

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 2017

Draft as at 17 July 2017

Iain Murray

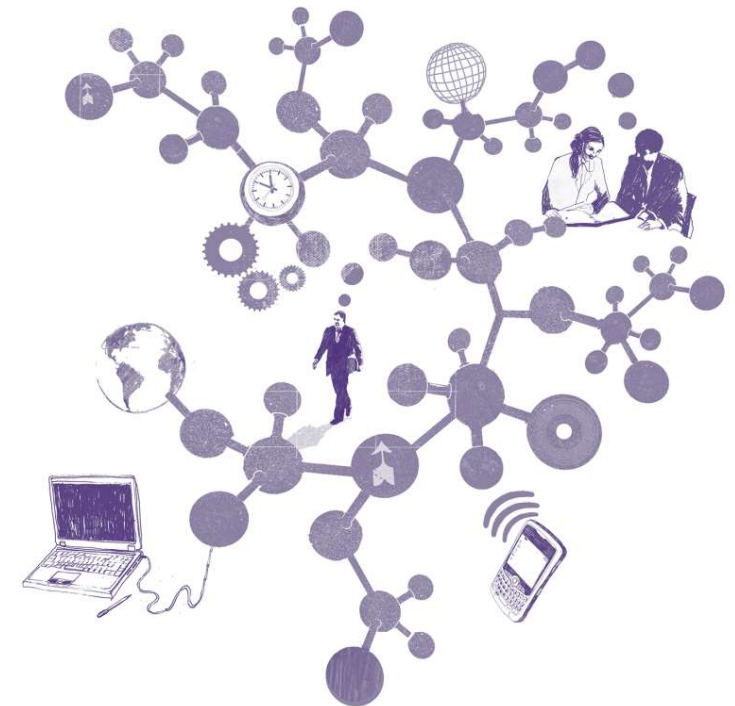
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24 July 2017

Dear Members of the Audit Committee

Audit Findings for Waverley Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Waverley Borough Council, the Audit Committee), to oversee the financial reporting process, 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 have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

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Purpose of this report

This report highlights the key issues affecting the results of Waverley Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 Council's financial statements give a true and fair view of the financial position of the 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has 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, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

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 the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council 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 21 March 2017.

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

- communications with the Surrey County Council pension fund auditor;
- our work on plant, property and equipment;
- our work on financial instruments;
- our work on reserves;
- residual queries on our other revenues work;
- final review of substantive audit procedures;
- 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 Council's 2016/17 financial statements, see Appendix B.

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 provided us with a draft set of financial statements at the end of May, well 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 and enabled us to have early review of the draft financial statements.
- 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.

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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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

Our work has not identified any control weaknesses which we wish to highlight for your attention.

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, the Council 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 2017. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in February 2018.

The way forward

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

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
July 2017

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 ISA (UK&I) 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 £1,629k (being 2% of the prior year 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 £81k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have not identified any particular classes of transactions, account balances or disclosures 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&I) 320)

Audit findings against significant risks

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 |
|---|--|---|
| <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 Waverley Borough Council, mean that all forms of fraud are seen as unacceptable. <p>We therefore do not consider this to be a significant risk for Waverley Borough Council.</p> | <p>Subject to the satisfactory completion of outstanding procedures set out on page 5, our audit work has not identified any issues in respect of revenue recognition.</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>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgements and decisions made by management; • reviewed journal entry processes; • tested journal entries; and • reviewed unusual significant transactions. | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified 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> |

"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&I) 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&I) 550)

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 | Year end creditors and accruals are understated or not recorded in the correct period. | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> walkthrough of the operating expenses system to update our understanding; substantively tested operating expenditure transactions; tested creditor payments, including accruals, for completeness, classification and occurrence; reviewed control account reconciliations; and performed cut-off testing. | Our audit work has not identified any significant issues in relation to the risk identified. |
| Employee remuneration | Employee remuneration accruals are understated. | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> walkthrough of the payroll system to update our understanding; substantively tested payroll transactions; performed trend analysis of employee remuneration expenses; and reviewed reconciliation of payroll system to the general ledger. | Our audit work has not identified any significant issues in relation to the risk identified. |

"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&I) 315)

Audit findings against other risks continued

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|--|--|---|---|
| <p>Valuation of plant, property and equipment</p> | <p>The Council undertakes a rolling revaluation programme of its land and buildings.</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • walkthrough of the plant, property and equipment system to update our understanding; • reviewed management’s processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of the valuer; • reviewed the instructions issued to the valuer and the scope of their work; • tested plant, property and equipment records to deeds; • reviewed the consistency of the financial statements with the valuation report from your valuer; • held discussions with your valuer about the basis on which the valuation is carried out and challenged key assumptions; • reviewed and challenged information used by the valuer to ensure it is robust and consistent with our understanding; • tested the data provided to the valuer; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. | <p>Subject to the satisfactory completion of outstanding procedures set out on page 5, our audit work has not identified any significant issues in relation to the risk identified.</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.</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 the pension fund liability is not materially misstated. We assessed if 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 carrying out your pension fund valuation. Gained an understanding of the basis on which the valuation was carried out; • carried out 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 your actuary. | <p>Subject to the satisfactory completion of outstanding procedures set out on page 5, 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 |
|--|---|--|---|
| Changes to the presentation of the local authority financial statements | <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>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements; reviewed the reclassification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with your internal reporting structure; reviewed the appropriateness of the revised grouping of entries within the Movement in Reserves Statement (MiRS); tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. | <p>Our audit work has not identified any significant issues in relation to the risk identified.</p> |

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that management have a reasonable expectation that the services they provide will continue for the foreseeable future.

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. |
| Bequest of Joseph Ewart | 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; – Business rate appeals; – Funding levels; and – Group accounts. | <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

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 2016/17 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 |

Assessment

● Marginal accounting policy which could potentially attract attention from regulators
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● Accounting policy appropriate but scope for improved disclosure


● Accounting policy appropriate and disclosures sufficient

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 | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any material 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 | 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 | 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 | A standard letter of representation has been requested from the Council, which is appended in the Audit Committee papers. |
| 5. | Confirmation requests from third parties | 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 | Our review found a small number of disclosures that required amendment or expanding, refer to page 23 for further detail. |
| 7. | Matters on which we report by exception | <p>We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> • 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; • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. |
| 8. | Whole of Government Accounts specified procedures | 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

| | Assessment | Issue and risk | Recommendations |
|----|---|---|--|
| 1. |  <p>Amber</p> | <p>Related party transactions</p> <p>Every Member, Chief Officer and Head of Service is required to sign a related party transactions declaration to disclose any relationships with organisations/individuals which transact with the Council. Eight declarations were not received as at 17 July 2017. There is a risk that the Council does not identify material related party transactions in its financial statements.</p> | <p>We have requested that the Council includes a specific representation in its management representation letter to explain how it is assured that no material related party transactions are omitted from the 2016/17 financial statements.</p> <p>All Members and Senior Officers must ensure that signed related party transactions declarations are returned to the Finance team in line with the annual related party transactions declaration exercise. This is an important governance control which all involved must adhere to.</p> |

Assessment

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

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|----|------------|--|--|
| 1. | ✓ | <p>Housing Revenue Account (HRA) asset register</p> <p>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.</p> | The Council now regularly reconcile the properties on the HRA asset register to the Orchard housing system. |
| 2. | ✓ | <p>Pension fund liability</p> <p>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.</p> | The Council has implemented controls to review information provided by the actuary to ensure it is reasonable, in line with expectations, and comparable with the prior year if appropriate. We are satisfied that these controls are operating in practice. |
| 3. | ✓ | <p>Short term debtors and HRA rent arrears</p> <p>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.</p> | A reconciliation is carried out between the HRA tenants rent arrears control account and the Orchard rent system. |

Assessment

- ✓ Action completed
- X Not yet addressed

Impact of uncorrected misstatements in the prior year

| Detail | Balance Sheet £'000 | Adjustment made during the year |
|---|--|---|
| <p>1 In 2015/16 we identified five assets, totalling £297k, which were incorrectly included in the Housing Revenue Account (HRA) asset register. These assets had been demolished, converted or transferred ownership during the financial year. Management decided not to adjust for this misstatement as it was not material to the 2015/16 financial statements.</p> | <p>Property, plant and equipment (297)</p> | <p>The fixed asset register has been updated to remove the five HRA assets.</p> |
| <p>Overall impact</p> | <p>(297)</p> | |

Misclassifications and disclosure changes

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

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|---------------------------------|----------------|-----------------|---|
| 1 Minor disclosure improvements | Various | | We agreed a small number of minor disclosure amendments with management to improve presentation and disclosure in the financial statements. |

Section 3: Value for Money

01. Executive summary

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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 2016. AGN 03 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.

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 March 2017 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 21 March 2017.

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.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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 2017/18 budget confirms that you have applied all of the relevant considerations, and your medium term financial strategy (MTFS), covering the period 2016/17-2019/20, was updated in February 2017. In June 2017, following the Strategic Review, carried out in December 2016, the Council has conducted an initial stage review of the 2017/18 budget and the MTFS, updating them to take into account the observations made by the Review.

Sustainable resource deployment

- The Council's 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. The 2017/18 General Fund budget identified a £1.15m shortfall. This shortfall has been met by an increase in the 2017/18 council tax rates, growth schemes identified by the Council, and savings identified of over £1m in 2017/18. Whilst you have a proven track record of delivering savings over the past nine years, the identification of 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 is actively working to identify contracts that will be due for renewal in 2019 to ensure that appropriate procurement methods and forward plans are in place for renewal of major contracts.

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 27-28.

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 identified at the planning stage | Work to address | Findings and conclusions |
|--|--|---|
| <p>Financial position The 2017/18 General Fund budget has a £1.15m shortfall. The Council's budget challenge process identified some proposals for cost savings, additional income and expenditure growth, all of which are subject to consideration by members. The 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>We met with key officers to discuss key strategic challenges and the Council's response, and considered reports to members to: review the outturn position for 2016/17 and the budget plans for 2017/18 and 2018/19 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> | <p>Your financial performance in 2016/17 remains sound and your outturn position was an underspend of £27k on the general fund and an underspend of £22k on the HRA.</p> <p>Your general fund position at the end of 2016/17 remains unchanged from the prior year and consistent with your overall medium term financial strategy to maintain the balance 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. The Council set up its Investment Advisory Board (IAB) during the year, a key step in addressing the Council's future budget gaps. The IAB considers all proposals that contribute to the delivery of the Council's Investment Strategy and meet the investment criteria.</p> <p>The HRA Business Plan, updated in February 2017, identifies that the Government implemented major changes to HRA finances in 2016 will lose the HRA around £300m over the 30-year life of the business plan. These changes include an imposed 1% per year rent reduction for the next four years, the impact of the sale of high value voids (from 2018/19), and welfare reforms (including Universal Credit). To partially offset the impact for 2017/18 the Council taken action which includes raising garage rates by 10%, increasing service charges for sheltered accommodation and heating reimbursement charges, and increasing rents for temporary accommodation and bed & breakfast.</p> <p>The impact of the 4 year settlement remains uncertain but the Council is clear that no funding will be received in years 3 and 4 of the settlement, and there is considerable uncertainty about the 'negative grant' of £800k in 2019/20 that the Government notified to the Council during the year. This uncertainty has been factored into the Council's existing plans as part of the fundamental financial review. Whilst the Council has a proven track record of delivering savings over the past nine 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> |

Key findings continued

| Significant risk identified at the planning stage | Work to address | Findings and conclusions |
|---|--|--|
| <p>Brightwells development Following special Executive and Council meetings in May 2016 the development moved into its next phase. This is a high profile development for the Council with the ambition of providing benefits to the Council and residents of Farnham. The Council is awaiting the outcome of a judicial review on this development to determine future progress.</p> | <p>We reviewed the Council's arrangements to monitor the performance and governance of this project and how it continues to assess whether the development contributes to the effective delivery of its strategic objectives through discussion with officers and review of key documents.</p> | <p>The judicial review outcome was positive for the Council and enabled the scheme to progress as approved by Council in May 2016. The latest position is that the three parties, the Council, commercial funder Surrey County Council, and developer Crest Nicholson, are working towards an unconditional agreement.</p> |

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 |
| Bequest of Joseph Ewart | 2,000 | 2,000 |
| Grant certification (*) | 11,381 | TBC |
| Total audit fees (excluding VAT) | 69,262 | TBC |

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

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'.

*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

Ethical Standards and ISA (UK&I) 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 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.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Waverley Borough Council.

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Communication of audit matters**

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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, or emphasis of matter | | ✓ |
| Unadjusted misstatements and material disclosure omissions | | ✓ |
| 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, limitations of scope on the group audit, fraud or suspected fraud | ✓ | ✓ |

Appendices

A. Action Plan

B. Draft Audit Opinion

A. Action plan

Priority

| Rec no. | Recommendation | Priority | Management response | Implementation date and responsibility |
|---------|---|----------|---------------------|--|
| 1 | <p>Related party transactions</p> <p>We have requested that the Council includes a specific representation in its management representation letter to explain how it is assured that no material related party transactions are omitted from the 2016/17 financial statements.</p> <p>All Members and Senior Officers must ensure that signed related party transactions declarations are returned to the Finance team in line with the annual related party transactions declaration exercise. This is an important governance control which all involved must adhere to.</p> | | | |

- Controls**
- High – Significant effect on control system
 - Medium – Effect on control system
 - Low – Best practice

A: Audit opinion

We anticipate we will provide the Group 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group Comprehensive Income and Expenditure Statement, The Group Movement in Reserves Statement, Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement 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 2016/17.

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 Authority's 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 Responsibilities for the Statement of Accounts, 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that

necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. 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 for securing economy, efficiency and effectiveness in its use of 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 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[Signature]

Iain Murray

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

30 Finsbury Square
London
EC2A 1AG

[To be dated]



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