

# The Audit Plan for Waverley Borough Council

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**Year ended 31 March 2017**

March 2017

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Dear Members of the Audit Committee

**Audit Plan for Waverley Borough Council for the year ending 31 March 2017**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Waverley Borough Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 which give a true and fair view.

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. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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 look forward to working with you during the course of the audit.

Yours sincerely

Iain Murray

Engagement Lead

**Chartered Accountants**

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# Understanding your business and key developments

Developments	Key challenges	Financial reporting changes
<p><b>Development and regeneration</b></p> <p>You have a number of key schemes underway with a focus on economic development and regeneration.</p> <p>The Brightwells development remains a key part of your regeneration plans for Farnham. Progress had been slowed as a result of the recent application to the courts seeking judicial review of the decision to proceed. On 9 March 2017 the claim was rejected, and whilst subject to potential appeal this is a potentially positive outcome for the scheme.</p> <p>The planned development of Dunsfold Park forms a key part of the housing numbers included in your proposed local plan. The application was recently called in by the Secretary of State and will be subject to a local inquiry.</p> <p>Your HRA business plan has been revised in light of the statutory 1% reduction in rents over the next four years. However you still have plans to refurbish existing housing stock and to build new homes with a particular focus on the Ockford Ridge area of Godalming.</p> <p><b>Investment Advisory Board</b></p> <p>In 2016 you created an Investment Advisory Board (IAB) to advise on implementation of an investment strategy. This is part of your response to funding reductions and focuses on identifying opportunities to generate economic growth in the borough and revenue to support the delivery of services.</p>	<p><b>Local government finance settlement</b></p> <p>The final local government settlement for 2017/18 was published on 20 February. It reflects the government's aim that all councils will become self-funding, with central government grants being phased out. There is expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements. You have accepted the government's offer of locking in to a 4 year settlement in order to get certainty in your medium term financial planning and are aware of the risk this poses to your funding in the short to medium term.</p> <p><b>Delivery of savings plans</b></p> <p>You have set a balanced General Fund budget for 2017/18 which is robust but will be challenging to deliver. Your budget challenge process identified:</p> <ul style="list-style-type: none"><li>• income and savings proposals of £1.036m, and</li><li>• growth proposals of £0.055m,</li></ul> <p>You have increased your share of council tax by £5 at band D increasing your base by £0.268m. The financial strategy identifies budget pressures in each of the three years to 2019/20. Beyond this period there is significant uncertainty particularly around business rates and new homes bonus funding.</p>	<p><b>CIPFA Code of Practice 2016/17 (the Code)</b></p> <p>Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.</p> <p>The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.</p> <p><b>Earlier closedown</b></p> <p>The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.</p> <p><b>Delivering good governance</b></p> <p>In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus on the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.</p>

## Our response

- We have discussed with you the changes required to the annual governance statement in line with the 'Delivering Good Governance in Local Government: Framework (2016)'.
- We aim to complete all our substantive audit work of your financial statements by the end of June 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will review the Council's progress in managing the delivery of savings plans and in managing your development/regeneration programmes, as part of our work in reaching our VFM conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

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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 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. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,629k (being 2% of the prior year gross revenue expenditure). In the previous year, we determined materiality to be £1,598k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors 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 accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £81k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have not identified any items where separate materiality levels are appropriate.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

# Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment 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.

Significant risk	Description	Audit procedures
<p><b>The revenue cycle includes fraudulent transactions</b></p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• The culture and ethical frameworks of local authorities, including Waverley, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We therefore do not consider this to be a significant risk for Waverley Borough Council.</p>
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of journal entry process</li> <li>• Testing of month 1-10 journal entries</li> <li>• Review of unusual significant transactions</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of month 1-13 journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 and Ireland) 315). In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

# Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Walkthrough of the operating expenses system to update our understanding</li> <li>• Substantive testing of months 1-10 operating expenditure transactions</li> </ul> <p>The results of our work are reported on page 17.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Substantive testing of months 11-12 operating expenditure transactions</li> <li>• Testing creditor payments, including accruals, for completeness, classification and occurrence</li> <li>• Review of control account reconciliations</li> <li>• Cut-off testing</li> </ul>
Employee remuneration	Employee remuneration accruals are understated	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Walkthrough of the payroll system to update our understanding</li> <li>• Substantive testing of months 1-10 payroll transactions</li> </ul> <p>The results of our work are reported on page 17.</p> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Substantive testing of months 11-12 payroll transactions</li> <li>• Trend analysis of employee remuneration expenses</li> <li>• Review reconciliation of the payroll system to the general ledger</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

## Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Valuation of plant, property and equipment	The Council undertakes a rolling revaluation programme of its land and buildings	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Walkthrough of the plant, property and equipment system to update our understanding</li> <li>• Review management's processes and assumptions for the calculation of the estimate</li> <li>• Review the competence, expertise and objectivity of the valuer</li> <li>• Review the instructions issued to the valuer and the scope of their work</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Testing of plant, property and equipment records to deeds</li> <li>• Review the consistency of the financial statements with the valuation report from your valuers</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Test the data provided to the valuer</li> <li>• Evaluation of 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</li> </ul>
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	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Identify the controls put in place by management to ensure the pension fund liability is not materially misstated. We will assess if the controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• Review the competence, expertise and objectivity of the actuary carrying out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• Undertake procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• Review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li> <li>• Test the data provided to the actuary</li> </ul>



## Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• We have reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with your internal reporting structure</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice</li> </ul>

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# Other risks identified (continued)

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

## 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 the previous sections but will include:

- Investments
- Heritage assets
- Cash and cash equivalents
- Borrowings and other liabilities (long and short term)
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes
- Funds held on trust note

# Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 600, as group auditor we are required to 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[s]	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
<b>Shottermill Recreation Ground and Swimming Pool</b>	No	Targeted	<ul style="list-style-type: none"><li>Property, plant and equipment (PPE) revaluation measures not correct</li><li>Recorded cash at bank not valid</li></ul>	<ul style="list-style-type: none"><li>Review the relevant PPE balances to ensure they are recorded correctly</li><li>Agree the relevant cash balances to external confirmations</li></ul>
<b>The Bequest of Joseph Ewart</b>	No	Targeted	<ul style="list-style-type: none"><li>Recorded cash at bank not valid</li></ul>	<ul style="list-style-type: none"><li>Agree the relevant cash balances to external confirmations</li></ul>

## Audit scope:

**Comprehensive** – the component is of such significance to the group as a whole that an audit of the component's financial statements is required

**Targeted** – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

**Analytical** – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

# Value for Money

## Background

The Code requires us to consider whether 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

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 opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of sound governance</li> <li>Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing and utilising assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

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# Value for Money (continued)

## **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

## **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 24 July 2017.

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Financial plans</b>            You have set a balanced General Fund budget for 2017/18 which is robust but will be challenging to deliver. The Council's budget challenge process identified proposals for cost savings, additional income of £1m following a very small allowance for growth (£55k) and a council tax increase which will increase income by an estimated £270k. Your financial strategy identifies budget pressures in each of the three years to 2019/20. Beyond this period there is significant uncertainty around business rate and new homes bonus funding.</p>	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making. We will also review the Council's arrangements for procuring supplies/services and managing assets effectively to support the delivery of strategic priorities.</p>	<p>We propose to meet with key officers to discuss key strategic challenges and your response, and consider reports to members to:</p> <ul style="list-style-type: none"> <li>• review the outturn position for 2016/17 and the budget plans for 2017/18 and 2018/19</li> <li>• review the HRA business plan</li> <li>• review progress in updating the medium term financial strategy</li> <li>• review effectiveness of forward plans for renewal of major contracts</li> <li>• review how you are making the best use of your asset base</li> <li>• review your investment strategy and income generation plans</li> </ul>
<p><b>Brightwells development</b>            Following special Executive and Council meetings in May 2016 the development moved into its next phase. This is a high profile development with the ambition of providing benefits to the residents of Farnham and generating some revenue to support your services. Progress on the scheme was slowed as a result of an application to the High Court seeking judicial review of the decision to proceed. On 9 March 2017 this application was rejected. Although still subject to a potential appeal this decision could mean that the scheme is able to progress in 2017.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>Through discussion with officers and review of key documents, we will consider the arrangements to monitor the performance and governance of this project and how you continue to assess whether the development contributes to the effective delivery of your strategic objectives.</p>

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# Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
<b>Review of information technology controls</b>	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

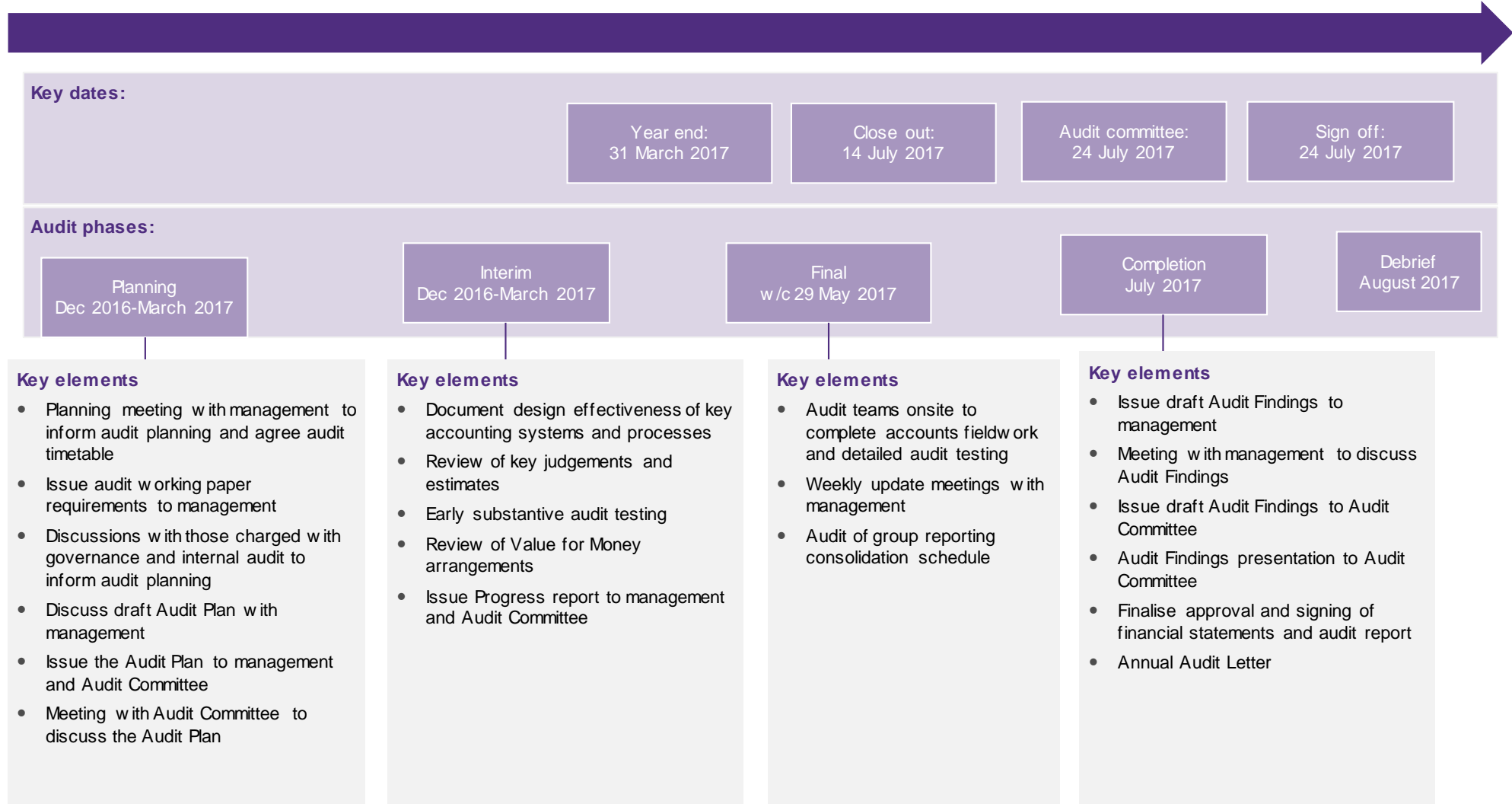


## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first ten months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>No issues have been identified that we wish to highlight for your attention.</p> <p>We will be undertaking detailed testing on the remaining journal transactions, during our final accounts audit visit.</p>
<b>Early substantive testing</b>	<p>Early substantive testing on month 1-10 transactions have been performed in the following areas:</p> <ul style="list-style-type: none"> <li>• Payroll expenditure</li> <li>• Non-pay expenditure</li> <li>• Journals</li> <li>• Fixed asset existence</li> </ul>	<p>No issues have been identified that we wish to highlight for your attention.</p> <p>We will be undertaking detailed testing on the remaining transactions in these areas for months 11-12, during our final accounts audit visit.</p>

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	53,888
Grant Certification	TBC
<b>Total audit fees (excluding VAT)</b>	<b>53,888</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

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# Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

We are aware of the following relationship that might constitute a threat to our independence that we are required to report to you and those charged with governance. A family member of one of your councillors is an employee in the public sector assurance department of our London office. We employ the following safeguards to mitigate the risk to our independence as auditors:

- The employee has not worked on the Waverley Borough Council audit, and will not work on the Waverley Borough Council audit; and
- The audit files are held in a location with access rights limited to the Waverley Borough Council audit team.

We have complied with the Audit 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.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Waverley Borough Council. The following audit related and non-audit services were identified for the Council for 2016/17:

## **Fees for other services**

<b>Service</b>	<b>Fees £</b>	<b>Planned outputs</b>
<b>Audit related</b>		
Shottermill Recreation Ground and Swimming Pool	2,000	Independent examination
The Bequest of Joseph Ewart	2,000	Independent examination

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit 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.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

# Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

This plan 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 and includes nationally prescribed and locally determined work (<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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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 the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
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	✓	✓



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