

The Audit Plan for Waverley Borough Council

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.

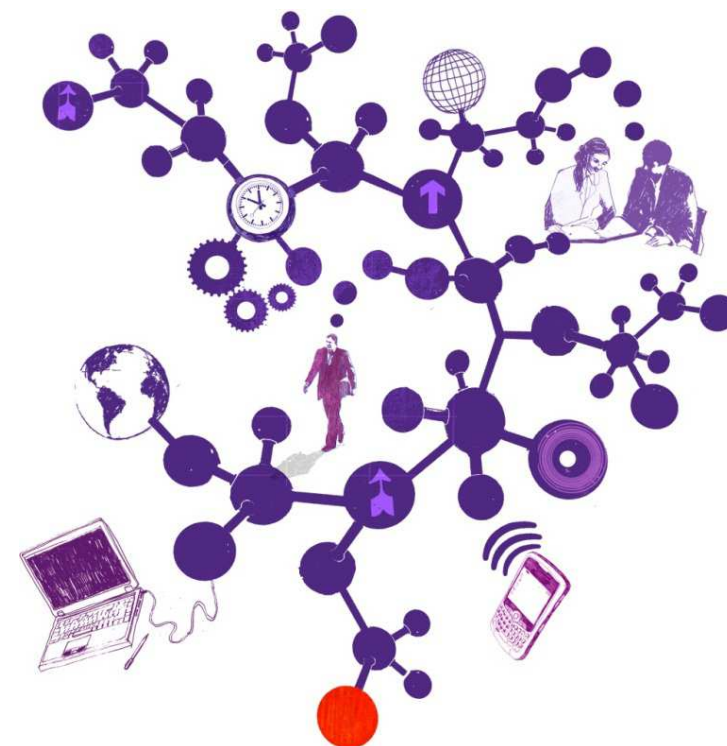
Year ended 31 March 2015

March 2015

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Local Plan

- Your existing local plan was last formally updated in 2001, and is in the process of a required refresh.
- You have recently consulted on the preferred options for housing in the Borough.
- Your local plan will play a key part in decisions about how you develop your local area and communities and you plan to consult on a draft plan later in 2015.

2. Brightwells development

- The Brightwells Development remains a key part of the economic development for the Farnham area.
- The planning permission deadline and the recent up turn in the economy mean that further progress in relation to this development is likely in 2015.
- You are aware of the need to be strike a balance between expedience and the desirability of progress versus proper process and securing value for money for local residents.

3. LG Finance Settlement and financial sustainability

- The local government spending settlement presented local authorities with an average reduction in their spending power of 6% for 2015-16.
- You are aware that revenue support grant (RSG) will form a diminishing element of your revenues over the medium term. Your aspiration in the face of this challenge is become self-sufficient by 2018.
- To achieve this goal you have identified an indicative funding gap of £3.2m to be bridged by 2018.
- You continue to develop savings and invest to save schemes to address this gap.

4. Housing

- The provision of sufficient and affordable housing within the Borough is a key priority for you.
- You have been considering a number of potential schemes, investments and partnerships on a range of different sites to address this.

Our response

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing advice and support where appropriate.

- We will review the current progress of the development throughout the year via discussions with key officers and review of relevant reports. This will help support our work on our Value for Money Conclusion.

- We will review performance throughout the year through discussions with key officers and consideration of your regular financial monitoring reports.
- We will review your Medium Term Financial Plan and financial strategy as part of our work on your arrangements for financial resilience.

- We will continue to discuss your priorities through our regular engagement with officers and members.
- We will consider your plans and priorities through our value for money conclusion work.
- We will consider the accounting treatment of your developments through our financial statements work.

2. Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10,11 and 12)

2. Legislation

- Local Government Finance settlement

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

5. Other requirements

- You are required to submit a Whole of Government accounts pack on which we provide an audit opinion
- You complete grant claims and returns on which audit certification is required

Our response

We will ensure that

- You comply with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing,
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly.

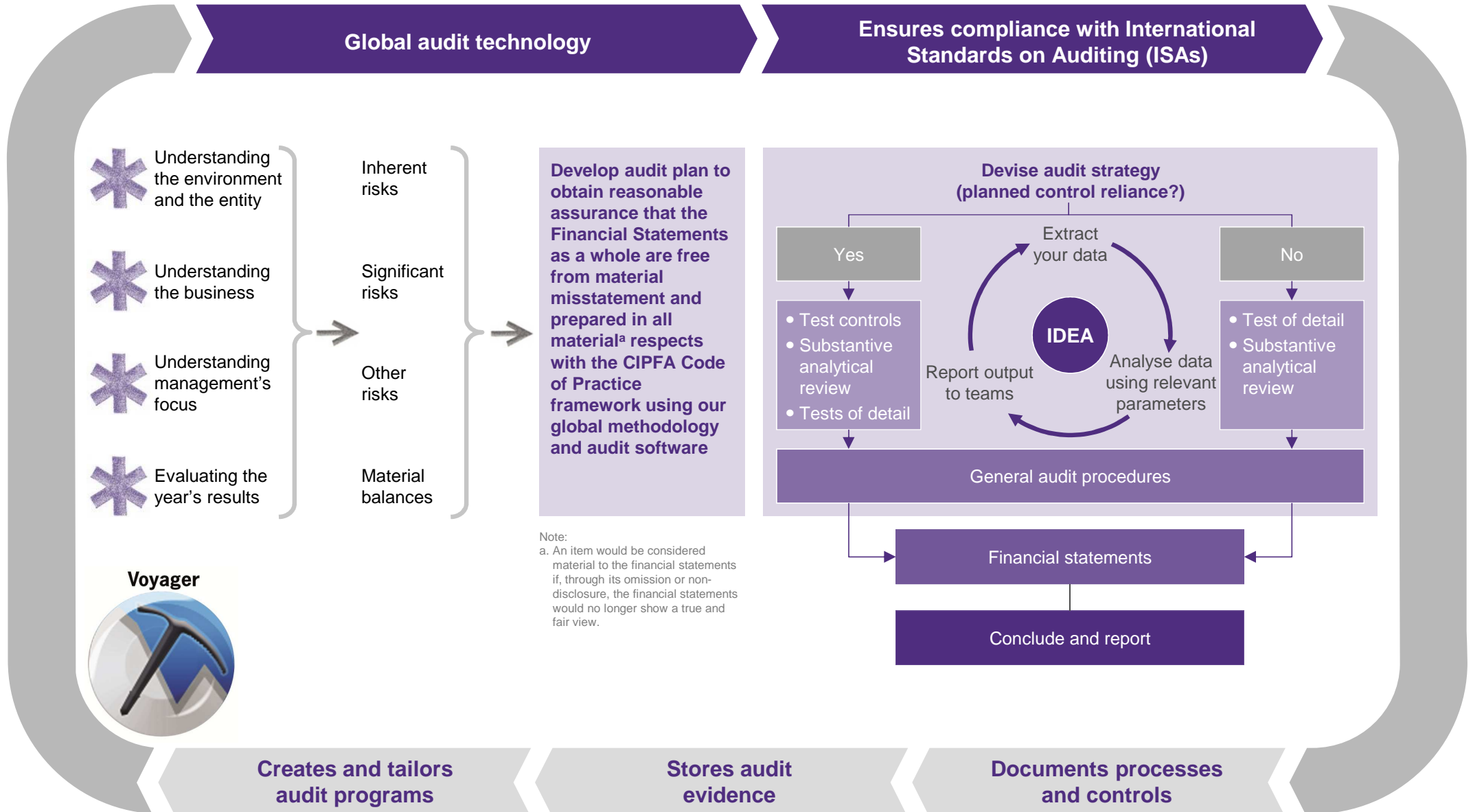
- We will discuss the impact of the legislative changes with you through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will review the arrangements you have in place for the production of the AGS.
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will review your performance against the 2014/15 budget, including consideration of performance against the savings plan.
- We will undertake a review of Financial Resilience as part of our VfM conclusion.

- We will carry out work on the WGA pack in accordance with requirements.
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

3. Our audit approach



4. Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 this Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for months 1-8 • Review of unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for months 9-12, including year end manual adjustment journals • Review of unusual significant transactions

5. Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of operating expenses system, updating our understanding • Substantive testing of months 1-8 expenditure <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of months 9-12 expenditure • Testing of creditor payments, including accruals, for completeness, classification and occurrence • Review of control account reconciliations • Cut-off testing • Review of allocating/apportioning expenses to meet the requirements of the Service Reporting Code of Practice
Employee remuneration	Employee remuneration accruals understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of payroll system, updating our understanding • Substantive testing of months 1-8 payroll records <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of months 9-12 payroll records • Review of reconciliation of payroll to the general ledger • Trend analysis of employee remuneration expenses

6. Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Shottermill Recreation Ground and Swimming Pool	No	Targeted	<ul style="list-style-type: none">Plant, property and equipment (PPE) revaluation measures not correctRecorded cash at bank not valid	<ul style="list-style-type: none">Review PPE balancesAgree cash balances to external confirmations
Ewart Bequest	No	Targeted	<ul style="list-style-type: none">Recorded cash at bank not valid	<ul style="list-style-type: none">Agree cash balances to external confirmations

7. Value for money

Value for money

The Code requires us to issue a conclusion on whether you have put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- a review of your current financial performance and longer term planning
- the process used to identify and evaluate potential financial savings in order to achieve those longer term targets
- the latest plans for the Brightwells development, including plans to increase affordable housing in the area
- progress made on updating your Local Plan
- reviewing progress made against the VfM recommendations included in last year's Audit Findings Report

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

8. Results of interim audit work

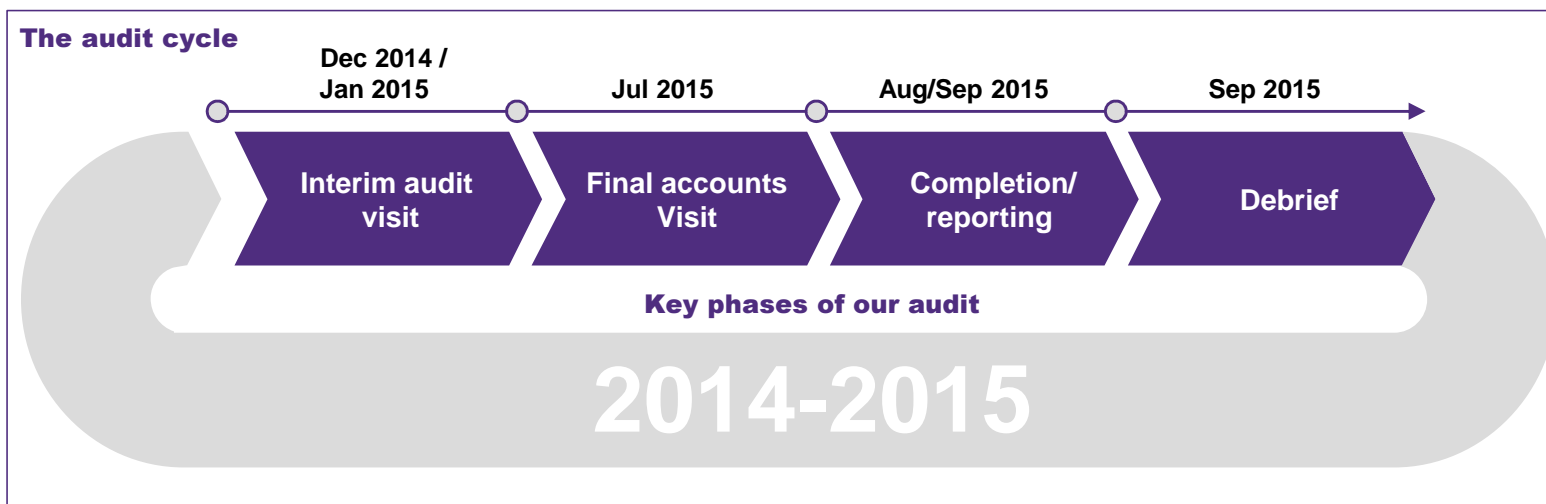
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Findings and conclusions
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on your key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p>	<p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p> <p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on your financial statements.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have also performed a follow up of the issues that were raised last year.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on your financial statements.</p>
Journal entry controls	<p>We have reviewed your journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on your control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first eight months of the financial year, by extracting 'unusual' entries for further review.</p>	<p>Our work to date has identified no material weaknesses which are likely to adversely impact on your financial statements.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for months 9-12, including year end manual adjustment journals • Review of unusual significant transactions
Early substantive testing	<p>To date we have undertaken detailed testing on operating expenditure and payroll transactions recorded for the first eight months of the financial year. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our work to date has identified no material weaknesses which are likely to adversely impact on your financial statements.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of months 9-12 expenditure • Substantive testing of months 9-12 payroll records
Value for money	<p>We have completed our Initial Risk Assessment to identify areas of risk over our Value for Money conclusion. The main risks identified were:</p> <ul style="list-style-type: none"> - Achievement of the 2015-16 Budget - Setting an achievable Medium Term Financial Plan over the next four years - Progressing the Brightwells development; and - Bringing the Council's Local Plan up to date. 	<p>Our work so far has identified some areas of focus for our Value for Money conclusion. Further work will be performed on these areas over the coming months to enable us to form an overall conclusion later in the year.</p>

9. Key dates



Date	Activity
December 2014	Planning
December 2014 / January 2015	Interim site visit
23 March 2015	Presentation of audit plan to Audit Committee
July 2015	Year end fieldwork
8 September	Audit findings clearance meeting with Executive Director and Director of Finance and Resources
15 September 2015	Report audit findings to those charged with governance (Audit Committee)
By 30 September	Sign financial statements opinion and value for money conclusion

10. Fees and independence

Fees

	£
Council audit	71,851
Grant certification	13,240
Total fees (excluding VAT)	85,091

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

11. Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A - Discussions with those charged with governance – letter to Audit Committee Chair

Chair of Audit Committee
Cllr Richard Gates
Waverley Borough Council
The Bury
Godalming
Surrey
GU7 1HR

18 March 2015

Dear Richard

Financial statements for the year ended 31 March 2015 - Understanding how the Audit Committee gains assurance from management

To comply with International Auditing Standards, we need to establish an understanding of how the Governing Body gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chairman of the Audit Committee with your responses to questions appended to this letter.

Please could you provide a response by Thursday 30 April 2015 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

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Discussions with those charged with governance – letter to Audit Committee Chair (continued)

Item	Description	Comment
a	Have you assessed the risk of material misstatement in the financial statements due to fraud?	
b	What are the results of this process?	
c	What processes do you have in place to identify and respond to the risks of fraud?	
d	Have any specific fraud risks, or areas with a high risk of fraud, been identified, and what has been done to mitigate these risks?	
e	Are internal controls, including segregation of duties, in place and operating effectively?	
f	If not, where are the risk areas and what mitigating actions have been taken?	
g	Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example, because of undue pressure to achieve financial targets)?	
h	Are there any areas where there is a potential for misreporting?	
i	How do you exercise oversight over management's processes for identifying and responding to risks of fraud?	
j	What arrangements are in place to report fraud issues and risks to the Audit Committee?	
k	How do you communicate and encourage ethical behaviour of staff and contractors?	
l	How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	
m	Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
n	Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole or within specific departments since 1 April 2014?	
o	What arrangements do you have in place to prevent and detect non-compliance with laws and regulations?	
p	How does management gain assurance that all relevant laws and regulations have been complied with?	
q	How are you provided with assurance that all relevant laws and regulations have been complied with?	
r	Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2014?	
s	What arrangements do you have in place to identify, evaluate and account for litigation or claims?	
t	Are there any actual or potential litigation or claims that would affect the financial statements?	
u	Have there been any reports from other regulatory bodies, such as HMRC, which indicate non-compliance?	



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