



The Audit Findings for Waverley Borough Council

Year ended 31 March 2020

26 November 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key 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 2020 for those charged with governance.

<p>Financial Statements</p>	<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"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on remotely during July-November. Our findings are summarised on pages 5 to 16. We have identified a number of adjustments to the financial statements that have resulted in an overall adjustment of £9.5m to the Council's surplus/deficit on the provision of services in the Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no outstanding matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following matters;</p> <ul style="list-style-type: none"> • completion of our internal quality review process • receipt of management representation letter; and • review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unmodified including an Emphasis of Matter paragraph, highlighting the material uncertainty of the valuation of land and buildings and of the Council's share of Surrey Pension Fund's pooled property and private equity investments.</p>
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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 2020 for those charged with governance.

Value for Money arrangements	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>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Waverley Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 20.</p>
Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to initiate remote access working arrangements including the remote accessing of financial systems, the provision of working papers electronically by secure means, the use of video and telephone conferencing arrangements and using virtual technology to observe the download of data and other information to ensure its completeness and accuracy for testing.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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.

We have revised the materiality levels that was reported in our audit plan due to the lower gross revenue expenditure in the draft 2019/20 financial statements.

	Group Amount (£)	Council Amount (£)
Planning materiality (per the Audit Plan)	1,911k	1,905k
Materiality for the financial statements	1,832k	1,782k
Trivial matters	91k	89k

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 had to alter our audit plan, as communicated to you in our Audit Plan Addendum in April 2020, to reflect our response to the Covid-19 pandemic which we identified as an additional financial statements significant risk.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries on page 3 being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on **30 November 2020**, as detailed in Appendix E. **We will issue our opinion shortly after the 30 November due to the need to convene a further Audit Committee meeting to consider new matters reported in this revised Audit Findings Report. This means that the Council will not be able to publish its audited accounts by the publication date set out in the Account and Audit Regulations 2015 and will need to publish a statement explaining this on 30 November 2020.**

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

As part of our audit work we:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported in respect of Covid-19, although it was reduced to reflect the lower gross revenue expenditure of the Council. The draft financial statements were provided on 17 July 2020;
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment;
- discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.

Management produced the draft financial statements and working papers in line with the agreed timetable ahead of the audit commencing. This is a significant achievement with all of the Council's staff working remotely, although our audit did identify improvements that could be made to the Council's arrangements for supporting the audit. We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the Council.

We did not identify any implications for our audit report resulting from Covid-19, however our report includes standard reference to the macroeconomic conditions arising from Brexit and Covid-19.

Significant audit risks

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions (rebutted)

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.

Auditor commentary

The assessment in our audit plan to rebut the presumed risk of improper revenue recognition remains appropriate. We have rebutted this presumed risk for the Council because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Waverley Borough Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the Council.

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. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

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.

As part of our audit work we:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined 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
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work on journals has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Valuation of land and buildings (Rolling revaluation)

The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£512 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

As part of our audit work we:

- 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
- discussed with the valuer 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 of the Council's valuer's report and the assumptions that underpin the valuation.
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register
- 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 work identified the following issues:

- **Indexation had not been applied to the council dwellings for the 2019/20 year. We challenged the valuer on the rationale and the supporting evidence supporting the decision, which was not in line with previous practice. The Council has now decided to apply indexation to the value of its council dwellings, which is a material adjustment.**
- **The Council's leisure centres had been revalued downwards by the valuer, in consultation with the Council's engineer, due to changes in the judgements made in respect of overall asset lives and remaining useful economic lives (UEL) in 2019/20. When these judgements were challenged by the audit team, management and the valuer have revisited the valuations and underlying assumptions. This led to a material adjustment to the accounts.**
- **Our testing of the floor area source data used for the valuation of Haslemere Leisure Centre identified a discrepancy in the calculation. Using the floor area that was evidenced resulted in a difference of £331k. This is shown as an unadjusted item in Appendix C.**
- **Management provided a description of the logic and process of how they had considered the year end value of properties that have not been valued, and their reasonableness. They were however unable to provide supporting evidence or figures to demonstrate the potential change in valuation of these properties. Therefore we carried out our own procedures, applying indices to the assets not revalued. Our work identified a variance of £955k from our expectation, thereby providing assurance that the value of properties not revalued in the year were not materially different from the current value at year end.**
- **A member of the finance team on secondment from finance was closely involved in the decision making process of the internal valuer. Whilst clear separation of roles can be difficult for relatively small councils, in future greater demarcation of these respective roles should be put in place, as the valuation expert should be objective and separate from the preparation of the financial statements.**

Management are required to ensure that they have the assurance that they require that the accounts are free from material misstatement. This would include assurances over the work of management's experts, including the valuer and the actuary. This is the second successive year where there has been material adjustments to PPE valuations.

We will be including an emphasis of matter paragraph in our audit opinion in respect of the material uncertainty in the internal valuer's report.

Significant audit risks

Risks identified in our Audit Plan

Valuation of the 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 and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£68 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, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

As part of our audit work we:

- 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;
- undertook 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
- obtained assurances from the auditor of Surrey Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our work identified that the pension liability in the financial statements and the figure in the actuary's IAS19 report differ by £586k, which is due to the Council reflecting actual cumulative payments to the fund of £102,186, as opposed to £102,772k per the actuary's report. This difference however cannot be estimated with certainty by the Council, who have agreed to adjust this in the 2020/21 accounts. The uncertainty, which is not material, is therefore shown as an unadjusted item in Appendix C.

We will be including an emphasis of matter paragraph in our audit opinion in respect of the material uncertainty in Surrey Pension Fund's valuation reports for pooled property and private equity investments.

Other findings

Risks identified in our Audit Plan


IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.





Auditor commentary

The Council complied with the requirement of IAS 8 para 31 by disclosing the title of the standard and the date of the initial application. However, the draft accounts do not include any disclosure of the potential impact on the Council.


Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<p>Land and Buildings – Council Housing</p> <p>Draft: £421.6m</p> <p>Final: £429.8m</p>	<p>The Council owns a number of dwellings and is required to revalue these properties in accordance with DCLG'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. The Council has engaged its internal valuer to complete the valuation of these properties.</p> <p>As the dwellings are valued as at 1 April the Council then applies an appropriate indexation to reflect movements in value to 31 March.</p> <p>The year end valuation of Council Housing was £429.8m, a net increase of £7.4m from 2018/19 (£422.4m), following indexation being applied as part of the audit adjustments.</p>	<ul style="list-style-type: none"> Local authority valuations are increasingly important given the significance of the amounts involved in the context of our overall materiality. Because of this we are taking a more challenging approach to the audit and many councils are finding that they need to strengthen their valuation arrangements in response. This is what we have found at Waverley, where the current in-house valuer is new to role. There have been no changes to the valuation method this year. Disclosure of the estimate in the financial statements is considered adequate No issues have been noted through our consideration of the completeness and accuracy of the underlying information used to determine the estimate We have considered the movements in the valuations of assets, which identified that no indexation had been applied to the dwellings for the 2019/20 year. We challenged the valuer on the rationale and the supporting evidence supporting the decision, which was not in line with previous practice. The Council has now decided to apply indexation to the value of its council dwellings, which is a material adjustment. Management need to ensure that they have assurance over the work of their experts, including the valuer. This should include review and challenge of the valuer's work as appropriate. The valuation expert should be objective and separate from the preparation of the financial statements. Our audit identified evidence that a member of the finance team on secondment from finance appeared to involved in the decision making process of the internal valuer. 	 Red





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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other £80.1m	<p>Other land and buildings comprises £21.3m of specialised assets such as leisure centre, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£58.8m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its internal valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 32% of total assets were revalued during 2019/20.</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 3.</p>	<ul style="list-style-type: none"> Local authority valuations are increasingly important given the significance of the amounts involved in the context of our overall materiality. Because of this we are taking a more challenging approach to the audit and many councils are finding that they need to strengthen their valuation arrangements in response. This is what we have found at Waverley, where the current in-house valuer is new to role. There have been no changes to the valuation method this year. Disclosure of the estimate in the financial statements is considered adequate. Management need to ensure that they have assurance over the work of their experts, including the valuer. This should include review and challenge of the valuer's work as appropriate. The valuation expert should be objective and separate from the preparation of the financial statements. Our audit identified evidence that a member of the finance team on secondment from finance appeared to involved in the decision making process of the internal valuer. Leisure centres were revalued downwards due to changes in the judgements made in respect of overall asset lives and remaining useful economic lives (UJEL) in the 2019/20 valuations. When these judgements were challenged by the audit team, management and the valuer have revisited the valuations and underlying assumptions. This led to a material adjustment to the accounts. Management provided a description of the logic and process of how they had considered the year end value of properties that have not been valued, and their reasonableness. They were however unable to provide supporting evidence or figures to demonstrate the potential change in valuation of these properties. Therefore we carried out our own procedures to gain assurance that the values of properties not revalued in the year were not materially misstated. 	 Red

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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
Net pension liability £66.2m	<p>The Council's net pension liability at 31 March 2020 is £66.2m (PY £68m) comprising the obligations under the Surrey Pension Fund Local Government pension scheme. The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £5.3m net actuarial gain during 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> Assessed management's expert Assessed the actuary's roll forward approach taken and deemed it reasonable Used PwC as our auditors expert to assess the actuary and assumptions made by the actuary <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8% - 2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.8%</td> <td>Values are in line with PwC report</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.1 22.9</td> <td>20.5 - 22.2 21.6 - 23.3</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.3 25.7</td> <td>22.9 - 24.3 24.6 - 26.3</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Confirmed the completeness and accuracy of the underlying information used to determine the estimate Confirmed that there have been no changes to the valuation method Confirmed the reasonableness of the Council's share of LGPS pension assets. Confirmed the consistency of the pension fund assets and liability disclosures in notes to the financial statements with the actuarial report from the actuary <p>There were no issues arising from our work in respect of assessing the assumptions used by the actuary, considering the work of our auditor's expert PwC.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	●	Pension increase rate	1.9%	1.8% - 2%	●	Salary growth	2.8%	Values are in line with PwC report	●	Life expectancy – Males currently aged 45 / 65	22.1 22.9	20.5 - 22.2 21.6 - 23.3	●	Life expectancy – Females currently aged 45 / 65	24.3 25.7	22.9 - 24.3 24.6 - 26.3	●	 Green
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.3%	2.3%	●																								
Pension increase rate	1.9%	1.8% - 2%	●																								
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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 – 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).

Going concern commentary

Management's assessment process

- Management's assessment is based on the public sector interpretation of going concern as the continuation of the provision of services to support the preparation of the accounts on a going concern basis.

Auditor commentary

The going concern assessment was completed by the Strategic Director (s.151 officer). We consider that management's arrangements for considering going concern are adequate.

We concur with management's assessment that the Council is a going concern with no material uncertainties that would require disclosure.

Work performed

- We reviewed management's assessment of going concern provided to us, in conjunction with our knowledge and understanding of the Council.
- We reviewed the Council's medium term financial planning documents, and considered the impact of Covid-19.

We considered management's assessment and also considered the potential impact of Covid-19 on the Going Concern assumption. The Council had to set a Contingency Revised Budget in order to address a £6.6m shortfall in 2020/21 due to Covid-19. This was achieved with the use of reserves and budget savings and the Council is reviewing its Medium Term Financial Plan in the coming months.

We did not identify any material uncertainties that would require additional disclosure. However, we did identify that the Council has not made any reference to the financial statements being prepared on a going concern basis.

Concluding comments

- No issues identified.

We did not identify any issues with the Council's use of the going concern assumption, with the exception of this not being disclosed in the draft financial statements. This has been corrected in the amended set of accounts. Our proposed audit opinion will be unmodified in respect of going concern.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not currently aware of any related parties or related party transactions which have not been disclosed. However our work in this area is in progress currently.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's counterparties. This permission was granted and the requests were sent, with positive confirmations received for all.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The draft financial statements and working papers were provided in line with the timetable agreed in advance of the audit. However there have been a number of delays in some areas during the audit where there were difficulties in the provision of detailed population breakdowns for some areas and in the subsequent sample evidence. HRA debtors and PPE revaluations were particular areas where we have encountered delays.

Other responsibilities under the Code

Issue	Commentary
Other information	<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 Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We did identify some areas where the Narrative Report could be enhanced and this is summarised in the Action Plan at Appendix A.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – please see our proposed opinion at Appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<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>Work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Waverley Borough Council in the audit report, as detailed in Appendix E.</p>

Value for Money

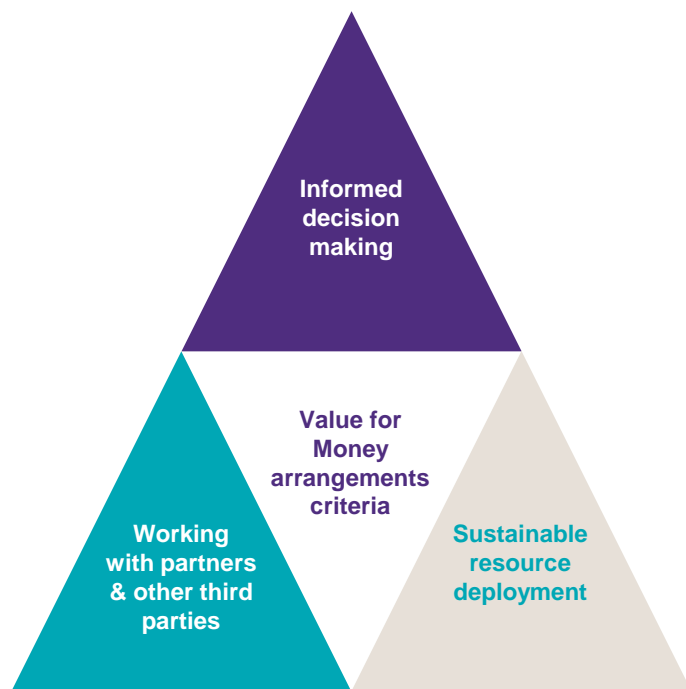
Background to our VFM approach

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 April 2020. 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 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2020.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan:

We have not identified any new VfM risks in relation to Covid-19. We do not consider Covid-19 to be a significant risk given the date of the pandemic.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported 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 risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 and 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

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

Financial Sustainability

The Council has set a balanced budget for 2020/21, which includes a challenging savings target of £1.9m. The Medium Term Financial Plan shows a cumulative projected budget shortfall of £5.4m over the 2020/21 to 2023/24 period.

Findings and conclusion

Due to the Covid-19 crisis, the Council took a Contingency Revised budget for 2020/21 to Council on 11 August 2020. This was to address some significant adverse variances to the original approved budget that had been caused by the coronavirus. The impact on the budget was identified by management as £6.6m. This results from direct costs of the Council deploying staff to its own services and to implement government mandated schemes, and then direct income losses due to enforced closures of facilities, including leisure centres and museums and consequential losses such as car park income and slow recovery after reopening facilities. The Council has not used the furlough scheme but has incurred overtime costs.

The Council stopped all recruitment and non-essential spending as an interim measure in April 2020 to combat these challenges and has received Covid-19 support grant of £1.4m to date from the Government, leaving £5.2m of the budget gap to be mitigated by the Council. The report sets out that £2.9m is being drawn from the Council's reserves and £2.3m from budgetary savings in the year.

This unplanned draw down on reserves has put additional pressure on the Council, when it already had to identify savings of £5.4m over the life of the Medium Term Financial Plan (MTFP). As a result the Council launched its Recovery Change and Transformation (RCT) programme, phase 1 of which was the Contingency Revised Budget. Phase 2 of the Programme is looking at the medium term impacts of Covid. This will include new working practices, to see what can be learned from the experiences of delivering the Council's services during lockdown. There are ten separate projects included within the RCT Programme. As part of this process the MTFP will also be reviewed, which is critical given the revised budget that had to be set in the year and the knock on impact of this on the assumptions within the MTFP.

We are satisfied that the Council has suitable arrangements in place for financial resilience but as with other councils there are significant challenges to be resolved. The Council's current MTFP has a gap of £5.4m over the 2020/21 - 2023/24 period. This was before the Covid-19 crisis that has led to contingency revised budget for 2020/21 to address a budget gap of £6.6m. The Council is now considering the impact of Covid-19 and the associated budget changes in 20/21 on its medium term financial position. The Recovery Change and Transformation Programme is a critical piece of work for the Council to determine how it will deliver its services going forward. This represents a considerable challenge for the Council given the savings it has had to make in recent years.

Value for Money

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

Commercial Property Portfolio

The Council are looking to invest further in property beyond its Local Enterprise Partnership (LEP) area into what it defines as its “area of economic opportunity” to provide a source of revenue to support the delivery of its Corporate Strategy. This is a developing area of activity for local government as highlighted by the recent NAO report “Local authority investment in commercial property”. The Council needs to ensure that such investments do not expose it to unnecessary risks within the commercial property sector.

Findings and conclusion

We have reviewed the arrangements that the Council have put in place when considering its commercial property investments.

The Council sets its Capital Strategy for 2020/21 in February 2020. The Council’s Property Investment Strategy is an Annex to the overarching Capital Strategy and is subject to the review of the Property Investment Advisory Board.

The Executive has the authority to bid, negotiate and complete on property acquisitions and investments, with the performance being monitored by the Value for Money Overview and Scrutiny Committee. A business case must be produced for all cases, supported by financial modelling. Before the investment proceeds it must determine:

- The reason for the investment
- The powers under which the investment is made
- The extent to which the capital invested is placed at risk
- The impact of any potential losses on financial sustainability

There is then a governance framework in place, with the Property Investment Advisory Board playing a key role in scrutinising and challenging proposals, and ensuring that appropriate due diligence has been carried out. They also ensure that the strategic direction of the portfolio and investment principles are in line with the strategy.

Each property will have an exit strategy in place to ensure that the Council can take action to prevent further loss should its objectives/required return not be achieved.

The Property Investment Strategy arrangements would appear to be appropriate but there has been no activity outside of the Waverley area to assess how this is working in practice for property outside the LEP area.

The Council have obtained legal advice from a QC who has advised a number of councils who are looking at extending their commercial property portfolio outside of their area. This advice is supportive of the Council’s plans but it should be noted that this continues to be a area where guidance is developing. Investment property remains a priority in the Council’s Medium Term Finance Plan, however due to the recent consultation on public sector borrowing and the potential exclusion of investment for purely return from PWLB, the Investment Strategy is being revisited alongside the MTFP revision.

The Council has not invested in property outside of the Waverley area currently, although its Property Investment Strategy would allow it to do so. This continues to be a fast moving area in Local Government and the Council is revisiting its strategy in the light of potential changes to regulations for investments funded from PWLB as part of the review of the MTFP. We have not identified a risk to our VFM conclusion.

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

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
Audit related			
Certification of Housing Benefit Grant	29,000	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 £29,000 in comparison to the total fee for the audit of £48,494 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to the fee. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing capital receipts grant	3,000	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 £3,000 in comparison to the total fee for the audit of £48,494 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to the fee. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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.





Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are 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
 Red	<p>Management assurances – PPE valuation</p> <p>Management are required to ensure that they have the assurance that they require that the accounts are free from material misstatement. This would include assurances over the work of management's experts, including the valuer and the actuary. This is the second successive year where there has been a material adjustment to PPE valuation.</p>	<p>Management must ensure that their processes for how they gain assurance over the PPE valuation work are robust. This should include senior officer review and challenge of the work and findings of management's experts.</p> <p>Management response</p> <p>Recommendation accepted and this aspect will be reviewed in the Autumn in the light of the new roles and structure in the estates team. Strengthened oversight will be included in the closedown plan next year.</p>
 Amber	<p>Segregation of duties – Property valuation</p> <p>A member of the finance team on secondment from finance was closely involved in the decision making process of the internal valuer. Whilst clear separation of roles can be difficult for relatively small councils, in future greater demarcation of these respective roles should be put in place, as the valuation expert should be objective and separate from the preparation of the financial statements.</p>	<p>Valuation judgements and decisions should be made by the qualified valuer and should be appropriately documented and evidenced.</p> <p>Management response</p> <p>This will be picked up in the review referred to above. The finance team have supported the valuer in ensuring that the amounts, as assessed by an appropriately qualified officer, are reflected in the ledger and accounts and also in the provision of working papers to the external auditors.</p>
 Amber	<p>HRA debtors</p> <p>The Council was unable to provide a breakdown of approximately £300k of historic balances within the HRA debtors but did provide an explanation that the issue was a result of timing differences. This led us having to carry out alternative testing to get assurance over the overall debtors balance.</p>	<p>Management must review the reason for these historic balances and clear or resolve them as appropriate.</p> <p>Management response</p> <p>The finance team are still working on this and are confident that a significant element of the unidentified amount will be explained. However, it is recognised that this issue needs to be resolved within the Orchard system and resource will be allocated to this immediately.</p>
 Red	<p>Land and buildings not revalued in the year</p> <p>Management were unable to provide supporting evidence for how they had considered the year end value of properties that have not been valued and the potential change in valuation. Therefore we carried out our own procedures to gain assurance that the values of properties not revalued in the year were not materially misstated.</p>	<p>Management must introduce processes to assure themselves that the book value of assets that have not been revalued in the year are not materially different to current value at year end.</p> <p>Management response</p> <p>Agreed – this will be addressed before the 2020/21 audit. We will also ensure closer liaison with the audit team prior to the audit and during the interim audit stage.</p>

Action plan

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are 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
 Green	<p>Narrative Report</p> <p>The disclosures in the Narrative Report could be enhanced by further details on the following areas:</p> <ul style="list-style-type: none"> • Details of the performance indicators used by the Council and its performance against them • Detailing the financial performance in line with the EFA and management accounts format, including budgetary information. • The Medium Term Financial Plan section could include details of the budget gaps in future years to emphasise the challenges faced by the Council. 	<p>We recommend the Council could enhance the information reported within the Narrative Report in line with the Code recommendations and suggestions.</p> <p>Management response</p> <p>Officers appreciate the suggestions and are grateful for the good practice that Grant Thornton are able to identify from other councils' narrative statements.</p>
 Amber	<p>Heritage assets valuation</p> <p>The last insurance revaluation on one of the Council's heritage assets (on which its value is based in the accounts) was in 2011.</p>	<p>The Council must ensure that it revalues its heritage assets on a more regular basis.</p> <p>Management response</p> <p>Noted and the Corporate Asset Manager will implement an appropriate valuation frequency for future years.</p>
 Amber	<p>Expenditure and income analysed by nature</p> <p>The analysis of the Council's expenditure and income in Note 7 was extremely difficult to agree and included double counting of recharges in fees and charges (£448k) and other service expenditure (£2.1m).</p>	<p>The Council should review its process for the production of this note to ensure that it eliminates any double counting and allows the figures to be agreed to the trial balance.</p> <p>Management response</p> <p>Noted and a review will be undertaken to facilitate an easier and more robust analysis.</p>
 Amber	<p>Agreement of the trial balance to the financial statements</p> <p>The agreement of the trial balance to the Consolidated Income and Expenditure Statement includes lots of manual adjustments, including for recharges, investment property, reserve movements and revenue grants. The level of manual adjustment also meant what should be a straight forward audit task took much longer than we would expect.</p>	<p>The Council should review its cost centre structures and coding arrangements as manual adjustments increase the risk of error and manipulation.</p> <p>Management response</p> <p>The ledger is structured to enable sound internal reporting and monitoring at service level. Some manual adjustment is necessary to represent the figures according to the requirements of the code of practice governing year end accounts. However, officers accept that the process could be improved and simplified and this review will be instigated as a matter of priority.</p>

Follow up of prior year recommendations

We identified the following issues in the audit of Waverley Borough Council's 2018/19 financial statements, which resulted in one recommendation being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Following challenge from the audit team, a material adjustment has been made to the Council's Property, Plant and Equipment. Management are required to assure themselves that their financial statements are free from material misstatement each financial year.</p> <p>We recommended that the issues identified in this year's audit are addressed in valuation arrangements moving forwards.</p>	<p>The issues identified from the 2018/19 audit were addressed for 2019/20, however a material adjustment has been made to the Council's Property, Plant and Equipment again in 2019/20. Management are required to assure themselves over the work of their experts and to ensure that their financial statements are free from material error.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance sheet £' 000
Indexation had not been applied to the Council's HRA dwellings. Indexation of 1.95% has now been applied in the amend accounts.		
Council dwellings		8,221
Revaluation reserve		(7,758)
Deficit on revaluation of non-current assets (HRA)	(463)	
Leisure centres were revalued downwards due to changes in the overall asset life and remaining useful economic life (UEL) judgements made in the 2019/20 valuation. When these judgements were challenged by the audit team, management and the valuer have revisited the valuations and underlying assumptions.		
Other land and buildings		
Revaluation reserve		10,250
Commercial services (Gross cost of services)		(1,449)
Subsidiaries (Gross cost of services)	(6,571)	
	(2,230)	
The revaluation of an investment property (Wey Court East) did not agree with the valuation certificate		
Investment Property		250
Net (gain)/loss from fair value adjustments	(250)	
Overall impact	(9,514)	9,514

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Use of the going concern assumption	The draft financial statements do not make any reference to the accounts being prepared on a going concern basis.	✓
Note 3 – Critical judgements	The critical judgements note should only disclose judgements that are material to the Council's financial statements	✓
Note 4 – Estimation uncertainty	The estimation uncertainty note should only disclose where estimation uncertainty could be material to the financial statements	✓
Note 7 - Expenditure and income analysed by nature	The analysis of the Council's expenditure and income in Note 7 included double counting of recharges in fees and charges (£448k) and other service expenditure (£2.1m). There was also a classification error between Grant Income and Fees, Charges and Other Service Income of £286k due to a formula error in the spreadsheet.	✓
Note 11 – Property, Plant and equipment	The format of the note with a line adjusting the cost for impairment was not in line with the Code.	✓
Note 11 – Property, Plant and equipment	Downward revaluations of council dwellings had been incorrectly disclosed as impairments. This classification change resulted in the need for a Prior Period Adjustment to restate the 2018/19 figures.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Reason for not adjusting
The pension liability in the financial statements and the figure in the actuary's IAS19 report are different, which is due to the Council reflecting actual cumulative payments to the fund. This difference however cannot be estimated with certainty by the Council, who have agreed to adjust this in the 2020/21 accounts.			• Not material
Pensions liability		586	
Pensions Reserve		(586)	
Our testing of the floor area source data used for the valuation of Haslemere Leisure Centre identified a discrepancy in the calculation.			• Not material
PPE			
CIES downwards valuation		331	
	(331)		
Overall impact	(£331)	£331	

Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements

Fees

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

Audit fees	Proposed fee	Final fee
Council audit	41,494	41,494
Audit Fee variations	7,500	TBC
Total audit fees (excluding VAT)	£48,994	TBC

We set out in our audit plan how the Financial Reporting Council has set its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This, coupled with the recent impact of Covid 19, the increased time taken in managing the audit in a more remote working environment, delays in responses to audit queries and additional time taken to resolve issues with some supporting working paper, has clearly impacted our work. We will need to review the actual audit inputs required at the conclusion of our work, to assess any fee implications arising from this. We will advise the Chief Finance Officer and the Audit Committee of any proposed variations to our fees once reviewed.

The proposed fees of £48,994 reconcile to the financial statements.

Non-audit fees for other services	Proposed fee
Certification of Housing benefits grant	29,000*
Certification of Housing capital receipts grant	3,000*
Total non- audit fees (excluding VAT)	£32,000

* Estimated fees as work has not yet commenced

Audit opinion

We anticipate we will provide the Council with an unmodified audit report with the inclusion of an “Emphasis of matter” regarding the valuation of property, plant and equipment

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Waverley Borough Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Director and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Strategic Director's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings as at 31 March 2020. As, disclosed in note 4 to the financial statements, the Covid-19 pandemic created a period of significant uncertainty in relation to many factors that historically have acted as drivers of the property investment and letting markets, with major adverse impacts affecting global stock markets, future economic growth forecasts, and business and consumer confidence. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's report **and also in the Surrey Pension Fund's valuation reports for pooled property and private equity investments**. Our opinion is not modified in respect of this matter.

Audit opinion

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director. The Strategic Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Audit opinion

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Waverley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jon Roberts, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol



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