



The Annual Audit Letter for Waverley Borough Council

Year ended 31 March 2019

30 August 2019



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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 2019.

This Letter is intended to provide a commentary on the results of our work to the Council's 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 22 July 2019.

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.

Our work

Materiality We determined materiality for the audit to be £1,795k for the Council's financial statements, and £1,800k for the group financial statements. This is 2% of the Council's and group's gross revenue expenditure.

Financial Statements opinion We gave an unqualified opinion on the group's financial statements on 31 July 2019.

Whole of Government Accounts (WGA) We completed work on the Council's consolidation return following guidance issued by the NAO.

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

Executive Summary

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 31 July 2019.
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 November 2019. We will report the results of this work to the Audit Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Waverley Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

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

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

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 group financial statements to be £1,800,000, which is 2% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £1,795,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and 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 financial statements, narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report 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 was based on a thorough understanding of the group'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 Financial Statements

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>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>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.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> 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. 	<p>We did not identify any issues in respect of management override of controls.</p>
<p>Valuation of property, plant and equipment</p> <p>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.</p> <p>This represents a significant estimate by management in the financial statements.</p> <p>We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work to review valuations that were performed in 2018/19 identified issues relating to the valuation of the Council's Leisure Centres.</p> <p>We also proposed a material adjustment to the Council's HRA dwellings valuation as a result of an issue noted in the approach that the Council takes to its desktop valuations.</p> <p>We did not identify any other issues in respect of valuations of the Council's property.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>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.</p> <p>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.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk.</p>	<p>As part of our audit work we have;</p> <ul style="list-style-type: none"> • 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'. 	<p>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.</p> <p>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.</p> <p>We did not identify any other issues in respect of valuation of the Council's net pension liability.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 22 July 2019, including the required pensions adjustment. We agreed a further material amendment to the accounts with management after the date of the Committee, that was agreed by the Committee chair, acting under delegation from the Committee, on 31 July 2019.

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 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.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold on 31 July 2019.

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 certified that we have completed the audit of the financial statements 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 risks where we concentrated our work.

The risks 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 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial Position</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 updated our understanding of the Council's medium term financial strategy, and reviewed supporting information, including the Council's Property Investment Strategy, Commercial Strategy and Business Transformation Plan Overview. We are satisfied that work is in train to develop savings and find additional incomes.</p>	<p>Our work to assess the Council's arrangements for securing value for money did not note any weaknesses.</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 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual £	2017/18 £
Statutory audit	41,494	48,694*	53,888
Housing Benefit Grant Certification	10,500	TBC	15,557
Total fees	51,994	TBC	69,445

*Details of proposed variations to our audit fee are set out over the page.

Our fees for the certification of the Council's Housing Benefit grant will be confirmed following the completion of our work.

Fees for non-audit services

Service	Fees £
Audit related services	Nil
Non-Audit related services	
- Certification of Pooling of Housing Capital Receipts	2,800
- Independent Examinations of Shottermill Recreation Ground Trust & the Bequest of Joseph Ewart	4,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. 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 group's auditor and have ensured that appropriate safeguards are put in place.

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

A. Reports issued and fees

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £41,494 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,600
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage of our work undertaken in respect of IAS 19 this year to reflect this.	1,600
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this. As part of our audit, we also identified an historic material error relating to the valuation of the Council's HRA Dwellings, which required further work to audit and to check and agree with management.	4,000
Total proposed fee variation		7,200

Fee variations are subject to PSAA approval.



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