

# Public Document Pack



Please ask for: Cheryl Clark  
Direct Dial: (01892) 554413  
E-mail: Cheryl.clark@tunbridgewells.gov.uk  
Reference:  
Date: 4 September 2019

Dear All

## **AUDIT AND GOVERNANCE COMMITTEE - TUESDAY, 10 SEPTEMBER, 2019**

I am now able to enclose Appendix A to item 7, for consideration at the next meeting on Tuesday, 10 September, 2019.

### **Agenda No    Item**

7            **Annual Audit Letter Appendix A (Pages 3 - 14)**

**Cheryl Clark**  
Democratic Services Officer

Encs



# The Annual Audit Letter for Tunbridge Wells Borough Council

---

Year ended 31 March 2019

August 2019

Page 3



Agenda Item 7

# Contents



Your key Grant Thornton team members are:

Elizabeth Jackson  
Engagement Lead

T: 020 7728 3329

E: Elizabeth.L.Jackson@uk.gt.com

Ade Oyerinde  
Senior Manager

T: 020 7728 3332

E: Ade.O.Oyerinde@uk.gt.com

Hazel Strudwick  
In-Charge Auditor

T: 01293 554035

E: Hazel.J.Strudwick@uk.gt.com

Section	Page
1. Executive Summary	3
2. Audit of the Financial Statements	5
3. Value for Money conclusion	9

Appendix
A Reports issued and fees

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tunbridge Wells Borough Council ( the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 16 July 2019

## Our work

### Materiality

We determined materiality for the audit of the Council's financial statements to be £1,400,000, which is approximately 2% of the Council's gross revenue expenditure.

### Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 25 July 2019.

### Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act).

Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

# Executive Summary

---

<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 July 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by the end of November 2019. We will report the results of this work to the Audit and Governance Committee separately.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of Tunbridge Wells Borough Council in accordance with the requirements of the Code of Audit Practice.

---

## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the deadline, releasing your finance team for other work
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness
- Sharing our insight – we provided regular Audit and Governance Committee updates covering best practice. We also shared our thought leadership reports.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP  
August 2019

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,400,000, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

No specific other materiality levels were set during the course of our audit.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Annual Financial Report and Annual Governance Statement published alongside the Annual Financial Report to check they are consistent with our understanding of the Council and with the financial statements included in the Annual Financial Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>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.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• documented the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>No issues were identified from the work performed in this area.</p>
<p><b>Valuation of land and buildings</b></p> <p>The Council revalues its land and buildings on an rolling five-year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>As mentioned in the Audit Plan, the potential impact of Brexit may also have an impact on the valuations included within the Accounts, and the Council will need to work closely with their experts to ensure any impact is reflected within the Accounts.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>• wrote to the valuer to confirm the basis on which the valuation was carried out</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• tested revaluations made during the year to ensure that they have been input correctly into your asset register</li> <li>• 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.</li> </ul>	<p>No issues were identified from the work performed in this area.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Pension Fund net liability</b></p> <p>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</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£55 million in the Council's Statement of Financial Position) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>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;</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation;</li> <li>assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;</li> <li>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;</li> <li>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</li> <li>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.</li> </ul>	<p>The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. The Government's application to the Supreme Court for permission to appeal was rejected in June 2019. The draft 31 May 2019 accounts were accurate in their treatment of defined benefit pension schemes. As a consequence of the ruling, which occurred during the audit period in June, the council were requested to review their accounting treatment for McCloud/GMP equalisation. It was at this point the Council commissioned their actuary to provide revised IAS 19 figures.</p> <p>In addition, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements have had on members benefits. GMPs must be equalised between men and women and past underpayments must be corrected. This will lead to increased costs for sponsors of defined benefit schemes.</p> <p>The Council concluded the impact was not material to the accounts and no change was required to the draft Annual Financial Report. The audit team reviewed the reviewed actuary report and judgements made by management.</p> <p>We concluded that no issues in respect of valuation of the pension fund liability.</p>

---

# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the Council's financial statements on 25 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Key messages arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit and Governance Committee on 2 July 2019.

Your draft financial statements for the year ended 31 March 2019 recorded 'Total Comprehensive Income and Expenditure' of £7,882k and our work had 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.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of Tunbridge Wells Borough Council in accordance with the requirements of the Code of Audit Practice. We certified the completion of the audit along with the audit opinion on 25 July 2019.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

We carried out an initial risk assessment in January 2019 and identified one significant risk in respect of your arrangements and plans to mitigate any risk on Brexit. We communicated this risk to you in our Audit Plan dated 31 January 2019. We continued our review of relevant documents up to the date of writing 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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk 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.

In arriving at our conclusion, we recognised that plans to leave the European Union has been delayed a number of times and the exit date was now expected to be by the end of October 2019. Meanwhile, that had not stopped your Brexit preparations. In response to the Ministry of Housing, Communities and Local Government letter to all local authorities in preparation for Brexit, you had completed the preparedness checklist and reported the findings to the Management Board in March 2019.

You continued to work 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) including updating your business continuity plans across all service areas.

You carried out an assessment to review your IT systems in order to check their compliance including accessibility of back up data stored off site for your main IT applications. Your arrangements included a work from home day for key front line staff to test IT systems and testing contingency plans in the event Council staff are unable to get to work due to traffic gridlock. You continued to consider the impact of Brexit as part of on-going review of your Strategy Risks. We concluded that you had appropriate arrangements in place to support your Brexit preparedness.

We also considered your proposals for the Civic Development (Calverley Square scheme) with an expected completion date of 2022/23. The plans include delivering the development is up and running, the longer term economic benefit to a modern theatre in line with the Council's Five Year Plan. The project had moved 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 were satisfied the Council had put in place the required governance arrangements for the project.

## Overall Value for Money conclusion

We were satisfied that in all significant respects the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	31 January 2019
Audit Findings Report	2 July 2019
Auditor's opinion on accounts	25 July 2019
Auditor's value for money conclusion	25 July 2019
Annual Audit Letter	30 August 2019
Housing Benefit Grant Certification and report	November 2019 (planned)

## Fees

	2018/19 Planned fees £	2018/19 Actual fees £	2017/18 Actual fees £
Statutory audit	39,447	TBC	51,230
Housing Benefit Grant Certification	16,000	TBC	22,144*
<b>Total fees</b>	<b>55,447</b>	<b>TBC</b>	<b>73,374</b>

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

\* 2017/18 Housing Benefit grant certification fee includes £10,000 for additional testing.

## Audit fee variation

As outlined in our Audit Plan, the 2018-19 scale fee published by PSAA of £39,447 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table below.

Also given we only started our work on the Certification of the Council's Housing Benefit Return in August 2019, we are currently unable to confirm the additional fee that will be charged in respect of this work.

## Additional Fees proposed

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£1,600
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,200
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,600
<b>Total</b>		<b>£4,400</b>

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Municipal Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2019/20 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality

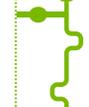


- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies





© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.