



The Audit Findings for Tunbridge Wells Borough Council

Year ended 31 March 2020

16 July 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Tunbridge Wells Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Financial Statements</p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work commenced remotely during June and July. Our findings are summarised on the following pages. Our work is substantially complete, to date, there are no audit adjustments to the draft Annual Financial Statements.</p> <p>The Council's accounts have been prepared to a good standard. The finance team produced both the draft accounts and supporting working papers by the agreed deadline. Disclosure amendments to the financial statements following the audit are set out on page 23. We made two good practice recommendations which are set out on page 22 which we agreed with management.</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The impact has been widespread causing volatility of financial and property markets which impacted on your asset valuation. We also expected the current circumstances to have an impact on the production and audit of the financial statements. Additionally, changes in the regulatory framework as set out in our Audit Plan require us as your auditors to introduce additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the Council.</p> <p>Unsurprisingly, we experienced some delays during the audit as a result of the outbreak. In line with government directive, both the production and audit of the financial statements were done remotely. Furthermore, obtaining and review of audit evidence remotely proved more challenging and took longer than it would normally take to review. Our audit testing of information provided by the Council was completed remotely, however this would be a more efficient process via on site visits.</p> <p>The combination of remote working and the challenges of gaining an understanding of complex spreadsheets via video links have impacted on the length of time to complete the audit. We recognise also that remote working by our team has impacted on our own operational efficiency in how we have progressed the audit.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph in relation to the valuer's material uncertainty disclosure. An emphasis of matter paragraph is not a qualification.</p>
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Headlines

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, such as service delivery, redeployment of staff including finance team to support frontline staff.</p> <p>Council front-line challenges amongst others included administration of grants to businesses, loss of revenue income such as car parks with additional challenges of reopening services under new government guidelines.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan addendum on 28 May 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to embrace remote accessing of financial systems, video calling including verifying the completeness and accuracy of information produced by the Council via screen sharing.</p> <p>This has created added challenges for the both the Council and audit teams and it has inevitably impacted on the length of time to complete the audit as set out in our Audit Plan.</p> <p>We commend the finance team for producing both the draft accounts and supporting working papers by the agreed deadline of 8 June 2020.</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Tunbridge Wells Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>Our findings are set out in a separate report titled 'VfM Review – Calverley Square Governance' and summarised on pages 19 to 20.</p>
<p>Statutory duties</p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with both management and the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our Audit Plan, as communicated to you in our Audit Plan addendum dated 28 May 2020, to reflect our response to the Covid-19 pandemic. We have included Covid-19 as a significant risk.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 21 July 2020, as detailed in Appendix D. These outstanding items include:

- receipt from auditors of Kent County Council Pension Fund auditors' assurances over controls surrounding the validity and accuracy of membership data; contributions data and benefits data
- complete our testing and reviews of going concern, narrative report, annual governance statement, accounts and pension disclosures, payroll, journals, Investment Properties
- completion of our work to issue our whole government accounts assurance statement, which can only be undertaken at the conclusion of the financial statements audit
- receipt of representation from Chair of the Audit and Governance Committee
- complete our accounts closing procedures including receipt and review of management representation letter
- receipt and review of the final copy of Annual Financial Report including Annual Governance Statement; and
- Senior Manager and Director review of the work performed on the audit file and satisfactory follow-up and resolution to any queries raised.

Summary

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our Audit Plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,400,000	<ul style="list-style-type: none"> We have determined materiality to be £1.4 million equates to 2% of your prior year Cost of Service expenditure for the year.
Performance materiality	1,050,000	<ul style="list-style-type: none"> We have determined performance materiality to be £1.05m, which equates to 75% of your materiality for the financial statements
Trivial matters	70,000	<ul style="list-style-type: none"> We have determined triviality to be £70k which is the reporting level to those charged with governance

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Covid– 19 risk as reported in Audit Plan addendum</p> <p><i>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</i></p> <ul style="list-style-type: none"> • <i>Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</i> • <i>Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</i> • <i>Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</i> • <i>Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</i> <p><i>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</i></p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> • Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation’s ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. <p>Our audit work is substantially complete and awaiting the resolution of residual queries. Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 5.</p> <p>We note your independent valuer has declared a ‘material valuation uncertainty’ in the valuation report issued on the basis of uncertainties in markets caused by Covid-19.</p> <p>Refer to our section Significant findings – judgements and estimates on page 13 for further details.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>2 Improper revenue recognition <i>risk as reported in Audit Plan</i></p> <p><i>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</i></p> <p><i>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:</i></p> <ul style="list-style-type: none"> • <i>opportunities to manipulate revenue recognition are very limited;</i> • <i>the culture and ethical frameworks of local authorities mean that all forms of fraud are seen as unacceptable.</i> <p><i>Therefore we do not consider this to be a significant risk for Tunbridge Wells Borough Council.</i></p>	<p>Auditor commentary</p> <p>There are no changes to our assessment as reported in the Audit Plan.</p>
<p>3 Management override of controls <i>risk as reported in Audit Plan</i></p> <p><i>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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</i></p> <p><i>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement</i></p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work is substantially complete and awaiting the resolution of residual queries.</p> <p>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 5, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of land and buildings <i>risk as reported in Audit Plan</i></p> <p><i>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£107 million as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.</i></p> <p><i>Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</i></p> <p><i>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</i></p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding the Council's valuer's report and the assumptions that underpin the valuation. • tested a sample of revaluations made during the year to see if they had been input correctly into the Council asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. <p>Our audit work is substantially complete and awaiting the resolution of residual queries.</p> <p>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 5, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>5 Valuation of pension fund net liability risk as reported in Audit Plan</p> <p><i>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</i></p> <p><i>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£54 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</i></p> <p><i>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</i></p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Our audit work is substantially complete and awaiting the resolution of residual queries.</p> <p>We are awaiting receipt from auditors of Kent County Council Pension Fund auditors' assurances over controls surrounding the validity and accuracy of membership data; contributions data and benefits data.</p> <p>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 5, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</p>

Significant findings - other issue

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	<p>IFRS 16 implementation has been delayed by one year</p> <ul style="list-style-type: none"> Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases 	<ul style="list-style-type: none"> Our review of your disclosure against the Code requirements is substantially complete The Council has disclosed the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases in Notes 4 and 24.2 	<p>Our audit work is substantially complete and there are no issues arising to draw to the attention of those charged with governance.</p> <p>We will review the estimated impact on the financial statements as at 31 March 2021 as part of the 2020/21 audit.</p> <p>As part of your on-going IFRS 16 preparations for implementing the standard, we would recommend the Council consider the following:</p> <ul style="list-style-type: none"> documenting the arrangements for ensuring the completeness of leases, and consider the risk of impairment on lease asset values as at 1 April 2021 due to Covid 19 and the level of uncertainty around the asset values.
		<p>Operating Leases – Council acting as lessor Note 24.1</p> <p>We also reviewed the Council's Operating Leases – Council acting as lessor disclosure. We note that the table of leases expiring disclosure does not fully comply with the Code. The table disclosure 'future minimum lease payments receivable under non-cancellable leases' is split as at the end of the financial year rather than split per Code requirement as follows:</p> <ul style="list-style-type: none"> Within one year Between two and five years Later than five years.: 	<p>Recommend Note 24.1 analysis of 'Operating Leases – Council acting as lessor' income disclosure (including the prior year) be analysed in line with Code requirements:</p> <ul style="list-style-type: none"> Within one year Between two and five years Later than five years.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £3.5m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required based on the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> assessed the appropriateness of the underlying information used to determine the estimate assessed the consistency of estimate against peers/industry practice reasonableness of increase in estimate adequacy of disclosure of estimate in the financial statements. <p>Our audit work is substantially complete. There is no issue to report in respect of this estimate.</p>	 Green

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings £104.7m; and Investment Properties £1.7m	<p>Land and buildings (£104.7m) are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The Council has engaged GL Hearn to complete the valuation of properties as at 31 March 2020. Land and buildings are revalued when management considers there to be a material change in the value but as a minimum every five years.</p> <p>The valuation of properties valued by the valuer has resulted in a net decrease of £190k.</p> <p>Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 01 April 2020, applying industry average indices and rental income to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the property's value.</p> <p>Investment properties Note 13.1</p> <p>The Council also has one Investment Property (IP) valued based on its rental income. The last time the Council formerly valued the IP asset was in 2017/18.</p>	<p>Auditor commentary</p> <p>We undertook the following PPE procedures:</p> <ul style="list-style-type: none"> • an assessment of management's expert • completeness and accuracy of the underlying information used to determine the estimate • impact of any changes to valuation method • consistency of estimate against near neighbours/GE report • reasonableness of decrease in estimate • adequacy of disclosure of estimate in the financial statements. <p>We note in line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19.</p> <p>The Council has referred the material valuation uncertainty within PPE Land and Buildings disclosures in Note 11.4.</p> <p>Recommend the uncertainty should be disclosed within your Accounting Policies note as a 'key estimate' in line with the requirement of the Code {paragraphs 3.4.2.90 – 91}.</p> <p>We will issue an emphasis of matter within our audit report drawing attention to your estimation uncertainty disclosure.</p> <p>We identified the following in our review of the Council's Investment Property (Note 13.1):</p> <ul style="list-style-type: none"> • the valuation techniques used during the year for investment property has not been disclosed • Investment properties should be measured at highest and best use, not depreciated and revalued annually. The IP revaluation technique employed by the Council adopts a periodic revaluation that coincides with each rental review. The current valuation technique is not strictly Code compliant. <p>We recommend Investment property note disclose the following:</p> <ul style="list-style-type: none"> • valuation technique used during the year, and • date the last formal valuation was undertaken. 	 Yellow

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
Net pension liability – £57.7m	<p>The Council's net pension liability at 31 March 2020 is £57.7m (PY £54.5m) comprising the Local Government Pension Scheme (Kent Pension Scheme is administered by Kent County Council). The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3.4m net actuarial gain during 2019/20.</p>	<p>Auditor commentary</p> <p>We considered the following in the course of our testing:</p> <ul style="list-style-type: none"> assessment of management's expert use of PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions 	 Green																								
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td style="text-align: center;"></td> </tr> <tr> <td>Pension increase rate</td> <td>3.0%</td> <td>Reasonable approach</td> <td style="text-align: center;"></td> </tr> <tr> <td>Salary growth</td> <td>3.0%</td> <td>3 – 4%</td> <td style="text-align: center;"></td> </tr> <tr> <td>Longevity at 65 for pensioners: men</td> <td>21.8 yrs</td> <td>21.4 – 23.3 yrs</td> <td style="text-align: center;"></td> </tr> <tr> <td>Longevity at 65 for pensioners: women</td> <td>23.7 yrs</td> <td>23.7 24.7 yrs</td> <td style="text-align: center;"></td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%		Pension increase rate	3.0%	Reasonable approach		Salary growth	3.0%	3 – 4%		Longevity at 65 for pensioners: men	21.8 yrs	21.4 – 23.3 yrs		Longevity at 65 for pensioners: women	23.7 yrs	23.7 24.7 yrs		
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.35%	2.35%																									
Pension increase rate	3.0%	Reasonable approach																									
Salary growth	3.0%	3 – 4%																									
Longevity at 65 for pensioners: men	21.8 yrs	21.4 – 23.3 yrs																									
Longevity at 65 for pensioners: women	23.7 yrs	23.7 24.7 yrs																									
		<ul style="list-style-type: none"> completeness and accuracy of the underlying information used to determine the estimate impact of any changes to valuation method reasonableness of the Council's share of LGPS pension assets. reasonableness of increase/decrease in estimate adequacy of disclosure of estimate in the financial statements 																									
		<p>Our audit work is substantially complete and awaiting the resolution of residual queries.</p>																									
		<p>Subject to the conclusion of our remaining audit work in this area and the satisfactory completion of outstanding work set out on page 5, there are no material issues arising to draw to the attention of those charged with governance in respect of the identified risk.</p>																									

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings - Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

The consideration and assessment of the relevance of the going concern basis of accounting was incorporated into the 2020/21 budget plan, and approved by the Senior Management Team and Committee. This assessment was:

- consistent with the 2020/21 financial plan, and
- judgements and assumptions taken.

Auditor commentary

- Management's formal assessment of the use of the going concern basis of accounting covered the period 01 April 2020 to 31 March 2021. We consider Management's process in reaching its judgements to be reasonable. There are transparent disclosures of the key risks that are likely to impact the 2020/21 financial plans.

Work performed

We:

- held regular discussions with officers about the financial standing of the Council;
- reviewed management's assessment of assumptions and supporting information, including the Revenue Budget 2020/21, Capital Programme for 2020/21 – 2022/23 and the impact of Covid-19 pandemic

Auditor commentary

- Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Concluding comments

- Our review of management's going concern assessment is still in progress. Recommend the basis of preparation of the accounts on a going concern basis should be included within the accounts.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. include results of management's investigation and measures implemented to prevent recurrence.
4	Written representations	<ul style="list-style-type: none"> A standard letter of representation will be requested from the Council.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to your bankers and investors. This permission was granted and the requests were sent. We received positive confirmations from all but investment confirmation from Lloyds. We continued to follow up these outstanding requests.
6	Disclosures	<ul style="list-style-type: none"> Our review is in progress. Our work to date has not identified any material omissions in the financial statements.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management to date has been provided. We do not anticipate any issues in respect of the outstanding evidence listed on page 5 of this report.

Other responsibilities under the Code

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.</p> <p>Our work is in progress. No inconsistencies have been identified to date. We anticipate issuing an unqualified opinion in this respect – refer to Appendix D</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties. <p>We have nothing to report on these matters.</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> • Note that work is not required as the Council does not exceed the threshold. • The NAO Group return will be completed at the conclusion of the audit.
4 Certification of the closure of the audit	<p>Subject to the satisfactory conclusion of the outstanding items on page 5, we intend to certify the closure of the 2019/20 audit of Tunbridge Wells Borough Council in the audit opinion, as detailed in Appendix D.</p>

Value for Money

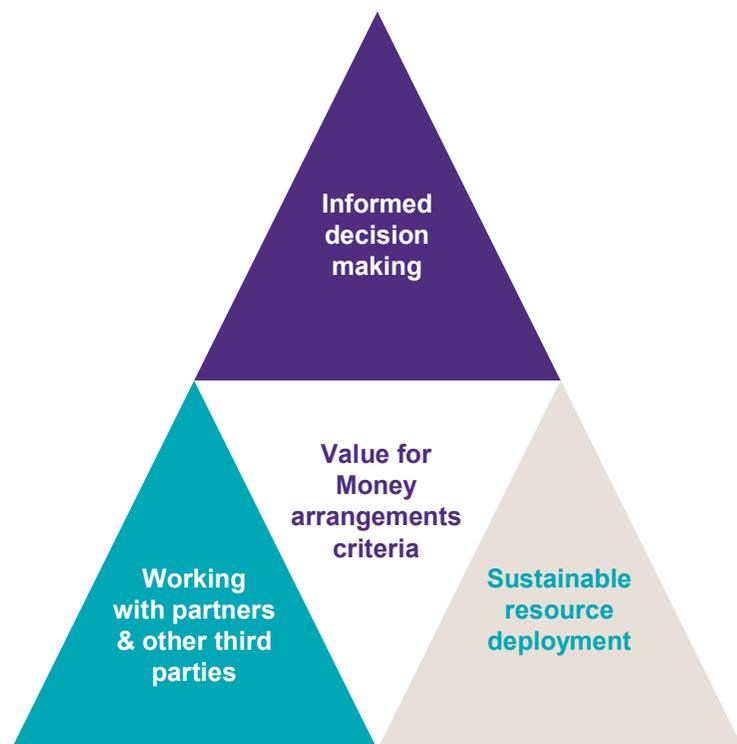
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January and February 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 09 March 2020.

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

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations was your governance arrangements leading up to the decision in October 2019 (*informed decision making*), and adapting your medium term financial plan to reflect the impact of the decision on your financial position (*Sustainable resource deployment*).

We note in your June 2020 report to Cabinet, you estimated at a high level the impact of Covid-19 on your 2020/21 budget. Your working assumption on the financial impact are £1 million a month between April to July, reducing to £750,000 for August to November and to a £0.5 million between December to March 2021. Covid-19 expenses incurred between March and April 2020 was funded from £1.2 million of government funding provided in tranches 1 and 2 of the financial support to councils. You have plans in place to undertake a further review of your budget in September 2020, taking in account any further government support and to review reserve balances to fund possible shortfalls.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work are reported separately in the report titled 'VfM Review – Calverley Square Governance'. The executive summary from the report are set out on page 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response are reported separately in the report titled 'VfM Review – Calverley Square Governance'.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

VfM Review – Calverley Square Governance’. The executive summary extract

Our conclusion – making informed decisions

We have reviewed the decisions made by Full Council at each stage of the project, with particular focus on the decision to terminate the project in October 2019. We are satisfied that at each stage members had access to sufficient supporting papers and analysis to make informed decisions. In fact, we note that in many cases the information provided was used by objectors as well as supporters of the project. In particular we have considered whether the reliance placed on the political mandate as evidence of public support was reasonable, and concur with the CPO inspector that ultimately, Council members are the elected representatives of the public and are entitled to disagree with objections raised by other groups or individuals. Therefore this too falls within the definition of and informed basis for decision. That said, in our view the lack of cross party support or other forms of direct public consultation evidence, left the project vulnerable to a change in political direction, ultimately leading to its termination.

We conclude that members were in a position to make informed decisions and there are no grounds for a qualified VfM conclusion in this regard.

Our conclusion – Sustainable resource development

We have reviewed the financial impact of the decision to terminate the Calverley Square project. While we do not believe this has materially undermined the Council’s ongoing financial sustainability, it has resulted in the loss of £10.3 million with little or no strategic or financial benefit to residents. We note that the Council has derived some limited benefit through £0.5m in balance sheet acquisitions and some potential value associated with the planning permission obtained for the future development of the two key sites. However, overall it has weakened the Council’s ability to manage the impact of COVID-19 and other financial risks.

We conclude that while the financial impact reflects a significant failure to deliver value to residents, it has not materially undermined the Council’s ongoing financial resilience and there are no grounds for a qualified VfM conclusion in this regard

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified which were charged from the beginning of the financial year to July 2020. We plan to undertake the certification of the 2019/20 Housing capital receipts grant after the conclusion of the audit.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,000 in comparison to the total fee for the audit of £46,974 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are good practice recommendations we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1		<p>IFRS 16</p> <p>The implementation of IFRS 16 has been delayed to 1 April 2021. The Council's IFRS 16 disclosure in 2020/21 will need to include the estimated impact on the financial statements as at 31 March 2021.</p> <p>The Council has arrangements in place to estimated impact on the financial statements as at 31 March 2021.</p>	<p>As part of your on-going IFRS 16 preparations for implementing the standard, we would recommend the Council consider the following:</p> <ul style="list-style-type: none"> • documenting the arrangements for ensuring the completeness of leases, and • consider the risk of impairment on lease asset values as at 1 April 2021 due to Covid-19 and the level of uncertainty around the asset values. <p>Management response</p> <p>This was already in progress as was due to be implemented on 1 April 2020.</p>
2		<p>PPE rolling valuation</p> <p>Land and buildings are revalued when management considers there to be a material change in the value but as a minimum every five years. Similarly, Investment Property is valued on a rolling cycle.</p> <p>Looking ahead to 31 March 2021, Covid-19 pandemic may continue to impact on PPE year end valuations.</p>	<p>As part of your 2020/21 arrangements, review your cycle of rolling PPE and Investment Property valuations to assess if the frequency or timing of valuation needs to be brought forward as part of the Council's assurance that PPE and Investment Property assets are materially accurate as at 31 March 2021.</p> <p>Management response</p> <p>The Council's assets are valued every 5 years as a minimum, but will be revalued immediately if it is considered that a material change in value is possible. It is agreed that property values could be materially affected by the Covid-19 Pandemic.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. No misstatements has been identified to date.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omissions	Detail	Auditor recommendations
Operating Leases – Council acting as lessor Note 24.1	The table disclosure future minimum lease payments receivable under non-cancellable leases as at the end of the financial year rather than split per Code requirement	Disclose the lease income within Operating Leases – Council acting as lessor (including the prior year) analysed as follows: <ul style="list-style-type: none"> • Within one year • Between two and five years • Later than five years.
Accounting policies	The accounting policies has not clearly disclosed the material estimation uncertainty such as PPE material valuation uncertainty	Include within your Accounting Policies note as a ‘key estimate’ PPE material valuation uncertainty disclosed within Notes 11.3 and 11.4 in line with the requirement of the Code {paragraphs 3.4.2.90 – 91}.
Investment properties Note 13.1	The valuation techniques used during the year for investment property and how the Council has ensured current value is not misstated has not been disclosed.	Disclose within Investment property note the following: <ul style="list-style-type: none"> • valuation technique used during the year, and • date the last formal valuation was undertaken.
Going concern	The basis of preparation of the accounts on a going concern basis has not been disclosed	Disclose basis of preparation of the accounts on a going concern as a critical judgement.

Appendix C

Fees

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

Audit Fees	Proposed fee	Final fee
Council Audit	46,947	46,947
VFM Report review	18,000	18,000
Total audit fees (excluding VAT)	£64,947	£64,947

- The fees reconcile to the financial statements.

– fees per financial statements	£44k
– reconciling item (rounding)	£3k
– VFM Report review*	£18k
– total fees per above	£65k

*Subject to PSAA agreement

Non Audit Fees for other services	Proposed fee	Final fee
Audit Related Services: Certification of Housing Benefit Subsidy claim	16,000	TBC
Non- Audit Related Services: None	Nil	Nil
Total non- audit fees (excluding VAT)	£16,000	TBC

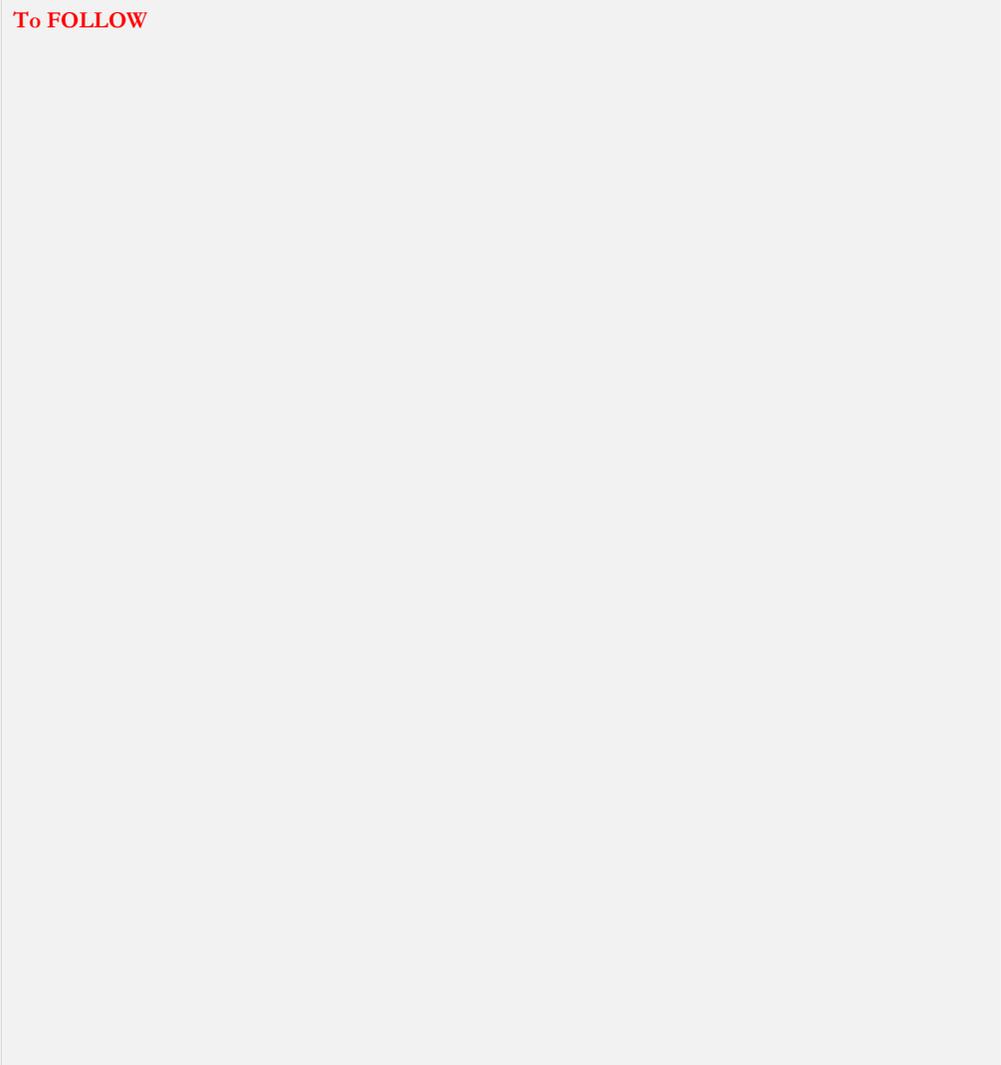
Audit opinion

We anticipate we will provide the Council with an unmodified audit report DRAFT

DRAFT TO FOLLOW

Audit opinion

To FOLLOW





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