

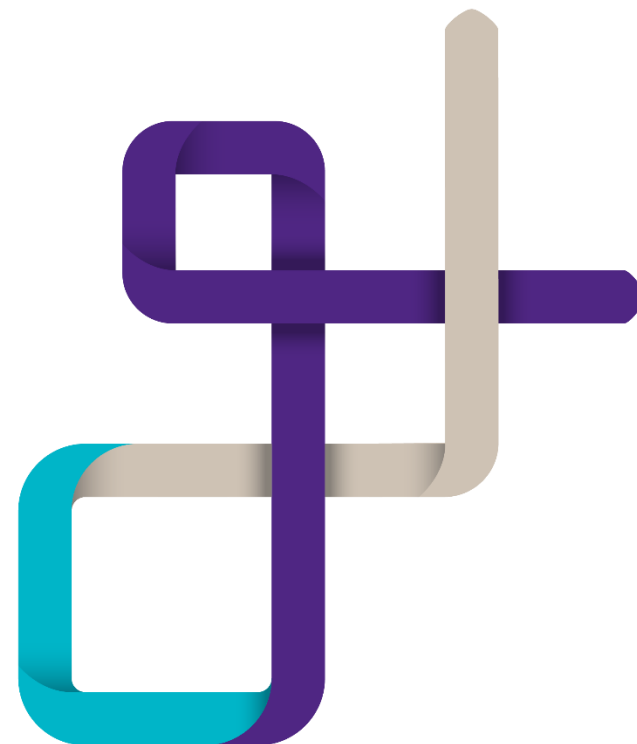
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Audit Findings

Year ending 31 March 2018

Waverley Borough Council

July 2018



Contents



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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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Headlines

This table summarises the key issues arising from the statutory audit of Waverley Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<p>Financial Statements</p>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 5 to 13. We have identified one issue with the allowance for doubtful debt which could have a potential impact on the position reported in the financial statements but we are satisfied that this impact could not be material. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 July 2018, as detailed in Appendix E. As at 13 July these outstanding items include:</p> <ul style="list-style-type: none"> HRA revenue rentals – we have received your working papers and our work in this area is in progress; Fair value of loans – we are working with the finance team to confirm calculations used for disclosure of PWLB loans; Welfare benefits – we currently completing our review of software updates to the housing benefits system; Provisions – we are waiting for confirmation of any post year end movements against the NNDR backdated appeals provision to inform our assessment of the estimate at year end; Related party transactions – we are waiting for a copy of the gifts and hospitality register; Pension Fund – we have yet to receive a letter of comfort from the Surrey County Council Pension Fund auditor; Final Grant Thornton senior management review and quality assurance processes; Receipt of management representation letter following Audit Committee meeting; and Review of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
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Headlines continued

Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Waverley Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 16.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- Full scope audit of Waverley Borough Council's financial statements;
- Targeted testing of both Shottermill Recreation Ground Trust and Ewart Bequest financial statements;
- An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 24 July 2018, as detailed in Appendix E. These outstanding items are detailed on page 3.



Our approach to 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.

Our assessment of the value of materiality has been adjusted to reflect the draft 2017/18 financial statements for the group. The table below details our assessment of materiality for group financial statements.

	Group amount (£k)
Materiality for the financial statements	£1,796k
Performance materiality	£1,347k
Trivial matters	£90k

Significant audit risks

Risks identified in our Audit Plan

1

The revenue cycle includes fraudulent transactions

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Commentary

Auditor commentary

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
- 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.

Subject to the satisfactory completion of the outstanding procedures set out on page 3, our work has not identified any material issues in respect of revenue recognition.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;
- Obtained a full listing of journal entries, then identified and tested unusual journal entries for appropriateness;
- Evaluated the rationale for any changes in accounting policies or significant unusual transactions; and
- Reviewed accounting estimates, judgements and decisions made by management.

Subject to the satisfactory completion of the outstanding procedures set out on page 3, our work has not identified any material evidence of management override.

We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

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.

Auditor commentary

We have undertaken the following work in relation to this risk:

- Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Considered the competence, expertise and objectivity of valuations experts used;
- Discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions;
- Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;
- Tested revaluations made during the year to ensure they were input correctly into the Council's asset register; 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.

Subject to the satisfactory completion of the outstanding procedures set out on page 3, our work has not identified any material issues in respect of the risk identified.

4

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.

Auditor commentary

We have undertaken the following work in relation to this risk:

- Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether the controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;
- Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out;
- Carried out procedures to confirm the reasonableness of the actuarial assumptions made; and
- Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Subject to the satisfactory completion of the outstanding procedures set out on page 3, our work has not identified any material issues in respect of the risk identified.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

5

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.

Auditor commentary

We have undertaken the following work in relation to this risk:

- Evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;
- Gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls;
- Re-performed the year end payroll reconciliation and tested whether year-end payroll accruals, e.g. tax and pension creditors, unpaid leave accrual) have been recognised and not understated; and
- Performed a detailed substantive analytical review of payroll expenditure in order to gain assurance over movements in these expenses against the prior year.

Subject to the satisfactory completion of the outstanding procedures set out on page 3, our work has not identified any material issues in respect of the risk identified.

6

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.

Auditor commentary

We have undertaken the following work in relation to this risk:

- Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;
- Performed sample-based testing of operating expenses in the period to gain assurance that expenses are valid; and
- Tested whether year-end operating expenditure accruals have been recognised and not understated (unrecorded liabilities testing procedures).

Our work on unrecorded liabilities identified one capital invoice received after year end relating to 2017/18 for which there is no accrual. The amount of this invoice is £112k and the Council has opted to not adjust this error, please refer to Appendix C for further detail.



Subject to the satisfactory completion of the outstanding procedures set out on page 3, our work has not identified any material issues in respect of the risk identified.

Significant matters discussed with management




This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p>During the year an unconditional agreement between the Council and developer Crest Nicholson saw the start of the Brightwells Farnham Regeneration Scheme and a total payment was made to the Council of £3.284m.</p> <p>As part of the development agreement the Council leased a land asset to Surrey County Council, with a lease term of 150 years.</p>	<p>The Council has accounted for the land asset as a finance lease, with Surrey County Council as lessee.</p> <p>The developer contribution received by the Council has been included in the Capital Receipts Reserve at year end.</p>	<p>We are satisfied that the lease has been correctly accounted for as a finance lease and the capital contributions have been correctly accounted for given there are no restrictions or conditions placed upon them.</p>



Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>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.</p> <p>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.</p> <p>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>	<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>	 Green
Judgements and estimates	<p>Key estimates and judgements include:</p> <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 with the exception of the allowance for doubtful debt.</p> <p>Our work on your sundry debtor balances identified £512k of debtors which were over 12 months old and in some cases has been outstanding for several years. Our review of the allowance for doubtful debts identified £10k which related to these balances. However, the £512k includes historical benefit and HRA debts for which a separate impairment allowance exists. Given the age of this debt we have queried whether it is reasonable to assume that all of these monies will be recovered or whether some of these amounts should be written off or provided for. Management have carried out an initial review of these debts and have identified £232k which either remains outstanding or where no clear payment plan exists, suggesting some uncertainty remains about its recovery. Were this amount to be written off or provided for the impact would be to reduce your reported financial performance by £232k. As this is not material we are satisfied that it does not prevent us from issuing an unqualified opinion in the financial statements.</p>	 Amber




Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Strategic Director, 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 continues to adopt the going concern basis in preparing its 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 2017/18 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 be open to challenge by regulators
-  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 other 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	We are not aware of any related parties or related party transactions which have not been disclosed. However, one declaration from a councillor is yet to be received. We raised a recommendation in this area in the 2016/17 Audit Findings Report and set out our follow up in Appendix B.
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.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to its banking and investment institutions. This permission was granted and the requests were sent. Requests were returned with positive confirmation, apart from requests which were not received so we undertook alternative procedures, whereby we reviewed internal documents including investment authorisation forms, email correspondence and investment statements, along with external documents including broker certificates and deposit confirmations.
⑥ Disclosures	Our review found a small number of disclosures that required amendment or expanding, refer to Appendix C for further detail.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect—refer to Appendix E.</p>
② 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:</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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>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.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Waverley Borough Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

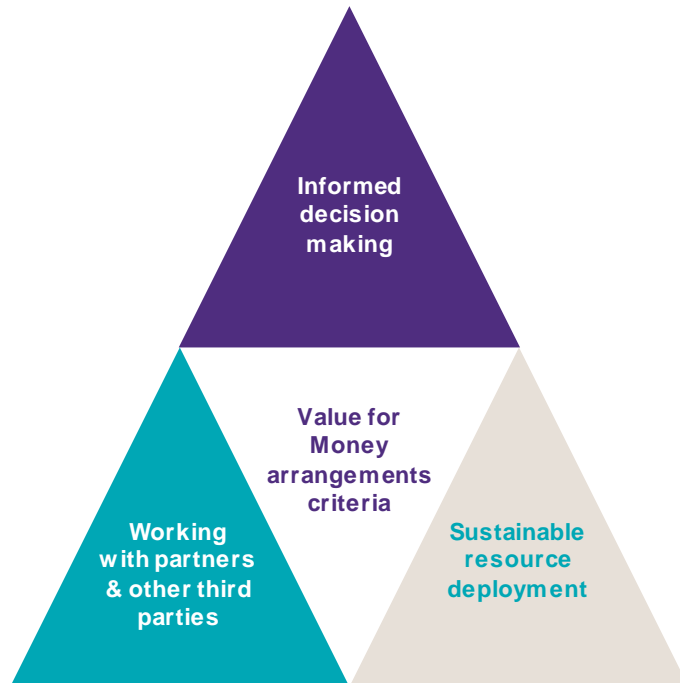
Background to our VFM approach

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:



Risk assessment

We carried out an initial risk assessment in March 2018 and identified a significant risk 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 March 2018.

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.



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.

Value for Money

Our work

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 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 page 16.

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 E.

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	Work to address	Findings and conclusions
<p>Financial position</p> <p>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.</p>	<p>We met with key officers to discuss key strategic challenges and the Council's response, and considered reports to members to:</p> <ul style="list-style-type: none"> • Review the outturn position for 2017/18 and the budget plans for 2018/19 and 2019/20; • Review the Council's progress in updating its medium term financial strategy to inform our understanding and review the supporting information trails and assumptions ; • Review how the Council works collaboratively with partners to deliver functions and services; and • Review how the Council is making the best use of its asset base. 	<p>Your financial performance in 2017/18 remains sound and your outturn position was a £246k surplus on the general fund. This surplus is largely related to the Council's income from its investment property portfolio. Your outturn position on the HRA was a £1.5m surplus which mainly relates to efficiencies and savings made within the maintenance budget.</p> <p>Your general fund position of £3.3m at the end of 2017/18 is in line 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 investment property income received during the year has allowed the Council to transfer £200k of the income to a Commercial Property Risk Fund to protect against future income risk.</p> <p>The Council is clear that no funding will be received in years 3 and 4 of the four year settlement. The potential impact of the Government's fair funding review and the forthcoming comprehensive spending review add uncertainty to funding assumptions in the later years of your medium term financial strategy.</p> <p>Budget shortfalls are being addressed by numerous strategies and workstreams in place to make savings or generate income. One clear area the Council is focussed on is the need to make savings from better procurement, and with a number of major contracts due for renewal in 2019 the Council has been looking at how it can procure better services in a more cost effective way, including working with partners.</p> <p>Whilst the Council has a proven track record of delivering savings over the past 10 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>

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers).

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 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 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Audit and Non-audit services


For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services 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 LLPs 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 LLPs 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 group'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.

Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>1</p> <p> Amber</p>	<p>Overstatement of sundry debtor balance</p> <p>Our work on your sundry debtor balances identified £512k of debtors which were over 12 months old and in some cases has been outstanding for several years. Management have carried out an initial review of these debts and have identified £232k which either remains outstanding or where no clear payment plan exists, suggesting some uncertainty remains about its recovery.</p>	<p>We understand a review of corporate debt is already planned as part of the Finance Service Plan. As part of this process we recommend:</p> <ul style="list-style-type: none"> • a review sundry debtors over 12 months to assess if balances should be written off or referred to bailiffs. • that the allowance for doubtful debt should be reviewed and increased to the appropriate levels if necessary to support debt write off. • any debt written off should be accounted for against the appropriate impairment allowance. <p>Management response</p> <p>TBC</p>

Controls

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

Follow up of prior year recommendations

We identified the following issue in the audit of Waverley Borough Council's 2016/17 financial statements, which resulted in the recommendation below being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendation and note it is still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1</p> <p>x</p> <p>Assessment ✓ Action completed X Not yet addressed</p>	<p>Related party transactions</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>	<p>Update on actions taken to address the issue</p> <p>Progress has been made in this area with fewer related party declarations outstanding at the time of audit.</p> <p>It is part of the councillors' Code of Conduct that they adhere to this governance control and make the required annual declaration in line with the accounts timetable.</p> <p>With shorter timetables for production and audit of the financial statements we would recommend that you set a hard deadline for receipt of these declarations prior to the production of the draft financial statements. Once this date has passed we would expect management to undertake other procedures to ensure that any missing declarations do not result in the omission of significant related party transactions in the draft financial statements.</p> <p>Management comment</p> <p>TBC</p>	

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year. As at 13 July there are no audit adjustments to report.

Misclassification 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.

Disclosure issues	Detail	Auditor recommendations	Adjusted?
Minor disclosure improvements	We agreed a small number of minor amendments with management to improve presentation and disclosure.	Include all agreed minor disclosure improvements in the final set of financial statements. Management response TBC	TBC

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below :

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Capital invoice not accrued Our work on unrecorded liabilities identified one capital invoice relating to 2017/18 for which there is no accrual. The amount of this invoice is £112k. This amount should have been accounted for as a year end creditor and included within the Council's assets under construction balance.	Nil	Creditors (112) Assets under construction 112	Nil	TBC
Overall impact	Nil	112	Nil	

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£53,888	£53,888
Grant Certification	£15,557	TBC
Total audit fees (excluding VAT)	£69,445	£TBC

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

Non Audit Fees

Fees for other services

Fees

Non-audit related services:

- | | |
|--|--------|
| • Shottermill Recreation Grant Trust independent examination | £2,000 |
| • Ewart Bequest independent examination | £2,000 |
| • Pooling of housing capital receipts return | £2,800 |

£6,800

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Waverley Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Waverley Borough Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash-Flow Statement, the HRA Income and Expenditure Statement, the Movement on the HRA Statement, the Collection Fund, and all notes to the financial statements. 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 2017/18.

In our opinion the financial statements:

give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended; have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where: the Strategic Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Strategic Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Strategic Director is responsible for the other information. The other information comprises the information included in the Annual Financial Report, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise

appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Financial Report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:
 we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
 we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Strategic Director and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 9, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director. The Strategic Director 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 2017/18, which give a true and fair view, and for such internal control as the Strategic Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

[To be signed]

Iain Murray

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

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

[To be dated]



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