



Annual Audit Letter

Year ending 31 March 2018

Waverley Borough Council

August 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Waverley Borough Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that 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 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 2018.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £1,796,000, which is 2% of the group's gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 24 July 2018.
Whole of Government Accounts (WGA)	We were 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 did not exceed the required threshold.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 24 July 2018.
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 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Waverley Borough Council in accordance with the requirements of the Code of Audit Practice.

Respective 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 and group'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 and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary continued

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during the audit by the finance team and other staff.

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the accounts one week before the deadline, releasing your finance team for other work.
- Sharing our insight – we provided regular Audit Committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provided your teams with training on financial accounts.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 the audit of the Council's accounts to be £1,796,000, which is 2% of the Council's gross expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £90,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts [and the narrative report and annual governance statement published alongside the Statement of Accounts] to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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>The revenue cycle includes fraudulent transactions</p> <p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> • 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 <p>Therefore we did not consider this to be a significant risk for Waverley Borough Council.</p>	<p>Our work did not identified any material issues in respect of revenue recognition.</p>
<p>Management override of controls</p> <p>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.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We carried out the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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. 	<p>Our work did not identified any material evidence of management override.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 24 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council made the draft accounts available to audit at the end of May 2018, in advance of the statutory deadline. 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 course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 24 July 2018.

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.

We identified that the Council's sundry debtor balance included debtors that were over 12 months old and in some cases debtors had been outstanding for several years. A review of corporate debt is planned as part of the 2018/19 Finance Service Plan Management. As part of this process we recommend:

- 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.

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 in and alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

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.

We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Waverley Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 risk we identified and the work we performed are set out overleaf.

Overall Value for Money 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 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>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.</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 2019/20 and 2020/21 in respect 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> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	53,888	53,888	53,888
Housing Benefit Grant Certification	15,557	TBC	11,381
Total fees	69,445	TBC	65,269

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

Fees for non-audit services

Service	Fees £
Non-Audit related services	
- Shottermill Recreation Ground Trust	2,000
- Ewart Bequest independent examination	2,000
- Pooling of housing capital receipts return	2,800


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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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

B. Recommendations

We 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 at 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 of 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>‘Agreed – review will be undertaken and reported to Audit Committee.’</p>

Controls

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



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