

The Audit Findings for Waverley Borough Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2016

September 2016

Iain Murray

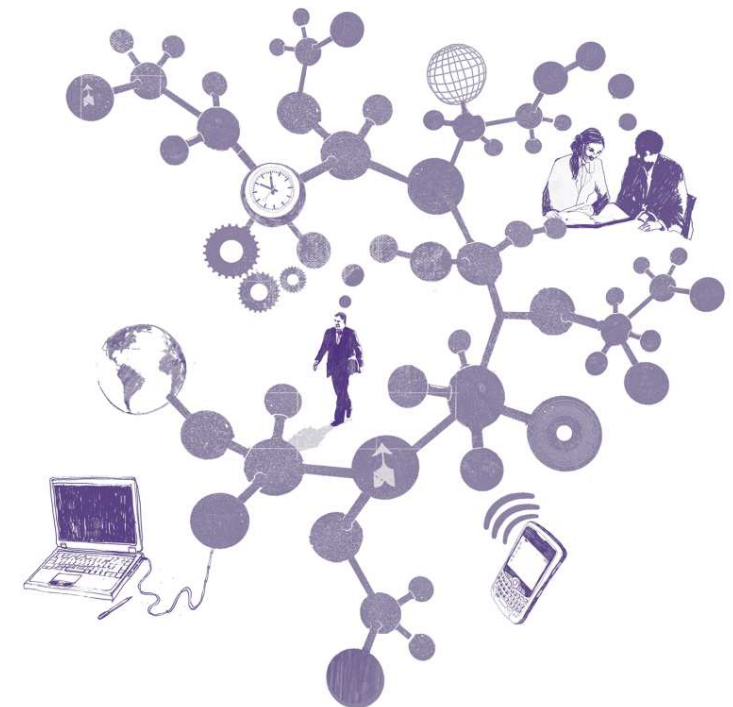
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13 September 2016

Dear Councillor Gray

Audit Findings for Waverley Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Waverley Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents will be discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Iain Murray

Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

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Purpose of this report

This report highlights the key issues affecting the results of Waverley Borough Council's ('the Council') Group and Council financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Group and Council's financial statements give a true and fair view of the financial position of the Group and Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, you have put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by you or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by you and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 15 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

Procedures substantially complete, with only residual matters remaining:

- property, plant and equipment – we are awaiting a copy of information received from the internal valuer to demonstrate that assets not revalued during the year are not materially misstated;
- heritage assets – we are awaiting the insurance certificates for two assets; and
- our final senior management quality assurance processes and review.

We are liaising with management in relation to these outstanding matters and anticipate the receipt of this information ahead of the Audit Committee meeting on 13 September. We will provide members with an updated position at the meeting.

Procedures to be performed as part of audit closing procedures once above matters resolved:

- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of revised versions of the Annual Governance Statement; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The key messages arising from our audit of the Group and Council's financial statements are:

- As in previous years your draft financial statements are of a very high standard and this is reflected by the minimal level of issues arising from our work.
- You were able to provide us with a draft set of financial statements in advance of the statutory deadline, which demonstrates that you are well placed to meet the earlier deadlines for producing draft financial statements in 2017/18.
- Your financial statements were also supported by an excellent set of working papers. This coupled with the early testing work that we were able to carry out during our interim audit has also helped us to move towards the earlier deadline for publishing audited accounts by 2017/18.

None of the adjustments we identified had an impact on the Council's reported financial position. We identified a small number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- 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 information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- completeness and accuracy of the Housing Revenue Account fixed asset register;
- carrying out reasonableness checks on the information provided by the actuary; and
- reconciliation between the HRA rent arrears control account and the Orchard rent system.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, you had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2017.

The way forward

Matters arising from the financial statements audit and our review of your arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director and Director of Finance and Resources.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Finance and Resources and the finance team.

Acknowledgement

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.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that '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'.

As we reported in our audit plan, we determined overall materiality to be £1,598k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £80k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have not identified any items where separate materiality levels are appropriate.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| | Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|----|---|---|--|
| 1. | <p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a 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 the revenue streams at Waverley Borough Council, 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; and • the culture and ethical frameworks of local authorities, including you, mean that all forms of fraud are seen as unacceptable. | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| 2. | <p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management; • testing of journal entries; and • review of unusual significant transactions. | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular, our review of journal controls and testing of journal entries did not identify any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|------------------------------|--|---|--|
| Operating expenses | Creditors understated or not recorded in the correct period (Operating expenses understated) | We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • walkthrough of the operating expenses system, updating understanding of the processes and key controls; • substantive testing of expenditure; • testing of creditor payments, including accruals, for completeness, classification and occurrence; • review of control account reconciliations; • cut-off testing; and • review of expense apportionment/allocation. | Our audit work has not identified any significant issues in relation to the risk identified. |
| Employee remuneration | Employee remuneration accruals understated (Remuneration expenses not correct) | We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • walkthrough of the payroll system, updating understanding of the processes and key controls; • substantive testing of payroll records; • review of reconciliation of payroll system to the general ledger; and • trend analysis of employee remuneration expenses. | Our audit work has not identified any significant issues in relation to the risk identified. |

Audit findings against other risks continued

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|---|--|---|---|
| <p>Property, plant and equipment</p> | <p>Valuation of property, plant and equipment</p> <p>The Council undertakes a rolling revaluation programme of its land and buildings. The risk is revaluation measurements are not correct.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the carrying value of property, plant and equipment is not materially different from fair value at year end; • review of the consistency of the financial statements with the valuation report from your valuers; • undertook procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends; • review of the competence, expertise and objectivity of management experts used; • review of the instructions issued to valuation experts and the scope of their work; • testing of the data provided to the valuer; • discussions with the valuer about the basis on which valuations were carried out, challenging the key assumptions; • testing of revaluations made during the year to ensure they were input correctly into the asset register; and • evaluation of the assumptions made by management for those assets not revalued during the year, and how management satisfied themselves that these were not materially different to current value. | <p>We are awaiting the following information before completing our work in this are:</p> <ul style="list-style-type: none"> • a copy of information received from the internal valuer to demonstrate that assets not revalued during the year are not materially misstated; and • insurance certificates for two heritage assets. <p>Subject to resolving these outstanding issues our audit work has not identified any significant issues in relation to the risk identified.</p> |

Audit findings against other risks continued

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|--|--|---|--|
| <p>Work of experts and pensions disclosures – Local Government Pension Scheme actuary</p> | <p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements. The risk is that the valuation of pension fund net liability is not correct.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated, and assessed whether the controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; • gained understanding of the basis on which the IAS 19 valuation was carried out. • undertook procedures to confirm the reasonableness of the actuarial assumptions made; • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report; and • tested the data provided to the actuary. | <p>Our work identified that the actuary provided the Council with an incorrect estimation for 2015/16 benefits paid in 2015/16. The initial report from the actuary included a figure of £15,179k, the correct estimation value was £4,992k. The actuary provided a revised report with the correct figures during the course of the audit. This resulted in a £425k overstatement of the pension fund liability in the balance sheet, a £425k understatement of Other Comprehensive Income in the Comprehensive Income and Expenditure Statement and revisions to a number of notes in the financial statements.</p> <p>Further detail is included in section 2 of this report.</p> |

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

| Component | Significant? | Level of response required under ISA 600 | Risks identified | Work completed | Assurance gained & issues raised |
|---|--------------|--|---|---|---|
| Shottermill Recreation Ground and Swimming Pool | No | Targeted | <ul style="list-style-type: none"> Property, plant and equipment (PPE) revaluation measures not correct; and Recorded cash at bank not valid. | Specific (targeted) scope procedures performed by us: <ul style="list-style-type: none"> reviewed the relevant PPE balances to ensure they were recorded correctly; and agreed the relevant cash balance to external confirmations. | Our audit work has not identified any issues in respect of Shottermill Recreation Ground and Swimming Pool's property, plant and equipment, and cash. |
| Ewart Bequest | No | Targeted | <ul style="list-style-type: none"> Recorded cash at bank not valid | Specific (targeted) scope procedures performed by us: <ul style="list-style-type: none"> agreed the relevant cash balance to external confirmations | Our audit work has not identified any issues in respect of the Ewart Bequest's cash. |

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.



| Accounting area | Summary of policy | Comments | Assessment |
|--|--|---|---|
| <p>Revenue recognition</p> | <ul style="list-style-type: none"> • Revenue from the sale of goods is recognised when you transfer the significant risks and rewards of ownership to the purchaser, and it is probable that economic benefits or service potential associated with the transaction will flow to you. • Income from the provision of services is recognised when you can measure reliably the percentage completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to you. • Income from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to you, and the amount of revenue can be measured reliably. | <p>The accounting policy is adequately disclosed in line with the requirements of the CIPFA Code.</p> <p>Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.</p> | <p style="text-align: center;">● Green</p> |
| <p>Judgements and estimates</p> | <ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful life of capital equipment; – Pension fund valuations and settlements; – Impairments; – PPE revaluations ; – Depreciation; – Bad debt provisions; and – Business rate appeals. | <p>Your critical judgements and estimation uncertainties are disclosed within Notes 3 and 4 of the financial statements, and are in line with the requirements of the CIPFA Code.</p> <p>We have reviewed all of your key estimates and judgements, and are satisfied with the approaches taken in each of these areas.</p> | <p style="text-align: center;">● Green</p> |

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates and judgements continued

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|---|---|---|
| Going concern | The Director of Finance and Resources, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements. | We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements. |  Green |
| Other accounting policies | We have reviewed your accounting policies against the requirements of the CIPFA Code and accounting standards. | We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years. |  Green |

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 previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any 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 letter of representation has been requested from the Council with specific representations requested in relation to completeness of related party declarations from members, and the reason for not adjusting the immaterial misstatement (refer to 'Unadjusted misstatements' page 20). |
| 5. | Confirmation requests from third parties | <ul style="list-style-type: none"> We obtained confirmation from the PWLB for loans and requested from management permission to send confirmation requests to several counterparties for bank and investment balances. This permission was granted and the requests were sent, and all of these requests were returned with positive confirmation. |
| 6. | Disclosures | <ul style="list-style-type: none"> Our review found a number of disclosures that needed amending or expanding, refer to page 21 for further detail. |
| 7. | Specified procedures for Whole of Government Accounts | <ul style="list-style-type: none"> We are not 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 as the Council does not exceed the required threshold. |

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 11 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| | Assessment | Issue and risk | Recommendations |
|---|--|---|---|
| 1 |  Amber | Housing Revenue Account (HRA) asset register The HRA asset register included five assets with a total value £297k, which had been demolished, converted or where ownership had transferred during the year. There is a risk that the HRA asset register does not correctly reflect the HRA asset base. | <ul style="list-style-type: none"> Regularly reconcile the properties on the HRA asset register to the Orchard housing system. |
| 2 |  Amber | Pension fund liability The actuary provided an incorrect estimation for 2015/16 benefits paid of £15,179k, the correct estimation value was £4,992k. The risk is that incorrect IAS 19 values provided by the actuary lead to a material misstatement of the Council's pension fund assets/liabilities. | <ul style="list-style-type: none"> Review information provided by the actuary to ensure it is reasonable, in line with expectations, and comparable with the prior year if appropriate. |
| 3 |  Amber | Short term debtors and HRA rent arrears Our testing identified that the total HRA tenants rents and cost debtor disclosed in the financial statements as £540k agreed tot the trial balance from the general ledger but was not supported in full by the corresponding report from the Orchard housing system which shows a value of £455k. Officers were unable to provide a reconciliation for the £85k balance during the audit. There is a risk that the housing rent arrears debtor in the trial balance is misstated. | <ul style="list-style-type: none"> Carry out a reconciliation between the HRA tenants rent arrears control account and the Orchard rent system. Consider whether there are items on the general ledger control account which should be cleared and/or written off. |

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed 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.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 |
|--|---|------------------------|
| 1 Defined benefit pension scheme liability The estimation for 2015/16 benefits paid was incorrectly included as £15,179k instead of £4,992k. This error resulted in a £425k overstatement in the pension fund liability and an understatement of other comprehensive income and expenditure. As this adjustment is reversed from the general fund to the pension reserves it has no overall impact on the Council's underlying financial position. | Other Comprehensive Income and Expenditure (425) | Pension Liability 425 |
| Overall impact | (425) | 425 |

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £'000 | Reason for not adjusting |
|--|---|--|---|
| 1 Council dwellings Five assets, totalling £297k, were incorrectly included in the HRA asset register. | | Property Plant and Equipment (297) Capital Adjustment Account 297 | Adjustment is not material to the financial statements. |
| | | | |
| Overall impact | | Net Assets (297) | |

Disclosure changes

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

| | Account balance | Value £'000 | Impact on the financial statements |
|---|---------------------------------|-------------|--|
| 1 | Financial instruments (Note 22) | 3,171 | The cash and cash equivalents figure of £15,981k in the note was overstated by £3,171k as it did not include two of the Council's bank accounts or petty cash balance, and should have excluded Group cash and cash equivalents. This is a disclosure issue only and has no impact on the primary financial statements where the cash figure was correctly stated. |
| 2 | Exit packages (Note 37) | 17 | Exit packages are incorrectly disclosed as nil. There were three exit packages during the year, totalling £17k. |
| 3 | N/A | Various | A number of smaller presentation and disclosure points have been identified during the audit. Management have adjusted for all of these where appropriate. |

Section 3: Value for Money

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Significant qualitative aspects

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations, across the three criteria, were:

Informed decision making

- The Council has strong arrangements in place to ensure robust financial governance, in particular there is an appropriate level of involvement from senior management and members in the financial management and annual budgeting processes. Our review of the 2016/17 budget confirms that you have applied all of the relevant considerations, and your medium term financial strategy has been updated to cover the period 2016/17-2019/20.

Sustainable resource deployment

- The Council's financial projections for the general fund show projected cumulative budget shortfall of over £3m over the three years after 2016/17. The Housing Revenue Account is affordable for 2016/17 but beyond that there are huge challenges for the Council. Whilst you have a proven track record of delivering savings over the past eight years, the identification of these budget gaps remain a risk to the Council's medium term financial health.

Working with partners and third parties

- The Council has a number of partners that it works with to deliver its services and to provide back office functions. As the Council looks to further improve efficiencies and identify savings it should identify other groups that can use its services and share the cost base, and maximise opportunities for partnership working where benefits will improve service quality and reduce costs.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 24 and 25.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk | Work to address | Findings and conclusions |
|---|---|--|
| <p>Financial position – the Council has set a balanced budget for 2016/17. However, going forward the financial projections for the general fund show a cumulative £3m shortfall for 2017/18-2019/20. Housing Revenue Account capital resources are sufficient to finance 2016/17 and 2017/18 spending plans but a shortfall needs to be addressed from 2018/19 onwards. A fundamental finance review is required to ensure that the Council is able to meet its budgetary requirements in future years.</p> | <p>We met with key officers to discuss key strategic challenges and the Council's proposed response and consider reports to members to:</p> <ul style="list-style-type: none"> • review the outturn position for 15/16 and the budget plans for 16/17 and 17/18 • review the Council's progress in updating its medium term financial strategy • review how the Council works collaboratively with partners to deliver functions and services • review how the Council is making the best use of its asset base | <p>Your financial performance in 2015/16 remains sound and your outturn position was an underspend of £56k on the general fund and a surplus of £441k on the HRA.</p> <p>Your general fund position at the end of 2015/16 remains consistent with your overall medium term financial strategy at £3.2m. To support the general fund position you continue to maintain a number of reserves which allow you to take a longer term view on the investments needed to deliver your strategic objectives and to provide some resilience against current and future financial challenges.</p> <p>In keeping with the rest of the public sector the financial position of the Council beyond 2016/17 is very uncertain. Once the impact of the 4 year settlement is properly understood it can be factored into the Council's existing plans for its fundamental financial review. Whilst the Council has a proven track record of delivering savings over the past eight years, the identification of general fund and HRA budget gaps remain a risk to the Council's medium term financial health. On that basis it is important that you continue to monitor progress to identify potential shortfalls as soon as possible so that mitigating actions may be taken.</p> |
| <p>Local Plan – the drafting of the Local Plan is progressing and due to be submitted in November 2016. If this deadline is missed there is a risk that Government could take over the Council's Local Plan and the Council could also be open to hostile developments in the Borough.</p> | <p>We held discussions with key officers and reviewed reports to consider:</p> <ul style="list-style-type: none"> • what progress is being made to produce and submit the Local Plan • impact of Local Plan not being approved before the end of 2016 | <p>Good progress has been made with the Local Plan. Part 1 of the plan has been published for a six week consultation period in line with the submission deadline in November 2016. Given the current progress we feel that sufficient arrangements are in place to mitigate the risk to our value for money conclusion.</p> |

Key findings continued

| Significant risk | Work to address | Findings and conclusions |
|---|--|--|
| <p>Brightwells Development – following special Executive and Council meetings on 24 May 2016 the development has moved to its next phase. This is a high profile development for the Council with the ambition of providing benefits to the residents of Farnham. The Council needs to ensure that arrangements are in place for the effective monitoring and governance of the development.</p> | <p>We will consider the Council's arrangements to monitor the performance and governance of this project and how it continues to assess whether development contributes to the effective delivery of its strategic objectives, through discussion with officers and review of key documents.</p> | <p>In taking the decision to proceed with the Brightwells Development the Council has been aware of potential risks and has taken steps to assess the impact and likelihood of these on the scheme and the Council itself. The steps include:</p> <ul style="list-style-type: none"> seeking expert advice on the best consideration for disposal of the assets; and seeking legal advice from counsel in respect of the potential for legal challenge. <p>The above steps, in and of themselves, are reasonable actions to take to support the decision making process. Our review is not intended to investigate in detail the meetings held or totality of actions taken, nor to comment on the policy adopted by the Council in respect of these decisions, as these are outside our remit as external auditors. Our review is also not intended to validate the appropriateness or otherwise of the decision taken. In respect of the high level review we have carried out, we have not identified any significant weakness in the Council's overall arrangements for value for money.</p> <p>The decision to proceed with the development is subject to potential judicial review. If it proceeds this will look in more detail at the specific decisions taken by the Council in relation to the scheme, such review being beyond our remit as external auditors. The review will also consider the decisions to a greater depth than is required from our considerations to inform our vfm conclusion for the Council's arrangements as a whole</p> |

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place 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. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in June 2016 and identified the following significant risks, which we communicated to you in our report to the Audit Committee dated 21 June 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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.

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence**
- 05. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

| | Proposed fee £ | Final fee £ |
|---|-------------------|----------------|
| Council audit | 53,881 | 53,881 |
| Shottermill Recreation Ground Trust (*) | 2,000 | 2,000 |
| Ewart Bequest Trust (*) | 2,000 | 2,000 |
| Grant certification (**) | 11,381 | 11,381 |
| Total audit fees (excluding VAT) | 69,262 | 69,262 |

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

* We have not yet started our Independent Examinations in respect of the Council's two Trusts, and thus the final fees will only be confirmed once this work is complete.

** The work on the Council's Housing Benefit Return is still in progress at the report date, in line with the national timetable. Any fee variation in respect of this work will be discussed and agreed with the Council should the need arise, and will be reported to the Committee at a later date if applicable

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 Auditing Practices Board's Ethical Standards and therefore we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Non compliance with laws and regulations | | ✓ |
| Expected modifications to auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |
| Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud | ✓ | ✓ |

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---------------------|---|
| 1 | Regularly reconcile the properties on the HRA asset register to the Orchard housing system. | Medium | Agreed | Quarterly with immediate effect Financial Services Manager |
| 2 | Review information provided by the actuary to ensure it is reasonable, in line with expectations, and comparable with the prior year if appropriate. | High | Agreed | April 2017 Financial Services Manager |
| 3 | Carry out a reconciliation between the HRA tenants rent arrears control account and the Orchard rent system. Consider whether there are items on the general ledger control account which should be cleared and/or written off. | Medium | Agreed | Immediately Financial Services Manager |

Appendix B: Draft Audit opinion

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

DRAFT - INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WAVERLEY BOROUGH COUNCIL

We have audited the financial statements of Waverley Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall

presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

(Signature to be inserted)

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

DRAFT September 2016



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