External Audit Plan

Year ending 31 March 2018

Waverley Borough Council

March 2018

Contents

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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, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Waverley Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Waverley Borough Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your 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 audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • Valuation of Property, plant, and equipment • Valuation of the net Pension Fund liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £1,579k (PY £1,629m), which equates to 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £79k (PY £xm).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money has identified the following area as a significant risk: • The Council's financial position in the context of the wider uncertainty of local government finances
Audit logistics	Our interim visit has taken place in January with early testing visits planned for February and April. Our final visit will take place in June-July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be no less than £53,888. (PY: £53,888) for the Council.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.

The Council's Investment Strategy is to expand its portfolio of investments to support the Council's priority of achieving value for money and to enhance its long term financial resilience. The Investment Advisory Board (IAB), established in 2016/17, considers all proposals that contribute to the delivery of the Investment Strategy and meet the Council's investment criteria, to support economic growth in the Borough. Over the last 12 months the IAB has supported investment in four acquisitions which secure a strong annual financial return for the Council. Going forward, the Council is reviewing other potential investment proposals to use cash reserves and balances to support income generating investment.

Brightwells development

The completion of an unconditional agreement between the Council and developer Crest Nicholson sees the beginning of the Brightwells Farnham Regeneration Scheme.

We have held early discussions with the Council regarding the accounting treatment of the Brightwells development and will review the planned governance framework for the scheme.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18; and
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Key challenges

Financial pressures

Public bodies continue to be under a high level of scrutiny from central government and from taxpayers on the use of resources.

In 2017/18 the Council is on track to deliver its planned budget position (£1.15m shortfall).

The General Fund has a net budget of £13.4m in 2017/18 and the latest estimate forecast is to be on budget over the year.

This presents a strong financial outlook for the Council which will continue to be monitored.

Our response

- We will consider your arrangements for managing and reporting your financial resources, including your progress on devolution and use of investment vehicles as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, and revised stock valuation guidance for the HRA and the impact of impairment assessment.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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. Therefore we do not consider this to be a significant risk for Waverley Borough Council.
Management override of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. Management override of controls is a risk requiring special audit consideration.	We will: • Gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness ; • Obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness; and • Evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	The Council revalues its land and buildings on a rolling 5-year basis to ensure that carrying value is not materially different from fair value. Certain assets are also revalued more regularly (e.g. Investment Properties). All assets not formally revalued will be revalued using an uplift percentage. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration. .	We will: • Review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Consider the competence, expertise and objectivity of valuations experts used; • Discuss with the valuer the basis on which the valuation is carried out and challenge the key assumptions; • Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • Test revaluations made during the year to ensure they are input correctly into the Council's asset register; and • Evaluate 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.
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	We will: • Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out; • Undertake procedures to confirm the reasonableness of the actuarial assumptions made; and • Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Reasonably possible 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 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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	Payroll expenditure represents a significant percentage (21%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system (iTrent) there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	We will • Evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • Gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • Re-perform the year end payroll reconciliation and test whether year-end payroll accruals, e.g. tax and pension creditors, unpaid leave accrual) have been recognised and not understated; and • Perform a detailed substantive analytical review of payroll expenditure in order to gain assurance over movements in these expenses against the prior year.
Operating expenses	Non-pay expenses on other goods and services also represents a significant percentage (60%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	We will • Evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • Gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • Perform sample-based testing of operating expenses in the period to gain assurance that expenses are valid; and • Test whether year-end operating expenditure accruals have been recognised and not understated (unrecorded liabilities testing procedures).

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued 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 carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 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.

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 this report.

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) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

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. 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.

Materiality for planning purposes

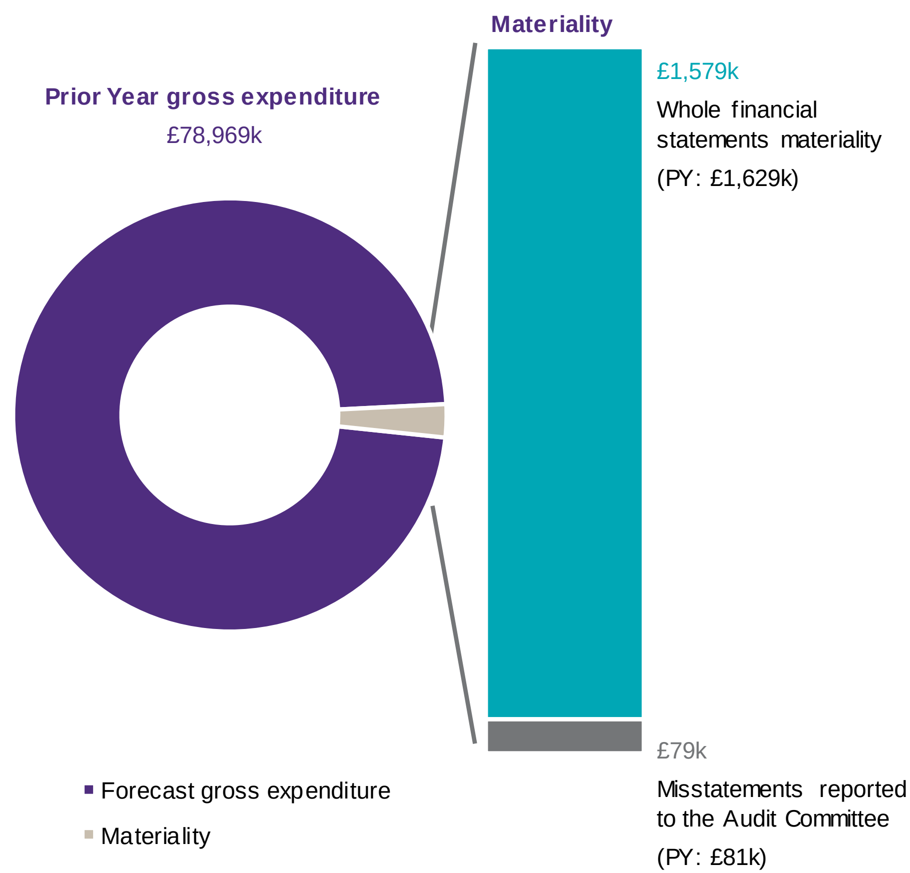
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1,579k (PY £1,629k), which equates to 2% of your prior year gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £79k (PY £81k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Group audit scope and risk assessment

In accordance with ISA (UK) 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	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Waverley Borough Council	Yes	Comprehensive	See pages 5-7.	Full scope UK statutory audit performed by Grant Thornton UK
Shottermill Recreation Ground and Swimming Pool	No	Targeted	Property, plant and equipment (PPE) revaluation measures not correct Recorded cash at bank not valid	Specific (targeted) procedures to be performed by Grant Thornton UK
Bequest of Joseph Ewart	No	Targeted	Recorded cash at bank not valid	Specific (targeted) procedures to be performed by Grant Thornton UK

Key changes within the group:

- None in the year to 31 March 2018.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components 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 arrangements

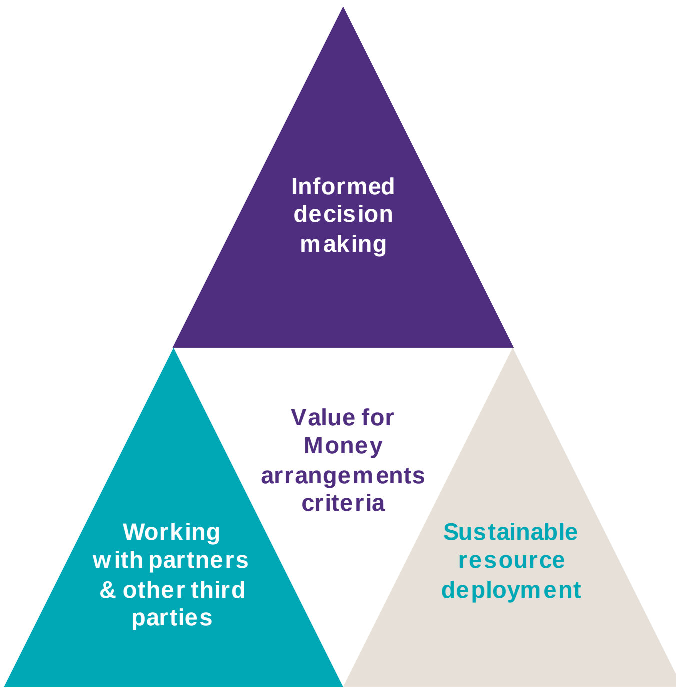
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. 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 below:



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

Financial Position

The Council set a balanced General Fund budget for 2017/18 which is robust but challenging to deliver. The Council's budget challenge process identified proposals for cost savings, additional income and expenditure growth. The Council has identified income and savings proposals which total £1.036m, growth proposals of £0.055m, and council tax increase of £5 at band D of £0.268m. 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.

We will update our understanding of your medium term financial strategy and review the supporting information trails and assumptions.

Audit logistics, team & audit fees

- **Planning and risk assessment**
- **Interim audit** 22-26 January
- **Early testing visit** 19-23 February
- **Audit Committee** 27 March – **Audit Plan**
- **Early testing visit** 9-13 April
- **Year end audit** June-July
- **Audit committee** 24 July – **Audit Findings Report**
- **Audit opinion**
- **Completion** September – **Annual Audit Letter**

Iain Murray, Engagement Lead

Responsible for overall quality control of the audit, accounts opinions, final authorisation of reports, and liaison with the Audit Committee.

Sophia Brown, Audit Manager

Responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit Committee.

Tom Beake, Audit In-charge

Responsible for management and delivery of audit fieldwork, including both interim and final accounts work.

Audit fees

The planned audit fees are no less than £53,888 (PY: £53,888) for the financial statements audit. Fees for the Housing Benefits certification are yet to be confirmed. 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'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We would like to draw to your attention 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 a senior audit manager 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 senior audit manager 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services and fees were identified

Service	Fees £	Threats	Safeguards
Independent Examinations of the Shottermill Recreation Ground Trust & Bequest of Joseph Ewart	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £53,888, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of the pooling of housing capital receipts return	2,800	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,800 in comparison to the total fee for the audit of £53,888, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related 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. None of the services provided are subject to contingent fees.

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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