in a planned and co-ordinated way.</p>	<p>I intend to issue an unqualified vfm conclusion.</p> <p>The council is taking a reasonable and prudent approach to manage future spending downwards to within the level of its projected income. In particular, It has recently:</p>

Risk	Finding	Impact on VFM conclusion
<p>in the Council's risk register along with associated actions and controls to mitigate the risks.</p>	<ul style="list-style-type: none"> <li>■ The Council reduced staffing by 10% between 2008 and 2011.</li> </ul> <p>A similar forward looking approach has been adopted for successive budgets, with members being informed of the future financial prospects and risk assessment of the budget at an early stage.</p> <p>The current outlook remains very challenging with increased uncertainty over the level of future income. Further reductions in government grant appear likely, which will continue to challenge the Council. In particular there remain uncertainties on the Council's future finances over::</p> <ul style="list-style-type: none"> <li>■ the impact of the Local Government resources review;</li> <li>■ the local retention of business rates by the Council; and</li> <li>■ the impact of localisation of Council tax benefits.</li> </ul>	<ul style="list-style-type: none"> <li>■ signed up to participate in a Kent wide model approach to promote consistency in dealing with localisation of Council Tax benefits; and</li> <li>■ agreed to participate in a mortgage deposit guarantee scheme for first time buyers.</li> </ul> <p>These actions build upon previous achievements in:</p> <ul style="list-style-type: none"> <li>■ implementing a local pay scheme including a review of staff rewards and benefits; and</li> <li>■ pursuing opportunities for joint working with neighbouring authorities.</li> </ul>

# Fees

---

## I reported my planned audit fee in the March 2012 Audit Plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	112,344	112,344
Claims and returns	25,000	25,000
Non-audit work	0	0
<b>Total</b>	<b>137,344</b>	<b>137,344</b>

# Appendix 1 – Draft independent auditor’s report

---

## **INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF TUNBRIDGE WELLS BOROUGH COUNCIL**

### **Opinion on the Authority financial statements**

I have audited the financial statements of Tunbridge Wells Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and Collection Fund and the related notes. 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 2011/12.

This report is made solely to the members of Tunbridge Wells Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### **Respective responsibilities of the Head of Finance and Governance and auditor**

As explained more fully in the Statement of Responsibilities, the Head of Finance and Governance 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, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of

significant accounting estimates made by the Head of Finance and Governance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Tunbridge Wells Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure 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.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself 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 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Tunbridge Wells Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

## **Certificate**

I certify that I have completed the audit of the accounts of Tunbridge Wells Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

District Auditor

Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

26 September 2012





# Appendix 2 – Draft letter of management representation

---

## **Tunbridge Wells Borough Council Audit of Accounts for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other relevant details directors of Tunbridge Wells Borough Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 march 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

## **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

## **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For property valuations accounting estimate, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

### **Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

### **Signed on behalf of Tunbridge Wells Borough Council**

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on 26 September 2012

Signed

Head of Finance and Governance

Date

Signed

Chair of Audit and Governance Committee

Date

# Appendix 3 – Glossary

---

## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial Audit and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

**Materiality**

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement

within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

### **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

### **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

### **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

