

# The Audit Findings for Waverley Borough Council

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Year ended 31 March 2019

July 2019



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## Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees

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 findings and other matters arising from the statutory audit of Waverley Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

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<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li><li>• 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.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the 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 is being completed on site at the time of writing this report. Our findings are summarised on pages 4 to 13. We have identified one adjustment to the financial statements which is detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p> <p>Our work is still ongoing at the time of writing this report, but there are no matters of which we are aware that would require modification of our audit opinion (which we will provide to the Committee), subject to the outstanding matters detailed on the next page. We will provide the committee with an update on any subsequent findings at the meeting on 22 July 2019.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>Our review of the Council's value for money arrangements is ongoing at the time of writing this report. We will provide the committee with a separate update on our findings.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We expect to be able to certify the completion of the audit when we give our audit opinion, having completed the work required under the Code.</p>

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## 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 Report 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) and the Code, 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.

## 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.

Materiality calculations remain the same as reported in our audit plan:

	Group Amount	Council Amount
Overall materiality for the financial statements	£1,800k	£1,795k
Performance materiality	£1,350k	£1,346k
Trivial matters	£90k	£90k

## Audit approach

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

- An evaluation of the Council'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

We have not had to alter or change our audit plan, as communicated to you in March 2019.

## Conclusion

Our audit of your financial statements is ongoing at the time of writing this report. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 22 July 2019. These outstanding items include:

- receipt and review of outstanding supporting evidence for a sample of items from the Council's income and expenditure;
- receipt and review of outstanding supporting evidence for a sample of items from the Council's debtors and creditors;
- receipt and review of outstanding supporting evidence for a sample of items relating to the Council's collection fund;
- completion of testing of the Council's revaluation and impairment movements for land and buildings;
- review and challenge of significant movements in earmarked reserves;
- review of the finalised version of PWC's report on the LGPS actuary;
- receipt of response from the Council's actuary to a query relating to the proportion of the Surrey Pension Fund's assets that are attributable to the Council;
- agreement of standalone disclosure notes in the Council's financial statements;
- quality reviews by the audit manager and engagement lead;
- receipt of the signed management representation letter; and
- review of the final, approved, set of financial statements.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### 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 the 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.**

Our audit work to date has not identified any 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 therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work to address this risk is still ongoing at the time of writing this report. We have not identified any issues in respect of management override of controls to date.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of property, plant and equipment

The Council revalue land and buildings on a rolling five-yearly 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 valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- communicated with the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested revaluations made during the year to see if they had been 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 at year end.

Our audit work to address this risk is still ongoing at the time of writing this report. We have not identified any issues in respect of valuations of the Council's property to date.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

4

### Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£66 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- considered the Council's response to the national pensions accounting issue caused by the 'McCloud judgement'.

As a result of our work, the Council requested that the actuary give consideration to the liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud), which due to the prevailing legal uncertainty at the time of preparing the draft financial statements, and the need to produce these by 31 May 2019, were not taken into account in the first actuarial valuation. This resulted in increases in gross pension liabilities of £334k and £280k respectively.

The revised valuation also used the actual rate of return on the pension fund's assets for the year, which differed from the estimated rate provided by the Pension Fund to the actuary. This resulted in a reduction in gross pension assets of £1,375k.

The financial statements have been amended for these issues. See page 19 for further detail.

At the time of writing this report our audit work in this area is ongoing. We have not identified any other issues in respect of valuation of the Council's net pension liability to date.

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<p><b>Net pension liability</b></p> <p>Draft: £66.0m</p> <p>Final: £67.4m</p>	<p>The Council's net pension liability at 31 March 2019 is £67.4m (PY £58.9m) comprising obligations under the Surrey Pension Fund Local Government pension scheme.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from the schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.</li> <li>We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Pension Fund valuation:</li> </ul> <table border="1" data-bbox="1094 425 1798 772"> <thead> <tr> <th>Assumption</th> <th>Actuary's Value</th> <th>PwC's expected range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4% - 2.5%</td> <td>Green</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4% - 2.5%</td> <td>Green</td> </tr> <tr> <td>Salary growth</td> <td>2.8%</td> <td>scheme-specific</td> <td>Green</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.1 22.5</td> <td>23.7 – 24.4 21.5 – 22.8</td> <td>Green</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.4 24.6</td> <td>26.2 – 26.9 24.1 – 25.1</td> <td>Green</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.</li> <li>We have confirmed that the Council's share of the pension scheme assets is in line with expectations.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>A material adjustment has been made to the financial statements as a result of the use of an estimated rate that differed to the actual rate of return on the pension fund's assets and the omission of liabilities due to the prevailing legal uncertainty (see page 19).</li> </ul>	Assumption	Actuary's Value	PwC's expected range	Assessment	Discount rate	2.4%	2.4% - 2.5%	Green	Pension increase rate	2.5%	2.4% - 2.5%	Green	Salary growth	2.8%	scheme-specific	Green	Life expectancy – Males currently aged 45 / 65	24.1 22.5	23.7 – 24.4 21.5 – 22.8	Green	Life expectancy – Females currently aged 45 / 65	26.4 24.6	26.2 – 26.9 24.1 – 25.1	Green	<p style="text-align: center;"></p> <p style="text-align: center;"><b>Amber</b></p>
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**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Valuation of Land and Buildings</b> £89.7m	<p>The Council has engaged their Valuer to complete the valuation of its properties. Approximately 50% of the Council's non-dwelling assets were subject to a full, formal valuation process at the balance sheet date, with the remaining assets valued over the course of the preceding 3 financial years.</p> <p>The valuation of the Council's land and building portfolio has resulted in a net increase of £1.7m.</p> <p>The total year end valuation of land and buildings was £89.7m, a net increase of £4.1m from 2017/18 (£85.6m).</p>	<ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We consider the movements in the valuations assets and their consistency with relevant indices. This work is ongoing at the time of writing this report.</li> </ul>	 <b>Green</b> <b>(TBC)</b>
<b>Valuation of Council Dwellings</b> £418.2m	<p>The Council owns a number of dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The valuation of the Council's dwellings portfolio has resulted in a net increase of £7.5m.</p> <p>The total year end valuation of land and buildings (including dwellings) was £418.2m, a net increase of £14.3m from 2017/18 (£403.9m).</p>	<ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We have considered the movements in the valuations of assets and their consistency with relevant indices. This work has not raised any issues with the 2018/19 valuations.</li> </ul>	 <b>Green</b> <b>(TBC)</b>

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Valuation of Investment Properties</b> £26.5m	<p>The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March.</p> <p>The Council has engaged their Valuer to complete the valuation of these properties. The year end valuation of the Council's investment property was £26.5m, a net increase of £0.4m from 2017/18 (£26.1m).</p>	<ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We consider the appropriateness of the classification of the Council's investment properties. This work is ongoing at the time of writing this report.</li> </ul>	 <b>Green</b> <b>(TBC)</b>
<b>Other accruals and estimates</b>	<p>The Council continues to apply estimates and judgements in a number of areas, such as accruals of income and expenditure.</p>	<ul style="list-style-type: none"> <li>The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting.</li> <li>Disclosure of the estimates in the financial statements is considered adequate.</li> <li>As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail.</li> <li>Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.</li> </ul>	 <b>Green</b>

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Going concern

## Our responsibility

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).

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## Going concern commentary

### Management’s assessment process

Management’s assessment is that there is no reason to consider the Council is at risk of not being a going concern.

## Auditor commentary

We have gained assurance that management’s use of the going concern basis of accounting is reasonable and appropriate. Management’s forward planning process is thorough and transparent.

This determination is made by personnel who are sufficiently senior and experienced.

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## Work performed

We have:

- held discussions with officers throughout the year; and
- reviewed the Council’s financial statements and forward planning.

The Council’s financial forecasts show that it has sufficient assets available to meet its liabilities for the foreseeable future.

We have considered these forecasts, and the Council’s past performance against its budgets, and have no concerns over the Council’s financial plans.

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## Concluding comments

We intend to issue an opinion that is not modified in respect of Going Concern.

No events or conditions have been identified in the course of our audit that cast doubt on the entity’s ability to continue as a going concern.

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# 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 <b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
② <b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
③ <b>Matters in relation to laws and regulations</b>	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 <b>Written representations</b>	A standard letter of representation has been requested from the Council, which is included in the Committee papers.
⑤ <b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. Where responses were not received, we undertook alternative procedures to confirm balances with no issues noted.
⑥ <b>Disclosures</b>	Our review found no material omissions in the financial statements.
⑦ <b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided.

# Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, and the 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 unmodified opinion in this respect.</p>
② <b>Matters on which we report by exception</b>	<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"> <li>• 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</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are 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.</p> <p>This work is not required as the Council does not exceed the threshold.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Waverley Borough Council in the audit opinion.</p>

# Value for Money

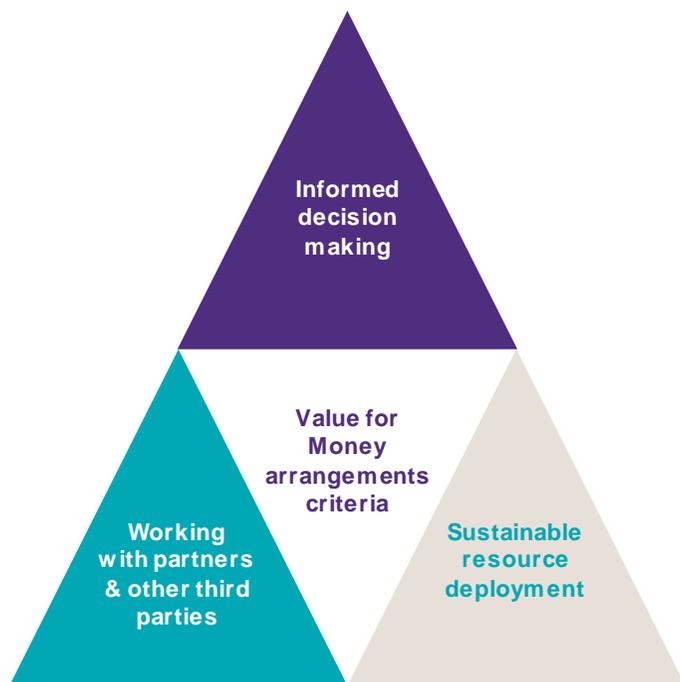
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below :



## Risk assessment

We carried out an initial risk assessment in January 2019 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan in March.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We are in the process of carrying out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determines that arrangements are not operating effectively, we will use the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we report in our VFM conclusion.

# 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 risk that we identified in the Council's arrangements.

We have set out more detail on the risk we identified, the results of the work we performed, and the conclusions we drew from this work on the next page.

## **Overall conclusion**

Our work to assess the Council's arrangements for securing value for money is ongoing at the time of writing this report.

We will update the Committee on our findings.

## **Recommendations for improvement**

We will discuss findings arising from our work, if any, with management and will agree any recommendations for improvement, which will be reported to the Audit Committee when we meet on 22 July 2019.

## **Significant difficulties in undertaking our work**

We will report if we identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## **Significant matters discussed with management**

We will also inform you of any matters where no other evidence was available or matters of such significance to our conclusion or that we require written representation from management or those charged with governance.

## 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	Findings	Conclusion
<p><b>Financial position</b></p> <p>The Council set a challenging General Fund budget for 2018/19, and at the time of our risk assessment were on track for breakeven against planned levels of income and expenditure. A balanced budget for 2019/20 was proposed and approved in February 2019. This budget includes an anticipated 2.99% increase in Council tax and has been set in the context of the Council's Medium Term Financial Plan (MTFP).</p> <p>The 2019/20-2021/22 MTFP sets out an estimated medium-term budget shortfall over the next three years. This shortfall has an estimated total value of £3.8m by 2022/23, equal to 36% of total net service cost.</p>	<p>The Council plans to meet the shortfall in the MTFP through increasing Council Tax, pursuing savings plans, and growing alternative revenue streams to replace historical sources of income.</p> <p>We have updated our understanding of the Council's medium term financial strategy, and reviewed the supporting information and assumptions.</p>	<p>Our work to assess the Council's arrangements for securing value for money is ongoing at the time of writing this report.</p> <p>We will update the Committee on our findings.</p>

# 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). In this context, we disclose the following to you:

- On 2 May 2019 John Ward was elected to Waverley Borough Council, and subsequently appointed Leader of the Council. John's son is a Senior Manager within Grant Thornton's Public Sector audit department based in London. We have mitigated the threat that this creates by replacing the leadership and management of audit team with staff from other Grant Thornton offices.

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 C.

## 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, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits claim	10,500	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 £10,500 in comparison to the total fee for the audit of £41,494 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 Pooling of Housing Capital Receipts	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 £41,494 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
Independent Examinations of 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 £41,494 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

## Non-audit related

No non-audit related services identified.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

We will confirm our final audit fees at a later date. At this stage we have identified a fee variation with regard to our work relating to the McCloud judgement, and may need to consider levying additional fees for other unplanned work that we have had to carry out this year.

# Follow up of prior year recommendations

We identified the following recommendation as a result of the audit of the Council's 2017/18 financial statements.

**Assessment**  
 ✓ Action completed  
 X Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p><b>Overstatement of sundry debtor balance</b></p> <p>Our work in 2017/18 identified £512k of debtors which were over 12 months old, and in some cases had been outstanding for several years. Management carried out an initial review of these balances and identified £232k where no clear payment plan exists suggesting some uncertainty relating to its recovery.</p>	<p>The Council have completed the following:</p> <ul style="list-style-type: none"> <li>• Comprehensive review of all debt balances;</li> <li>• Adoption of a new Income and Debt Collection Policy;</li> <li>• Established a Debt working group;</li> <li>• Development of debt reporting from the finance system; and</li> <li>• Assigned temporary resource to address debt recovery in Housing, Revenues and Sundry Debt.</li> </ul>
2 ✓	<p><b>Related party transactions</b></p> <p>All members and Senior Officers must ensure that signed related party 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>This issue has been addressed during the year, and an improved procedure has been implemented.</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 ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
<b>Actuarial Valuations</b>		
As discussed on page 7, our work identified adjustments to the Council's net pension liability as at 31 March 2019.		
As a result of our work, the Council requested that the actuary give consideration to the liability arising as a result of changes relating to guaranteed minimum pensions (GMP) and a legal ruling around age discrimination (McCloud), which due to the prevailing legal uncertainty at the time of preparing the draft financial statements, and the need to produce these by 31 May 2019, were not taken into account in the first actuarial valuation. This resulted in increases in gross pension liabilities of £334k and £280k respectively.		
The revised valuation also used the actual rate of return on the pension fund's assets for the year, which differed from the estimated rate provided by the Pension Fund to the actuary. This resulted in a reduction in gross pension assets of £1,375k.		
The following adjustment has therefore been made to the financial statements:		
Dr Past Service Costs (Cost of Services)	614k	
Dr Interest on Defined Benefit Obligation	8k	
Cr Gross Pension Liability		(622k)
Dr Return on Plan Assets (re-measurement of the net defined benefit liability)	1,375k	
Cr Gross Pension Assets		(1,375k)
These additional costs are adjusted through the Movement on Reserves Statement, and have no impact on the Council's General Fund balance.		
<b>Total Adjustment</b>	<b>1,997k</b>	<b>(1,997k)</b>

At the time of writing our report, we have not identified any misstatements that the Council has decided not to adjust. We will update the committee on any subsequent findings.

# Fees

We set out below our fees for the audit and provision of non-audit services.

<b>Audit Fees</b>	<b>Proposed fee £</b>	<b>Final fee £</b>
Council Audit	41,494	TBC

We will confirm our final fees at a later date. At this stage we have identified a fee variation with regard to our work relating to the McCloud judgement, and may need to consider levying additional fees for other unplanned work that we have had to carry out this year.

<b>Fees for other services</b>	<b>Fees £</b>
Certification of Housing Benefits claim	10,500
Certification of Pooling of Housing Capital Receipts	2,800
Independent Examinations of Shottermill Recreation Ground Trust & Bequest of Joseph Ewart	4,000



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