



The Annual Audit Letter for Waverley Borough Council

Year ended 31 March 2017

October 2017

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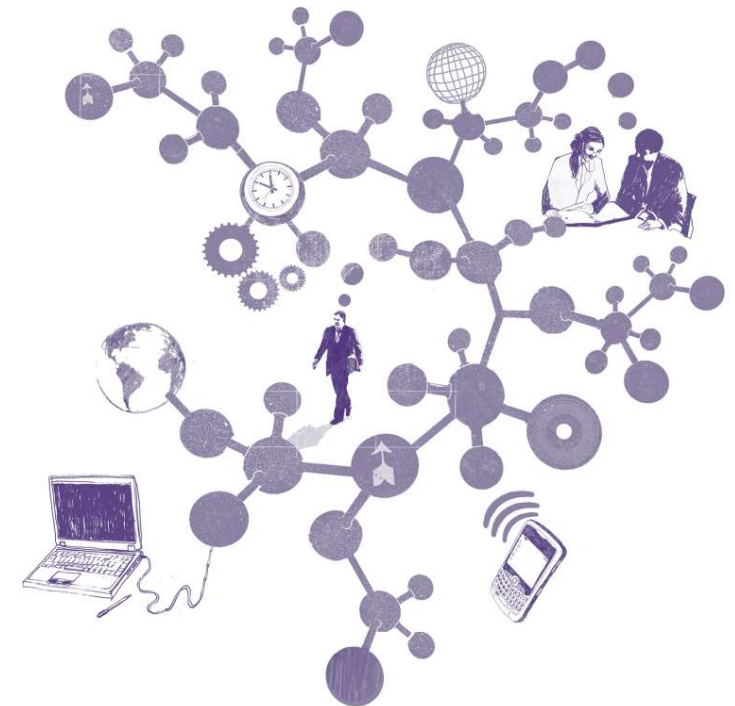
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Waverley Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 24 July 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 27 July 2017.

Certificate

We certified that we had completed the audit of the accounts of Waverley Borough Council in accordance with the requirements of the Code on 27 July 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,629k, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We did not identify any particular classes of transactions, account balances or disclosures where separate materiality levels were appropriate.

We set a lower threshold of £81k, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- The Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of plant, property and equipment The Council undertakes a rolling revaluation programme of its land and buildings.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> walked through 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>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represent significant estimates in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> identified the controls put in place by management to ensure 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>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Audit of the accounts continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Operating expenses Year end creditors and accruals are understated or not recorded in the correct period.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • walked through 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. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p>Employee remuneration Employee remuneration accruals are understated.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • walked through 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. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

Audit of the accounts continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Changes to the presentation of the 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>As part of our audit work we:</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 did not identify any significant issues in relation to the risk identified.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2017, in advance of the 30 September 2017 national deadline, and in line with the earlier deadline that will be in place for next year.

The Council made the accounts available for audit at the end of May 2017, in advance of the statutory deadline, demonstrating it is well placed to meet the earlier deadlines for producing financial statements in 2017/18. The financial statements were supported by an excellent set of working papers and the finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 24 July 2017.

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.

Annual Governance Statement and Narrative Report

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

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

Other statutory duties

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

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

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

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial position When planning our work in March 2017 the Council had recently set its 2017/18 General Fund budget identifying 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>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>
<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>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

Please note, the risks in the above table were identified during our 2016/17 planning procedures, prior to carrying out our 2016/17 Value for Money audit work

Appendix A: Reports issued and fees

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 £	Actual fees £	2015/16 fees £
Statutory audit of Council	53,881	53,881	53,881
Shottermill Recreation Ground Trust	2,000	2,000	2,000
Bequest of Joseph Ewart	2,000	2,000	2,000
Housing Benefit Grant Certification	11,381	TBC	15,557
Pooling of Housing Capital Receipts Return	2,800	2,800	2,800
Homes and Communities Agency Compliance Audit	2,000	2,000	n/a
Total fees (excluding VAT)	74,062	TBC	76,238

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

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	July 2017
Annual Audit Letter	October 2017

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
Audit related services	Independent examination of Shottermill Recreation Ground and Swimming Pool 2016/17	£2,000	<ul style="list-style-type: none"> Self-interest 	<p>We carry out independent examinations of Shottermill Recreation Ground and Swimming Pool and the Bequest of Joseph Ewart. We rely on this work for the audit of the Council's 2016/17 financial statements. The level of these recurring fees taken on its own is not considered to be a significant threat to independence as the fees for this work in comparison to the total fee for the audit (£53,881) for the Council and in particular to Grant Thornton UK LLP overall turnover is not considered to be significant. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.</p>
	Bequest of Joseph Ewart 2016/17	£2,000	<ul style="list-style-type: none"> Self-interest 	
	Pooling of housing capital receipts return 2016/17	£2,800	<ul style="list-style-type: none"> Self-interest 	
	Housing and Communities Agency Compliance Audit	£2,000	<ul style="list-style-type: none"> Self-interest 	<p>These are recurring fees, therefore a self-interest threat exists. However, the level of these recurring fees taken their own is not considered to be a significant threat to independence as the fees for this work in comparison to the total fee for the audit (£53,881) for the Council and in particular to Grant Thornton UK LLP overall turnover is not considered to be significant. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.</p>
	TOTAL	£6,800		



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