



The Annual Audit Letter for Waverley Borough Council

Year ended 31 March 2016

October 2016

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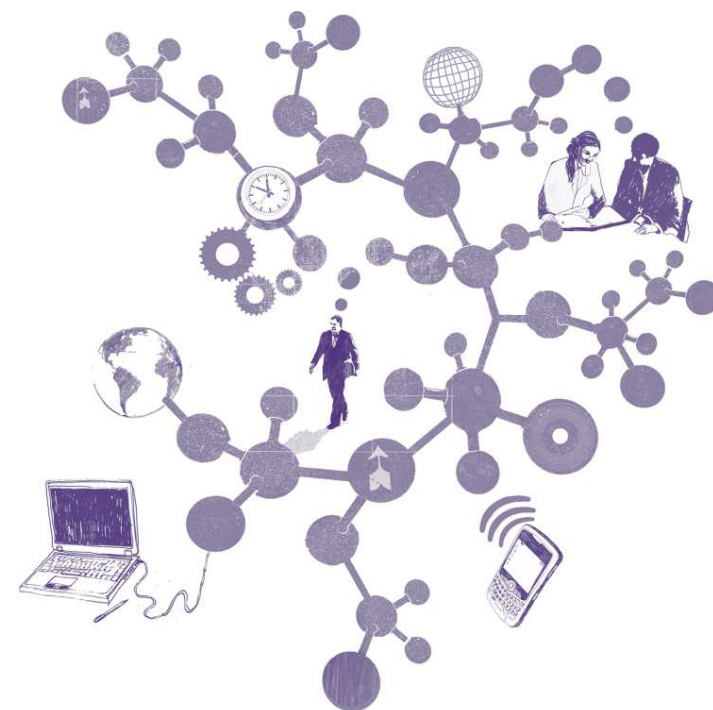
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Waverley Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 13 September 2016.

Our 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 financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

We did not receive any questions or objections in relation to the Council's accounts for 2015/16.

During the year we considered a formal objection raised by a local elector on the Council's 2014/15 financial statements. On 20 September 2016 we issued a Statement of Reasons in relation to this objection, confirming that we did not consider the objection to have a material impact on the Council's 2014/15 financial statements or indicate circumstances which merited a Report in the Public Interest.

Certificate

We certified that we had completed the audit of the accounts of Waverley Borough Council in accordance with the requirements of the Code on 29 September 2016.

Certification of grants

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 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

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
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, 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 our audit of the Council's accounts to be £1,598k, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £80k, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough 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 Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 accounts

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
<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. 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 determined that the risk of fraud arising from revenue recognition could 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>We did not identify any significant issues to report.</p>
<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>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgements and decisions made by management; • tested journal entries; and • reviewed unusual significant transactions. <p>We did not identify any significant issues to report.</p>
<p>Operating expenses</p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • walked through the operating expenses system, updating understanding of the processes and key controls; • substantively tested expenditure; • tested creditor payments, including accruals, for completeness, classification and occurrence; • reviewed control account reconciliations; • performed cut-off testing; and • reviewed expense apportionment/allocation. <p>We did not identify any significant issues to report.</p>

Audit of the accounts

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
<p>Employee remuneration Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • walked through the payroll system, updating understanding of the processes and key controls; • substantively tested payroll records; • reviewed reconciliation of payroll system to the general ledger; and • carried out trend analysis of employee remuneration expenses. <p>We did not identify any significant issues to report.</p>
<p>Valuation of property, plant and equipment The Council undertakes a rolling revaluation programme of its land and buildings. The risk is revaluation measurements are not correct.</p>	<p>As part of our audit work we:</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; • reviewed 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; • reviewed the competence, expertise and objectivity of management experts used; • reviewed the instructions issued to valuation experts and the scope of their work; • tested the data provided to the valuer; • held discussions with the valuer about the basis on which valuations were carried out, challenging the key assumptions; • tested revaluations made during the year to ensure they were input correctly into the asset register; and • evaluated 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 did not identify any significant issues to report.</p>

Audit of the accounts

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
<p>Valuation of pension fund net liability 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>As part of our audit work we:</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. A revised report with the correct figures was provided during the course of the audit.</p> <p>This resulted in changes to the accounts to correct and overstatement of the pension fund liability in the balance sheet and an understatement of Other Comprehensive Income in the Comprehensive Income and Expenditure Statement. There were also revisions to a number of notes in the financial statements.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the draft financial statements available for audit 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 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. 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, and the finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 13 September 2016.

None of the adjustments we identified in the audit 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.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 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 key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	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>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</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>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	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>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and non-audit services

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	53,881	53,881	71,851
Housing benefit grant certification fee*	11,381	TBC	13,240
Shottermill Recreation Ground Trust	2,000	2,000	5,000
Ewart Bequest Trust	2,000	2,000	2,000
Total fees (excluding VAT)	69,262	TBC	92,091

* 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 Audit Committee at a later date if applicable.

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Fees for other services

Service	Fees £
Pooling of housing capital receipts fee	2,800



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