



The Annual Audit Letter

Tunbridge Wells Borough Council

Year ended 31 March 2016

October 2016

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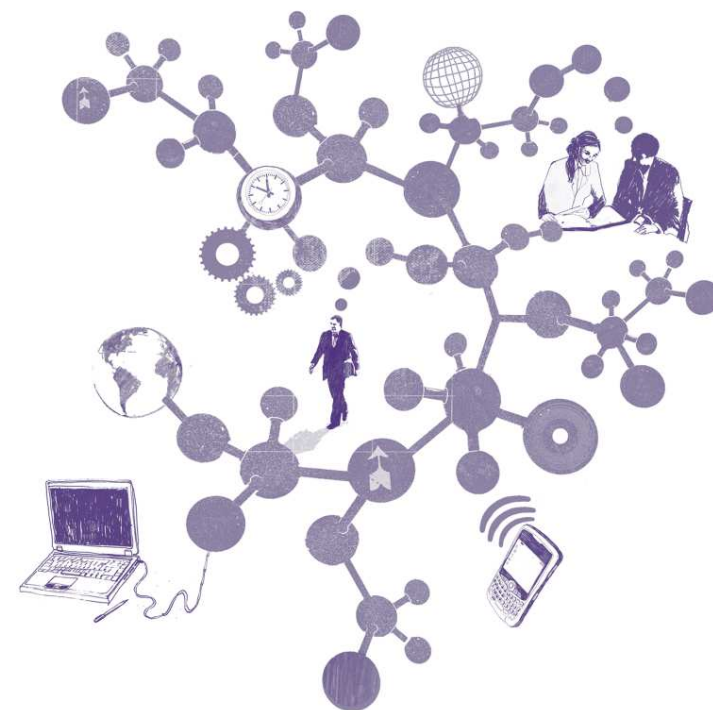
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tunbridge Wells Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (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 26 July 2016.

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's 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 opinions on the Council's financial statements on 28 July 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 July 2016.

Certificate

We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 28 July 2016.

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 2016. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

Working with the Council

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
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we used the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We defined 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 £1,384k (being 2% of 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 cash equivalents.

We set a lower threshold of £63k, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involved obtaining enough 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 Council's accounting policies were appropriate, had been consistently applied and adequately disclosed;
- significant accounting estimates made by management were 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 were consistent with our understanding of the Council and with the accounts on which we gave our opinion.

We carried out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we obtained was 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

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
<p>Employee remuneration Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</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 reconciliations of the payroll to the ledger• analytical review using trend analysis• tested payroll transactions to payslips and HR contract of employment. <p>We did not identify any material issues to report.</p>
<p>Operating expenses Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• documented our understanding of processes and key controls over the transaction cycle• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding• sample testing of operating expenditure during the year• testing of the year end payables and manual accruals• testing for unrecorded liabilities. <p>We did not identify any material issues to report.</p>

Audit of the accounts

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
<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>We have undertaken the following work in relation to this risk:</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 any management experts used • reviewed the instructions issued to valuation experts and the scope of their work • discussed with your 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 are input correctly into the Council's asset register; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves these are not materially different to current value. <p>We did not identify any material issues to report.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in the balance sheet represent significant estimates in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented the key controls that were put in place by management to ensure the pension fund liability was not materially misstated • undertook walkthrough of the key controls to assess the whether the controls were in line with our documented understanding • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation • gained an understanding of the basis on which the IAS19 valuation was carried out, including 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 your actuary. <p>We did not identify any material issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 July 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The Finance Team prepared the draft statements over a much shorter timescale than in previous years and is well placed to achieve the planned early close of accounts from 2017/18. We commended the Finance Team for their efforts. The finance team also responded promptly and efficiently to our queries during the course of the audit.

Key messages arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Governance Committee on 28 July 2016.

In addition to the key audit risks reported above, we reported to the Committee:

- the quality of the draft statements presented for audit on 1 June 2016 was good and free of errors;
- the finance team responded promptly and comprehensively to audit requests and queries;
- the audit of the accounts was completed two months earlier than in previous years.

Annual Governance Statement and Narrative Report

We are also 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.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We had no matters to report.

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 2015 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 continues to maintain its positive track record of delivering underspends against budget. Efficiencies in the year led to the Council making a contribution to the general fund reserves of £231k resulting in a closing general fund balance as at 31 March 2016 of £7.9 million in line with the longer term financial strategy;
- the Council set a balanced revenue budget for 2016/17 of £65.6 million despite the reductions in government grants such as revenue support grant. The Cabinet assessed and approved the revenue budget plan as being credible, however if expected savings or efficiencies fail to be delivered, a budget gap would occur requiring the use of reserves. The Council recognises that the use of general reserves is unsustainable over the longer term and has continued to employ a strategy of tight financial control taking corrective actions as and when required to ensure a balanced outturn can be achieved by 31 March 2017;

- the Council's 2016/17 corporate priorities was refreshed and aligned with the Leader's Five Year Plan 2014 - 2019. Cabinet adopted the Five Year Plan that is underpinned by the Medium Term Financial Strategy, the 2016/17 Property Asset Management Plan, and the People Strategy. Overall, the Council adopted 14 priorities for 2016/17 across three broad themes being: a prosperous borough, a confident borough and a green borough. Performance against each priority are reported regularly to Cabinet
- reviewed the Council's on-going partnerships with neighbouring Kent districts and the County. We noted last year the Council was withdrawing from the three-way shared Planning Support service largely due to poorer level of performance achieved. The withdrawal is substantially complete and the Council expects to start delivering the service in-house in the summer of 2016. Meanwhile, the Council is continuing to explore other new partnerships including a three-way shared debt recovery service. Following a change in legislation, the Council and its partners are seeking to use the new regulations to provide debt recovery service whilst generating income from court referral costs. The arrangements are still at an early stage with recruitments taking place to support service delivery.

Overall VfM conclusion

We were satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit starting in June in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a timely financial statements audit releasing your finance team for other important work.

Improved processes – during the year we worked together to review and audit the year end accounts some two months earlier than previous year. We will hold debrief meeting with the Finance meeting to embed the efficiencies in the audit approach in the future.

Through the Value for Money conclusion we provided you with assurance on your operational effectiveness of your financial health.

Sharing our insight – we provided regular updates to the Council covering best practice. Areas we covered included our reports on Innovation in public financial management, Making devolution work, Reforging local government. We will continue to provide you with our insights.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

We will also continue to work with you and support you over the next financial year to embed your production of your year-end accounts. From 2017/18 all councils in England will be required to publish their audited financial statements by 31st July (currently 30th September).

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues to improve the audit process. The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 Audit Plan.

Appendix A: Reports issued and fees

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

Fees

	Per Audit plan £	Actual fees £
Council audit	51,230	51,230
Audit of subsidiary company Tunbridge Wells Property Holdings Company	**5,000	TBC
Grant certification on behalf of Public Sector Audit Appointments Limited (estimated) *	*12,144	TBC
Total audit fees	68,474	51,230

The proposed fees for the Council's audit were in line with the scale fee set by Public Sector Audit Appointments Limited (PSAA).

* Work still in progress – completion due in November 2016. Fee variations are subject to approval by PSAA.

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	July 2016
Auditor's opinion on accounts	July 2016
Auditor's value for money conclusion	July 2016
Annual Audit Letter	October 2016

Fees for other services

Service	Fees £
Non-audit services – Tax advisory to Tunbridge Wells Property Holdings Company	**2,000
Total	£2,000

** Work in progress – completion due in December 2016.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.



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