

Public Document Pack



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Reference:
Date: 25 June 2019

Dear All

AUDIT AND GOVERNANCE COMMITTEE - TUESDAY, 2 JULY, 2019

I am now able to enclose Appendix B to item 9 for consideration as part of the agenda for the next meeting on Tuesday, 2 July, 2019.

Agenda No	Item
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9	Draft Annual Financial Report for 2018/19 (Pages 3 - 26)
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Cheryl Clark
Democratic Services Officer

Encs

The Audit Findings for Tunbridge Wells Borough Council

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June 2019



Agenda Item 9

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Section

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2. Financial statements
3. Value for money
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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 2019 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 Council's 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 was completed on site during June 2019. Our findings are summarised on the following pages. We have not identified any adjustments to the financial statements that have resulted in a material amendment to your 'Total Comprehensive Income and Expenditure'. In terms of your closedown process and key findings from the audit:</p> <ul style="list-style-type: none"> • you provided us with a complete set of financial statements together with supporting documents and good working papers 5 days before the agreed date • you prepared high quality draft financial statements and the volume and quality of the supporting working papers was good • your finance team was responsive, helpful and fully engaged with the audit process, and provided responses in line with agreed turnaround times which enabled us to carry out the audit in a two week visit. <p>A summary of your 2018/19 financial performance is as follows:</p> <ul style="list-style-type: none"> • your draft financial statements for the year ended 31 March 2019 recorded 'Total Comprehensive Income and Expenditure' of £7,882k and our work has not resulted in a change to the reported position • you performed better than your planned budget making a contribution of £1 million to your general fund reserve • we identified a non-material error in respect of the valuation for Dowding House where £465k of impairment was incorrectly charged to the revaluation reserve rather than to the Comprehensive Income and Expenditure account (impairment losses on non-current assets). The error had no impact on your reported Total Comprehensive Income and Expenditure balance • you de-cluttered your accounts by removing the following immaterial notes: Intangible Assets, Agency Income and Expenditure and a number of the Leasing disclosures. <p>Subject to the satisfactory resolution and completion of outstanding matters, we anticipate issuing an unqualified audit opinion following Audit and Governance Committee's anticipated approval of the financial statements on 2 July 2019. Our proposed opinion is contained in Appendix D.</p> <p>The outstanding matters include the following items where we are still awaiting information as at the date of this report:</p> <ul style="list-style-type: none"> • receipt of a response from Lloyd's bank regarding confirmation of the year-end bank and investment balance • complete testing of a sample of 5 housing benefit expenditure payments due to be completed by 28 June 2019 • review of the final set of approved financial statements and confirmation that disclosure amendments have been appropriately made • 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 • receipt of representation on fraud, laws and regulations and going concern from Chair of the Audit and Governance Committee.
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Headlines continued

Financial Statements	- <i>....continued from previous page</i>	<p>Additionally, we are awaiting the outcome of the legal view requested by the NAO in respect of the Court of Appeal judgements made in respect of pensions (McCloud ruling re age discrimination).</p> <p>Officers provided an actuarial report on 21 June detailing the estimate of the potential impact on your financial statements. This estimate is currently under review.</p> <p>Our work is subject to the following closing procedures which necessarily take place at the end of the audit:</p> <ul style="list-style-type: none">• final senior management and quality reviews and clearance of any queries that may arise from this final process• agreement of your management representation letter• review of post balance-sheet events. <p>Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion.</p>
Value for Money arrangements	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>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 resource.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 16.</p>
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <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 or duties.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

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 have been 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 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 not had to alter or change our Audit Plan, as communicated to you on 2 April 2019.

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 2 July 2019, as detailed in Appendix D.

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 calculations remain the same as reported in our Audit Plan.

	Council Amount (£)
Materiality for the financial statements	1,400,000
Performance materiality	1,050,000
Trivial matters	70,000

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition <i>risk as reported in Audit Plan</i></p>	<p>Auditor commentary</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>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:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, you, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk.</p>
<p>2 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. You face external scrutiny of your 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 normal course of business, as a significant risk of material misstatement.</i></p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • documented 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 has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3 Valuation of land and buildings Auditor commentary

The risk the valuation of land and buildings in the accounts is materially misstated - risk as reported in Audit Plan

You revalue your 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 (£102 million covering Land and Buildings as at 31 March 2018) and the sensitivity of this estimate to changes in key assumptions.

Additionally, you need to ensure that the carrying value in your financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, for assets which have not been revalued in any given year.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote 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
- tested revaluations made during the year to ensure that they have been input correctly into your 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.

Our audit work is complete and has not identified any material issues in relation to this risk.

4 Valuation of pension fund net liability Auditor commentary

The risk the valuation of the pension fund net liability in the accounts is materially misstated - risk as reported in Audit Plan

Your pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£60 million in the balance sheet as at 31 March 2018) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of your pension fund net liability as a significant risk of material misstatement.

We:

- gained an understanding of the processes and controls put in place by management to ensure that the 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 pension fund valuation;
- assessed the accuracy and completeness of the information provided 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;
- undertook 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 auditors 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.

Our audit work is substantially complete. Our work to date has not identified any material issues in relation to this risk.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals £2.55m – Note 17.2	The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses the number of appeals outstanding at 31 March 2019 and the average reduction achieved from settled appeals, to calculate the level of provision required. Due to a reduction in outstanding appeals, the provision has decreased to £2,551k in 2018/19 from £2,639k in prior year.	<p>We reviewed:</p> <ul style="list-style-type: none"> • appropriateness of the underlying information used to determine the estimate • impact of any changes to valuation method • consistency of estimate against peers/industry practice • reasonableness of decrease in estimate • adequacy of disclosure of estimate in the financial statements. <p>Our audit work is complete. Our work has not identified any issue in the key judgements and estimates applied.</p>	 Green
Level 1/2 investments	The Council have an investment in CCLA Property Fund and banks (short-term deposits) that are valued on the balance sheet as at 31 March 2019 at £10,876k and £7,000k respectively. In order to gain assurance over existence and accuracy of these balances, we obtain direct confirmations from the institutions.	<p>We have received all confirmations except for the short-term deposit held with Lloyd's bank. We have undertaken alternative audit procedures to gain assurance over existence and accuracy of the balance.</p> <p>Our work has not identified any issue in respect of investments held.</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

	Summary of management’s policy	Audit Comments	Assessment
Land and Buildings – £106.8m	<p>Land and buildings (£106.8m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged GL Hearn to complete the valuation of properties as at 31 March 2019. 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 2019, 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>The total year end impairment loss on Land and buildings was £910k, a net decrease of £4,941k from 2017/18 (£4,031k).</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> • 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 Gerard Eve report • reasonableness of decrease in estimate • adequacy of disclosure of estimate in the financial statements. <p>Our work is substantially complete. We identified a non-material error in respect of the valuation for Dowding House where £465k of impairment was incorrectly charged to the revaluation reserve rather than to the Comprehensive Income and Expenditure account.(impairment losses on non-current assets). The error had no impact on your reported Total Comprehensive Income and Expenditure balance.</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

	Summary of management’s policy	Audit Comments	Assessment																								
Page 12	<p>Net pension liability – £54.5m</p> <p>The Council’s [total] net pension liability at 31 March 2019 is £54.5m (PY £60m). 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 in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3.2m net actuarial gain during 2018/19 (Note 20.2).</p>	<p>We considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> assessment of management’s expert assessment of actuary’s roll forward approach taken, detail work undertaken to confirm reasonableness of approach 	 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>2.40%</td> <td>2.35% - 2.45%</td> <td style="text-align: center;"></td> </tr> <tr> <td>Pension increase rate</td> <td>2.40%</td> <td>2.40% - 2.45%</td> <td style="text-align: center;"></td> </tr> <tr> <td>Salary growth</td> <td>3.90%</td> <td>3.10% - 4.35%</td> <td style="text-align: center;"></td> </tr> <tr> <td>Longevity at 65 for current pensioners: men</td> <td>22yrs</td> <td>20.6 – 23.4yrs</td> <td style="text-align: center;"></td> </tr> <tr> <td>Longevity at 65 for current pensioners: women</td> <td>24yrs</td> <td>23.2 – 24.8yrs</td> <td style="text-align: center;"></td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.40%	2.35% - 2.45%		Pension increase rate	2.40%	2.40% - 2.45%		Salary growth	3.90%	3.10% - 4.35%		Longevity at 65 for current pensioners: men	22yrs	20.6 – 23.4yrs		Longevity at 65 for current pensioners: women	24yrs	23.2 – 24.8yrs		
		Assumption	Actuary Value	PwC range	Assessment																						
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<ul style="list-style-type: none"> completeness and accuracy of the underlying information used to determine the estimate reasonableness of the Council’s share of LPS pension assets reasonableness of decrease in estimate assessment of the likely impact of the Guaranteed Minimum Pension benefits between males and females adequacy of disclosure of estimate in the financial statements. 																											
<p>Our audit work has not identified any significant issues in relation to the pensions disclosure. The actuarial assumptions made by Barnett Waddingham LLP and accepted by the Council were reviewed by the audit team. Our review concluded that the assumptions made by Barnett Waddingham LLP were reasonable following discussions with the Council.</p>																											
<p>In respect of the assumptions, we continue to recommend that management keeps these under review for future periods in order to ensure that they remain appropriate to the Council’s circumstances.</p>																											
<p>Additionally, all audit firms and the public sector are awaiting the outcome of the legal view requested by the NAO in respect of the Court of Appeal judgements made in respect of pensions (McCloud ruling re age discrimination).</p> <p>Officers provided an actuarial report on 21 June detailing the estimate of the potential impact on your financial statements. This estimate is currently under review.</p>																											

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 2019/20 budget plan, and approved by the Senior Management Team and Committee. This assessment was:

- consistent with the 2019/20 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 2019 to 31 March 2020. 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 2019/20 financial plans.

Work performed

- held regular discussions with officers about the financial standing of the Council;
- reviewed management's assessment of going concern assumptions and supporting information, including the Budget 2019/20 and Medium Term Financial Strategy Update, Medium Term Financial Strategy 2018/19 – 2022/23; and
- reviewed the completeness and accuracy of going concern disclosures in the financial statements.

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

- We have reviewed management's assessment and are satisfied that the going concern basis is appropriate for the 2018/19 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
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"> From the work we carried out, we have not identified any 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.
4	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from the PWLB loans and requested from management permission to send confirmation requests to the Lloyds, Santander, Lancashire County Council and the Local Authorities' Property Fund for bank and investment balances. This permission was granted and the requests sent. We are awaiting confirmations from Lloyds. We have performed alternative audit procedures over this balance so there is no impact on the audit opinion if we do not receive the direct confirmation.
6	Disclosures	<ul style="list-style-type: none"> Our review found no 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 was provided.

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>No inconsistencies have been identified. We plan to issue 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> <p>Management made a small amendment to the AGS following review by audit.</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.
4 Certification of the closure of the audit	<p>We intend to certify the closure of the 2018/19 audit of Tunbridge Wells Borough Council in the audit opinion, as detailed in Appendix D,</p>

Value for Money

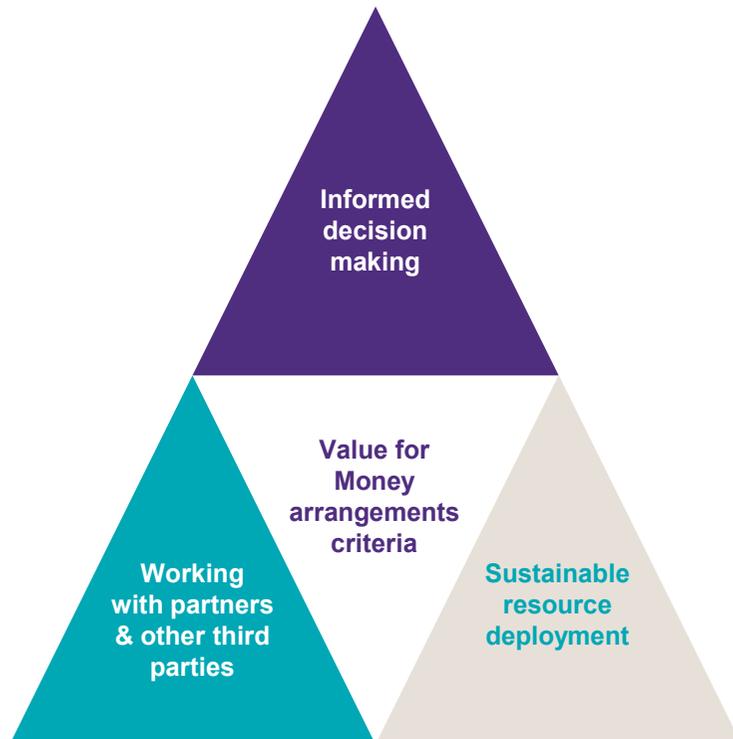
Background to our VFM approach

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 November 2017. 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:



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Risk assessment

We carried out an initial risk assessment in January 2019 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 31 January 2019.

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.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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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 consideration was:

- due to the UK imminent exit from the European Union and the national and local implications for you, we planned to review your arrangements and plans to mitigate any risks on Brexit

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 on page 16.

We also considered your proposals for the Civic Development (Calverley Square scheme) with an expected completion date of 2022/23. The plans include delivering a modern theatre in line with the Council's Five Year Plan. The project is now onto stage 4, the design stage, and the leadership continues to be committed to regular consultation with stakeholders.

The gross capital expenditure for Calverley Square is expected to be up to £90 million. The cost of the project will be funded largely from borrowings and use of reserves. Once the development is up and running, the longer term economic benefit to the Council is expected to be significantly more than the annual cost. We are satisfied the Council has put in place the required governance arrangements for the project.

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.

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.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.



Significant risk

Risk as reported in Audit Plan

Informed decision making

- *With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for.*
- *We will review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.*

Findings

- Your preparedness planning has been focused on reacting to a potential no-deal scenario and the immediate considerations that may arise in your ability to deliver of services to your residents with minimal disruptions.
- Since we issued our Audit Plan, plans to leave the European Union has been delayed a number of times and the exit date is now expected to be by the end of October 2019.
- Meanwhile, that has not stopped your preparations. In response to the Ministry of Housing, Communities and Local Government letter to all local authorities in preparation for Brexit, you completed the preparedness checklist and reported the findings to the Management Board in March 2019.
- You are working in collaboration with other local partners in Kent including Kent districts, Police, County, the NHS and other local authorities through the Kent Resilience Forum (KRF).
- You are continuing to update your business continuity plans across all service areas
- You are working with IT team to carry out an assessment to review the IT systems in order to check their compliance including accessibility of back up data stored off site for your main IT applications
- Arranged a work from home day for key front line staff to test IT systems and contingency plans in the event Council staff are unable to get to work due to traffic gridlock
- You continue to consider the impact of Brexit as part of on-going review of your Strategy Risks.

Conclusion

- Accordingly, in our view, appropriate arrangements are in place to support your Brexit preparedness.

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits 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 £39,447 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.
Non-audit related			
Nil			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Follow up of prior year recommendation

We identified the following issue in the audit of your 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented our recommendation

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> We reported that the Council undertakes a rolling programme of asset valuations. For assets not formally revalued in the year, working papers should include managements judgement that the carrying value for each class of asset is not materially different to the current value We recommended future working papers should include managements judgement that the carrying value for each class of asset is not materially different to the current value. 	<ul style="list-style-type: none"> Management included a management judgement working paper that included all significant judgements including PPE valuation.

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Assessment

- ✓ Action completed
- X Not yet addressed

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.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Dowding House impairment adjustment			
Dr CIES	465		nil
Cr Revaluation Reserve		(465)	
Overall impact	£nil	£nil	£nil

There is nil impact on the CIES and SoFP overall position as the adjustment is also made through the Movement in Reserves Statement.

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	Detail	Auditor recommendations	Adjusted?
Non-material notes	<ul style="list-style-type: none"> De-clutter accounts by deleting immaterial notes such as , Intangible Assets, Agency Income and Expenditure and Leasing 	<ul style="list-style-type: none"> Immaterial notes Intangible Assets, Agency Income and Expenditure and Leasing deleted 	✓

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	39,447	39,447
Total audit fees (excluding VAT)	£39,447	£39,447

- The fees reconcile to the financial statements. Note 24

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 fees per financial statements
 total fees per above

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of Housing Benefit Subsidy claim	16,000
Non-audit services	nil
	£16,000

The audit related non-audit fee in the 2018/19 accounts also includes the additional fee for the 2017/18 housing benefit grant. This fee is subject to approval by PSAA Limited so is an expected fee at this stage.

Audit opinion

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

Independent auditor's report to the members of Tunbridge Wells Borough Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Tunbridge Wells Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

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In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance, Policy and Development's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance, Policy and Development has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance, Policy and Development is responsible for the other information. The other information comprises the information included in the Annual Financial Report, being the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Financial Report, Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Audit opinion

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance, Policy and Development and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance, Policy and Development. The Director of Finance, Policy and Development is responsible for the preparation of the Annual Financial Report, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance, Policy and Development determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance, Policy and Development is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Tunbridge Wells Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Audit opinion

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Elizabeth Jackson

for and on behalf of Grant Thornton UK LLP, Local Auditor
London

[Date]

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