The Audit Findings for Tunbridge Wells Borough Council

Year ended 31 March 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

This Audit Findings 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. Its contents will be discussed with management and the Audit and Governance Committee.

1. 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 2021 for those charged with governance.

Financial Statements

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 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during June-September. Our findings are summarised on pages 7 to 12. We did not identify any audit adjustments to the financial statements.

We confirm we have not identified any recommendations for management as a result of our financial statement audit work. There were no outstanding financial statement audit recommendations from prior year that we are required to follow up.

Our work around the financial statements audit is complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our audit report opinion is unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report within three months of the opinion date. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements As part of our financial statement work, we have considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Currently we have no findings which indicate a significant weakness is present and we have therefore no identified any significant VFM risks at this stage. We anticipate reporting our VFM conclusions at the November Audit and Governance Committee meeting.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • 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.	We have not exercised any of our additional statutory powers or duties, and have completed the work under the Code.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 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;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

IT Controls

Our IT Team are in the process of completing work on the Council's IT General Control environment. The draft report, subject to agreement with management and completion of testing, identified several control findings. This included a recommendation over user access rights to the financial systems. Our IT team will agree an action plan with management, and we will consider this when planning our 2021/22 audit.

We have assessed this risk for any implication on our audit approach. Our audit approach was substantive, and we did not place reliance on IT Controls. We confirm we did not change our audit approach. We have gained sufficient assurance over the Council's financial controls, as they relate to management override of control, through our testing including reviewing authorisation approvals and records and where relevant transactions to third party evidence.

Conclusion

We have completed our audit of your financial statements and we will be issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 16 09 2021.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as verifying the completeness and accuracy of information provided remotely produced by the entity and cover for sickness absence.

2. Financial Statements

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 March 2021.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,400,000	This has been calculated based on 1.97% of your gross expenditure (cost of services) in the draft accounts
Performance materiality	1,050,000	This has been calculated as 75% of materiality for the financial statements, based upon our assessment of the likelihood of a material misstatement.
Trivial matters	70,000	This has been calculated as 5% of headline materiality

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls	During the course of our audit procedures we have: - evaluated the design effectiveness of management controls over journals through walkthrough testing. The controls in place are considered reasonable - analysed the journals listing and determined the criteria for selecting high risk unusual journals - identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration. All journals tested were considered appropriate and could be supported with corroborating evidence. - gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness - We did not identify any significant unusual transactions From the work performed, there are no issues arising from our work in respect of this risk which require reporting to the Audit and Governance Committee as those charged with governance.
The revenue cycle includes fraudulent transactions (rebutted)	No changes to our assessment reported in the audit plan, this risk was rebutted as per justification below: 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. Having considered the risk factors set out in ISA240 and the nature of the Council revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: There is little incentive to manipulate revenue recognition. Opportunities to manipulate revenue recognition are very limited. The culture and ethical frameworks of local authorities, including that of Tunbridge Wells Borough Council, mean that all forms of fraud are seen as unacceptable. No changes to our assessment reported in the audit plan, this risk was rebutted.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings	During the course of our audit procedures we have: - Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuer and the scope of their work - Evaluated 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 of the valuer's report and the assumptions that underpin the valuation - Tested a sample of revaluation made during the year to ensure that they have been input correctly in to your asset register - Evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to the current value at year end. Our audit work has not identified any issues in respect of valuation of land and buildings.
Valuation of pension fund net liability	During the course of our audit procedures we have: - Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated, and assessment of whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement - Reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation, and gain an understanding of the basis on which the valuation is carried out - Reviewed of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary - Undertaken procedures to confirm the reasonableness of actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested by their report Our audit work has not identified any issues in respect of this risk which require reporting to the Audit and Governance Committee as those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Completeness of non-pay operating expenditure and associated short term creditors	During the course of our audit procedures we have: - Considered the accounting policy for non-pay expenditure recognition - obtained and tested a listing of non-pay payments made in April and May 2021 to ensure that they have been charged to the appropriate year From the work performed, there were no issues arising from our work in respect of this risk which require reporting to the Audit and Governance Committee as those charged with governance.
Fraud in expenditure recognition	During the course of our audit procedures we have: - Inspected a sample of transactions around the financial year end to assess whether they had been included in the correct accounting period. This also involved a review of post end bank statement and invoice transactions. No cut-off issues were identified. - Sample tested year end accruals for expenditure not yet invoiced and agreed to the bill value once received - Assessed year end accruals in comparison to prior year total and size to ensure completeness. No obvious error or omission was identified. - Manual journals posted as part of the year end accounts preparation reducing expenditure were investigated and considered for reasonableness From the work performed, there were no issues arising from our work in respect of this risk which require reporting to the Audit and Governance Committee as those charged with governance.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £102.3m Investment properties - £0.7m	Land and buildings (£102.3million) are required to be valued at a rolling basis across the portfolio at year end. The Council has engaged GL Hearn to complete the valuation of properties as at 31 March 2021. Land and buildings are revalued when management considers there to be a material change in the value but as a minimum every five years. Approximately 30% of the total value of land and buildings was revalued in the year. Management did request some assets were revalued ahead of schedule to gain comfort over the value considering the pandemic. Management have considered the year end value of non-revalued properties and the potential valuation change in the assets revalued before 31 March 2021, 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. Investment properties Note 13.1 The Council also has one Investment Property (IP) valued based on it's rental income. The property was revalued in the year based on it's rental income. The property was impaired by £1million which is reasonable considering the timing of the valuation and rental income during the pandemic lockdown measures.	Management have made the issue of estimation uncertainty clear for users in note 6 of the financial statements. Valuation methods and assumptions used for land and buildings and investment properties were appropriate Auditor confirmed the completeness and accuracy of the underlying information sent to the valuer which was used to determine the estimate Disclosures of PPE and investment property considered reasonable	

Assessment

- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate | **Summary of management's approach** | **Audit Comments** | **Assessment**

Net pension liability – £65.7m

Summary of management's approach

The Council's net pension liability at 31 March 2021 is £65.7m (PY £57.7m) comprising the Kent County Council Local Government Pension Scheme. 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.

The latest full actuarial valuation was completed as at March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.

Audit Comments

We considered the following in the course of our testing:

- 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

Assumption	Actuary Value	PwC range	Assessment
Discount rate	1.95%	1.95%	
Pension increase rate	2.80%	Reasonable approach	
Salary growth	3.80%	3%-4%	
Life expectancy – Males currently aged 45 / 65	21.6	21.2 – 23.1 years	
Life expectancy – Females currently aged 45 / 65	23.6	23.6 – 24.6 years	

- Completeness and accuracy of the underlying information used to determine the estimate
- Reasonableness of the Council's share of LPS pension assets.
- Adequacy of disclosure of estimate in the financial statements

Our audit work has not identified any issue in respect of the identified risk.

Assessment

- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. 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
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	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.
Written representations	We requested a letter of representation and this has been provided by the Council on the 29th September 2021.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to various financial institutions and other local authorities for bank and investment balances. This permission was granted and requests sent. We have received direct confirmation for all balances.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

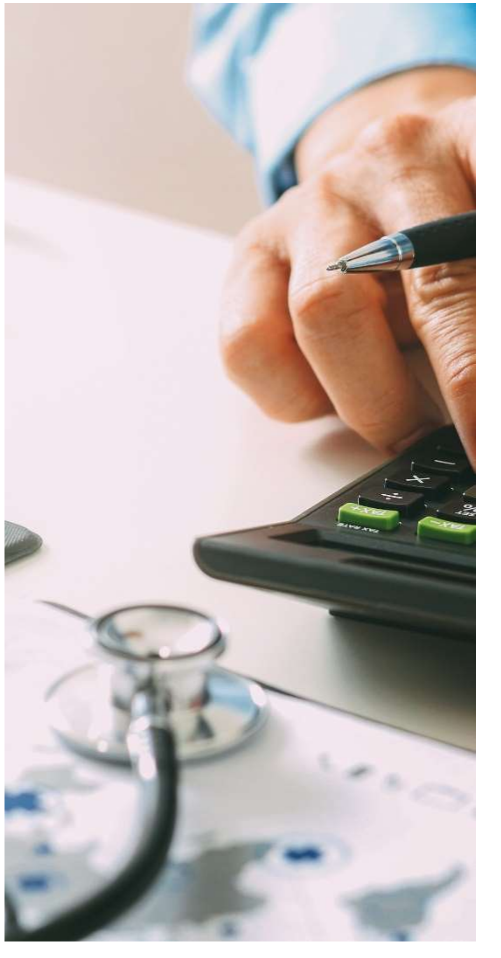
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is due within 3 months of this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We will be issuing an unmodified opinion.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	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. • Note that work is not required as the Council does not exceed the threshold
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Tunbridge Wells Borough Council in the audit report due to incomplete VFM work

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

We have not yet completed all of our VFM. We expect to issue our Auditor's Annual Report within three months of the signing date of the financial statements. This is in line with the National Audit Office's revised deadline.

. We have not identified any significant weaknesses from our initial planning work and work on the financial statements to date.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

4. 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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix A

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	£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 £62,447 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.

Appendices

A. 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
Revised ISA requirements	6,500	6,500
VFM Report review	9,000	9,000
Total audit fees (excluding VAT)	£62,447	£62,447

We have reconciled the final audit fees to the financial statements and have noted a trivial reconciling item of c£8k. The disclosure relates to the prior year only, we have therefore accepted this and have not recommended an amendment to the financial statements.

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

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