External Audit Plan

Year ending 31 March 2019

Tunbridge Wells Borough Council

31 January 2019

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 Authority 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.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the Tunbridge Wells Borough Council ('you' or 'the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as your auditor. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for 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 and Governance Committee); and
- your Value for Money arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of your business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • the risk of management over-ride of controls • the risk the valuation of land and buildings in the accounts is materially misstated • the risk the valuation of the pension fund net liability in the accounts is materially misstated. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £1.4 million, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £71k.
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk: • Brexit We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.
Audit logistics	Our interim visit will take place between February and March 2019 and our final visit will take place in June 2019. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £39,447 (PY: £51,230), subject to the Council meeting our requirements set out on page 10.
Independence	We have complied with 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..

Key matters impacting our audit of the Council

External Factors

The wider economy and political uncertainty

Tunbridge Wells has consistently been in a stronger financial position than most other authorities and this is not expected to change in 2018/19. However pressures are not likely to ease in coming years, particularly as further reductions in government funding impacts on the medium term financial strategy. Your 5 year budget projections to 2024/25 forecast a combined gap of £1.1 million largely as a result of the impact of the funding review and inflationary pressures.

Your medium term financial strategy (MTFS) is to maintain an adequate level of reserves at £4 million (revenue and capital reserves). Additionally, your MTFS includes earmarked reserves available to fund specific projects and activities. The earmarked reserve is forecast to reduce from £19.9 million as at 1 April 2018 to £10.1 million as at 31 March 2019.

You recognise the need for partnership working, you continue to develop joined-up service with other Kent district through the Mid-Kent Partnership and recently collaborated with other Kent districts on a contract for household waste and recycling collection and street cleansing.

New accounting standards effective 2018/19

The 2018-19 financial year will be the first year in which IFRS 9: Financial Instruments and IFRS 15: Revenue From Contracts with Customers will come into effect.

Interpretation of the effects of these new standards has been set out in the publicly available Code of Practice on Local Authority Accounting in the United Kingdom for 2018-19.

Accounting policies, transactions, and balances presented in the 2018-19 financial statements will need to appropriately reflect the provisions of IFRS 9 and 15 as interpreted by the Code.

Internal Factors

Change and transformation

The Council is progressing with its proposals for Calverley Square Development, plans include provision of a new theatre, new offices (commercial and council) and parking facilities to support the new developments. The overall development cost for the scheme is £90 million. You commenced work on the detailed design (RIBA Stage 4 and management continues to provide Cabinet with regular updates on project developments.

Brexit

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 the Council. You will need to review your workforce plans, analyse your supply chains and model potential impacts on your finances, including investment and borrowing as well as any potential impact on the valuation of Council assets.

Audit tools

We will be making comprehensive use of the 'Inflo' audit management tool throughout the audit. This tool has already been introduced to your financial reporting team and will be rolled out fully for the interim and final accounts visits.

Our response

- 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 consider whether your financial position leads to material uncertainty about the going concern and will review related disclosures in the financial statements.
- We will discuss with you any recommendations arising from our work and will monitor implementation of any action points.
- We will ensure that our resources and testing are best directed to address your risks in an effective way.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

Significant risks identified

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.

<table>
<tr><th>Risk</th><th>Reason for risk identification</th><th>Key aspects of our proposed response to the risk</th></tr>
<tr><td>ISA240 revenue risk</td><td colspan="2">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 your 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, you, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk.</td></tr>
<tr><td>Management over-ride of controls</td><td>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.

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.</td><td>We will:
• the design effectiveness of management controls over journals
• analyse the journals listing and determine the criteria for selecting high risk unusual journals
• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</td></tr>
</table>

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings the risk the valuation of land and buildings in the accounts is materially misstated	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 will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to ensure that they have been input correctly into your asset register • evaluate 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.
Valuation of the pension fund net liability the risk the valuation of the pension fund net liability in the accounts is materially misstated	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 will: • gain 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assess the accuracy and completeness of the information provided to the actuary to estimate the liability; • test 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; • undertake 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 • obtain 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.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report, Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge your circumstances.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 your ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

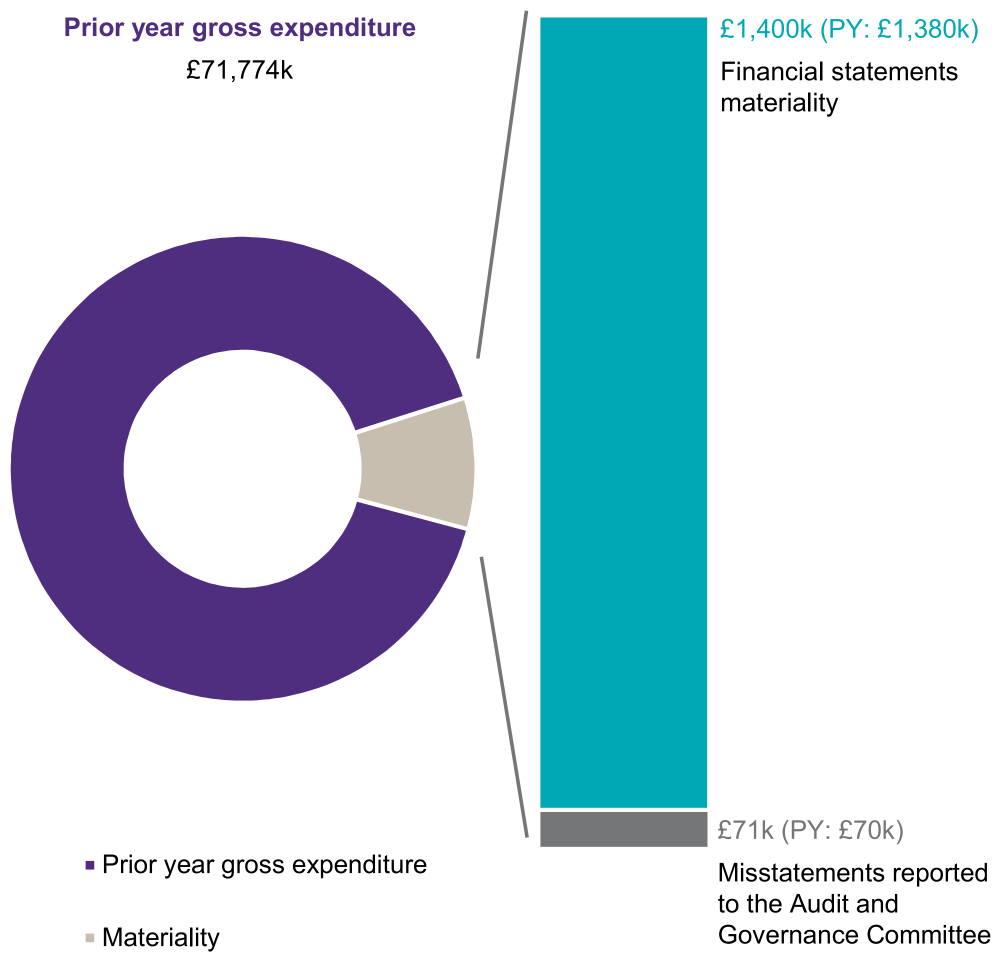
We have determined financial statement materiality based on a proportion of your gross expenditure for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.4 Million, which equates to 2% of your prior year gross expenditure for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Considering your context, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £71k.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Governance Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

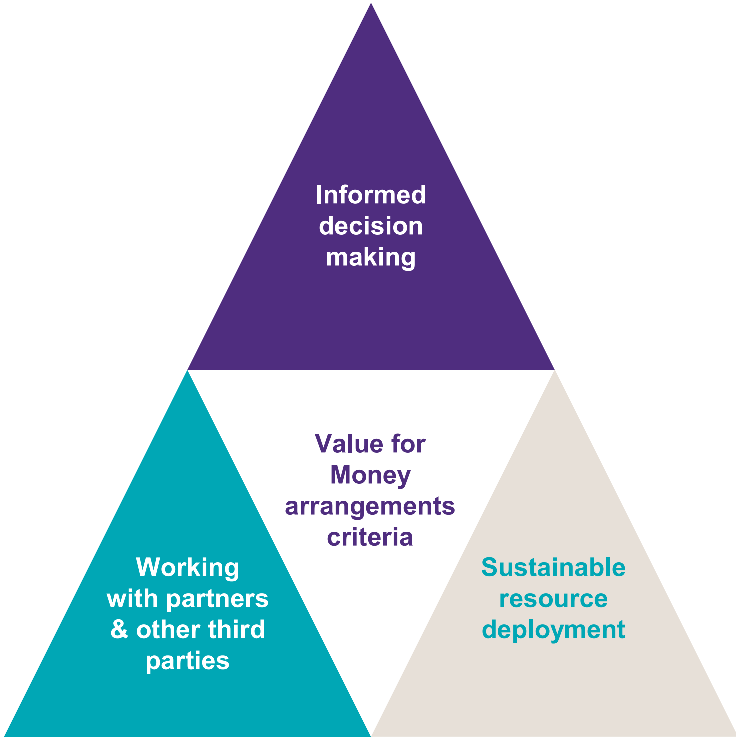
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance 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:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Brexit

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.

Audit logistics, team & fees

Oct – Dec 2018
Planning and risk assessment

Interim audit
Feb 2019

Audit and Governance Committee
2 April 2019
Audit Plan Report

Year end audit
June 2019

Audit and Governance Committee
2 July 2019
Audit Findings Report
Audit opinion

Audit and Governance Committee
10 Sept 2019
Annual Audit Letter

Elizabeth Jackson, Engagement Lead

Liz will be the main point of contact for the Chief Executive, Director of Finance, Policy and Development (s151 Officer) and Committee members. She will share her wealth of knowledge and experience across the sector providing challenge and sharing good practice. Liz will ensure our audit is tailored specifically to you, and will be responsible for the overall quality of our audit work. Liz will sign your audit opinion.

Ade Oyerinde, Senior Manager

Ade will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Ade will attend Audit and Governance Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Ade will be responsible for the delivery of our work on your arrangements in place to secure value for money.

Hazel Strudwick, InCharge Auditor

Hazel will lead the onsite team and will be the day to day contact for the audit. She will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Hazel will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audit fees

The planned audit fees are £39,447 (PY: £51,230) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. There is no non-Code (as defined by PSAA) work planned. In setting your fee, we have assumed that the scope of the audit and your activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- all audit queries in our interim and final work are responded to in a timely manner and all required samples provided to enable completion of the interim audit prior to the end of March.
- the draft accounts are provided to us by 31 May and are fully accurate with minimal errors. Supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May and in accordance with the agreed upon information request list. This must include all notes, the narrative report and AGS.
- the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples. All supporting schedules are clearly presented and agree to figures in the accounts.
- key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations.
- all audit queries are resolved promptly and fully and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters. 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 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. 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 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following service was identified:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy claim	16,500	Self-Interest (because this is a recurring fee)	The terms of engagements are being agreed. The level of the fee is not considered a significant threat to independence 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			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with your policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee and Audit and Governance Committee Advisory Committee except the certification claims for which cannot commence until we receive your approval. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

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