The Audit Findings for Waverley Borough Council

Year ended 31 March 2021

May 2022

Contents

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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 planning 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 all 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. 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 2021 for those charged with governance.

Financial Statements

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 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.

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.

Our audit work was completed remotely during October-November. Our findings are summarised on pages 5 to 16. We have identified adjustments to the financial statements that have resulted in a £2.98m adjustment to the Council's 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.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

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1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by June 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not yet identified any risks of significant weakness at this stage.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

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.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

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2. Financial Statements

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 will be discussed with management and the Audit Committee.

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.

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;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We anticipate issuing an unqualified audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

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2. 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 performance materiality due to the lower gross expenditure in the draft 20/21 financial statement, resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for Waverley Borough Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,466k	1,465k	This is based on 2% of your gross expenditure for the year 2020/21, based on your draft accounts.
Performance materiality	1,026k	1,025k	This is based on 70% of the materiality benchmark.
Trivial matters	73k	73k	This is based on 5% of materiality and represents the level above which uncorrected omissions or misstatements are reported to those charged with governance. Items below this are deemed to be 'trivial' for this purpose.

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2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non rebuttable presumed risk that the risk of management override of controls is present in all entities. You face external scrutiny of your 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 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 • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our audit work has identified a weakness for the design effectiveness of management controls over journals. This is due to there being no documented authorisation process for journals prior to their posting. We have undertaken detailed testing on journal transactions in the year by extracting 'unusual' entries for further review. Our audit work has also identified that a user by passed user access controls to the finance ledger, in the absence of authorised access, by preparing journals which where subsequently uploaded by other members of the team. Other than the issue identified above our audit work on journals has not identified any issues in respect of management override of controls.
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (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.	The initial assessment in our audit plan remains appropriate. Having considered the risk factors set out in ISA240 and nature of the revenue streams at Waverley Borough Council and the group, we determined that the risk of fraud arising from revenue recognition would be rebutted, 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 Waverley Borough Council.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (including investment properties) 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 (£540.7 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 and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	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 to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding 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 your asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Our audit work has not identified any issues in respect of the valuation of land and buildings.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£81m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. 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.	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 audit work has not identified any issues in respect of valuation of the pension fund liability.

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2. Financial Statements – new issues to communicate

Whilst the recognition and presentation of grant income has not been identified as a significant audit risk in our plan, we set out below our testing and findings in this area due to material nature of new grants awarded in 2020/21 due to Covid-19.

Issue	Commentary
Recognition and Presentation of Grant Income The government as provided a range of new financial support packages to the Council and all local authorities throughout the Covid-19 pandemic. These included additional funding to support the cost of services or offset other income losses, and also grant packages to be paid out to support local businesses. The Council has needed to consider the nature and terms of each of the various Covid-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year. In doing so, management have considered the requirements of section 2.3 of the Code of Practice for Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principal of whether the authority is acting as a principal or agent, in accordance with IFRS 15. The three main considerations made by management in forming there assessment were: • Where funding is to be transferred to third parties, whether the Council was acting as principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the balance sheet • Whether there were any conditions outstanding at year-end, and therefore whether the grant should be recognised as income or a receipt in advance • Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income	We have assessed management's judgement considering: • We are satisfied that management have effectively evaluated whether the Council is acting as the principal or agent for each relevant support scheme, which has determined whether any income is recognised. With the exception the Local Restrictions Support Grant (LRSG), which had not been separated into the open and closed tranches. As such the full LRSG balances were treated as agent. Where as the LRSG open element should have been accounted for as principal. An immaterial adjustment has been made in respect of this, as detailed in Appendix C. • We have evaluated the completeness and accuracy of the underlying information used to determine whether there were conditions outstanding (as distinct restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income. Our assessment identified that the Additional Restrictions Grant (ARG) has been accounted for in full as 20-21 income. However, due to the conditions of the grant presenting a return obligation, unspent funds should have been a receipt in advance. An material adjustment has been made in respect of this, as detailed in Appendix C. We have concluded that the remaining grants have been recognised appropriately in our assessment • We have considered management's assessment, for grants received, whether the grant is specific or non-specific grant (or whether it is a capital grant) – which impacts on were the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate • Management's disclosure of the Council's accounting treatment for grant income excluded disclosure note reporting of amounts credited to the CIES – which is inconsistent with CIPFA code 2.3.4.1. An updated disclosure has been added to the revised financial statements and audited accordingly. Our audit work has not identified any other issues relating to the recognition and presentation of Grant Income

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2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Assessment

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building – Council Dwellings £465.2m	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. As the dwellings are valued as at 1 April the Council then applies an appropriate indexation to reflect movements in value to 31 March. The year end valuation of Council Housing was £465.2m, a net increase of £35.4m from 2019/20 (£429.8m), resulting largely from the significant increase in revaluation in year (£29m).	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. • There have been no changes to the valuation method this year. • Disclosure of the estimate in the financial statements is considered adequate • We have considered the movements in the valuations of assets, which identified that the Council have indexed assets as appropriate in line with the auditor recommendations and findings from 19/20 audit. Our audit work to date has not identified any issues in this area.	TBC

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2. Financial Statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building – other £75.4m	Other land and buildings comprises £20.3m 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 (£55.1m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engage an independent valuer to value their assets as at 31 March 2021 on a five yearly cyclical basis, where in alternative years, the assets are reviewed and indexed where appropriate by the Councils internal valuer. In line with RCIS guidance, the Council's valuer have removed the 'material valuation uncertainty' which the 19-20 valuations were subject to.	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. • There have been no changes to the valuation method this year. • Disclosure of the estimate in the financial statements is considered adequate • No issues noted with assets not formally revalued in year. We carried out our own procedures to gain assurance that the values of properties not revalued in the year were not materially misstated. Our audit work to date has not identified any issues in this area.	TBC

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2. Financial Statements - key judgements and estimates

<table>
<tr><th>Significant judgement or estimate</th><th>Summary of management's approach</th><th>Audit Comments</th><th>Assessment</th></tr>
<tr>
<td>Net pension liability – £80m</td>
<td>The Council's net pension liability at 31 March 2021 is £80m (PY £66.2m) 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.

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 £13.5m net actuarial loss during 2020/21.</td>
<td>We have:

Assessed management's expert
Assessed the actuary's approach taken, and deemed the approach reasonable
Used PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions

<table>
<tr><th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr>
<tr><td>Discount rate</td><td>2% p.a.</td><td>1.95% to 2.05% p.a.</td><td></td></tr>
<tr><td>Pension increase rate</td><td>2.85% p.a.</td><td>2.8% to 2.85% p.a.</td><td></td></tr>
<tr><td>Salary growth</td><td>3.75% p.a.</td><td>CPI to CPI plus 1% p.a. (i.e. 2.8% to 3.8%)</td><td></td></tr>
<tr><td>Life expectancy – Males currently aged 45 / 65</td><td>87.3</td><td>85.4 to 87.7</td><td></td></tr>
<tr><td>Life expectancy – Females currently aged 45 / 65</td><td>89.7</td><td>88.2 to 89.9</td><td></td></tr>
</table>

Confirmed the completeness and accuracy of the underlying information used to determine the estimate
Confirmed there have been no changes to valuation method
Confirmed the reasonableness of increase in the estimate
Confirmed the adequacy of disclosure of estimate in the financial statements

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.</td>
<td>TBC</td>
</tr>
</table>

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2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
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 other 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 aware of any related parties or related party transactions which have not been disclosed.
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, including specific representations in respect of the Group, which is appended.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to financial institutions with whom the Council holds cash and investment balances. This permission was granted and the requests were sent. All of the confirmation requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement 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.

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2. Financial Statements - other communication requirements

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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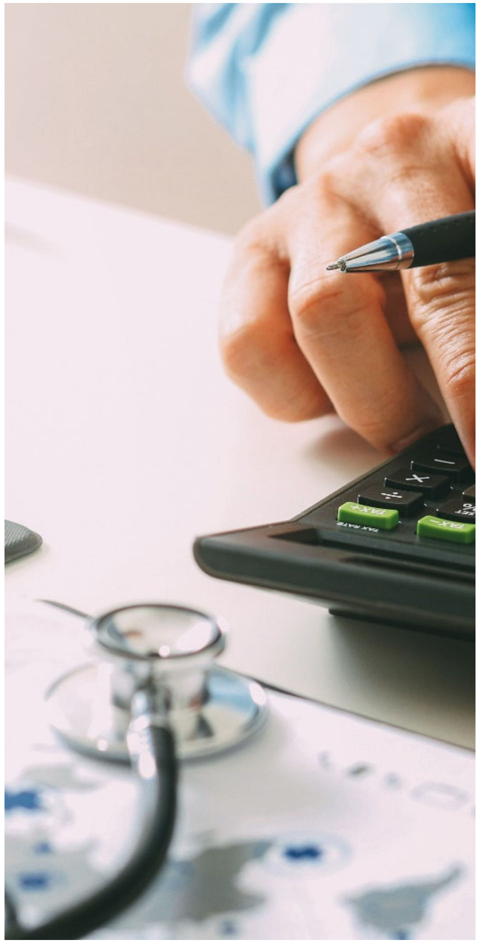
2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	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. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Waverley Borough Council in the audit report due to incomplete VFM work.



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3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

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3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by June 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness at this stage.

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4. 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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

Service	Fees £	Threats identified	Safeguards
Audit related			
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 £64,494 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. 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 Benefit Claim	21,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £21,500 in comparison to the total fee for the audit of £64,494 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. 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.

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Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendation 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 2021/22 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
	We reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. A control weakness was noted as there is no documented authorisation process for journals prior to their posting. As a result our sample testing of journals was increased but did not identify errors to impact on our opinion. We recommend the Council introduces a documented approach to journal review and authorisation covering all journals to reduce the risk of self review and override of controls.	Management response Management have agreed and the process will be revised in December 2021.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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B. Follow up of prior year recommendations

We identified the following issues in the audit of Waverley Borough Council's 2019/20 financial statements, which resulted in eight recommendations being reported in our 2019/20 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Management assurances – PPE valuation 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.	We note the enhancements made to the process for reviewing the work of management experts employed relating to PPE valuations. We can conclude that this issue is now resolved.
✓	Segregation of duties – Property valuation 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 has resolved the Segregation of Duties risk by appropriately transferring the team member to the estates team on a permanent basis. We have reviewed the 20/21 journals listing and can confirm that post this move, no journals were entered by the individual. We can conclude that this issue is now resolved.
✓	HRA debtors 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.	Management have implemented an additional reconciliation process to identify differences between Orchard and Agresso systems, which has significantly reduced the historic balances below triviality.
✓	Land and buildings not revalued in the year 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.	We note the enhancements made to the process for reviewing the work of management experts employed relating to PPE valuations. We can conclude that this issue is now resolved.

Assessment

✓ Action completed

X Not yet addressed

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B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Narrative Report The disclosures in the Narrative Report could be enhanced by further details on the following areas: • 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.	Management has included the detailed suggested in the previous year into the 2020/21 narrative report.
✓	Heritage assets valuation The last insurance revaluation on one of the Council's heritage assets (on which its value is based in the accounts) was in 2011.	Management have agreed to revalue heritage assets on a more appropriate valuation frequency and the asset mentioned was revalued in 2021.
✓	Expenditure and income analysed by nature 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).	Management have improved their analysis workings behind Expenditure and income analysed by nature. We can conclude that this issue is now resolved
✓	Agreement of the trial balance to the financial statements 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 that we would expect.	Management has improved their analysis workings behind the Consolidated Income and Expenditure Statement. In the few instances where manual adjustments were made, the trail is well documented and reconciles to journal adjustments made. We can conclude that this issue is now resolved

Assessment

✓ Action completed

X Not yet addressed

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C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000
Negative Cash and Bank balance recorded as negative assets		DR Current Assets - Cash and Cash Equivalents 3,443 CR Current Liabilities - Cash and Cash Equivalents (3,443)
Grant Income - LRSG (Open) should be accounted for as Principal under IFRS 15	DR Income 128 CR Expenditure (128)	
ARG unspent revenue adjustment to a receipt in advance (Per return obligations)	CR Income (1,967)	DR Creditors – Receipt in Advance 1,967
Pension liability update following revised IAS19 report	CR Income (1,017)	DR Pension Liability 1,017
Overall impact	(2,984)	£2,984

C. 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	Auditor recommendations	Adjusted?
Grants	Management's disclosure of the Council's accounting treatment for grant income excluded disclosure note reporting of amounts credited to the CIES – which is inconsistent with CIPFA code 2.3.4.1. An updated disclosure has been added to the revised financial statements and audited accordingly	✓
Related Parties	Management's disclosure of the Council's related parties duplicated figures accounted for elsewhere as government grants on a cash basis, which could cause confusion to readers as grants are reported on an accrual's basis. In addition, the note detailed grants paid out which are immaterial to the authority. An updated disclosure has been added to the revised financial statements to remove the cash reporting of government grant s and summarise grants paid out, this has been audited accordingly	✓
Accounting Standards that have been issued but have not yet been adopted	The CIPFA year end closure bulletin advises to not include IFRS16 as it has been adopted and is in the code, just deferred and therefore should not be included in the section for accounting standards not adopted. The disclosure has been removed from the revised accounts	✓
Audit Fee	Audit fee for external audit should be 64k per the audit plan. An updated disclosure has been added to the revised financial statements.	✓

Impact of unadjusted misstatements

We have no unadjusted misstatements to report to you.

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C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
The pension liability in the financial statements and the figure in the actuary's IAS19 report were different, which was due to the Council reflecting actual cumulative payments to the fund. Pensions liability Pensions Reserve		586 (586)	This difference was not material and could not be estimated with certainty by the Council, who have now adjusted this in the 2020/21 accounts.
Our testing of the floor area source data used for the valuation of Haslemere Leisure Centre identified a discrepancy in the calculation. PPE CIES downwards valuation	(331)	331	This difference was not material. In 20/21 this was valued by Montague Evans in line with all other Leisure Centres to obtain an independent update and has been coverd in our testing of Other Land and Buildings.
Overall impact	£331	£331	

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D. Fees

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

Audit fees	2019/20	2020/21
Council Audit (excluding VAT)	£71,379	64,494

The Council will receive a grant to support additional fees for 2020/21 relating to new accounting standards and the change to the VFM audit. The Council's share of the £15m pot identified by MHCLG (now DLUHC) for 2020/21 is £21,390.

In addition, we note in August 2021 the PSAA has approved the distribution of surplus funds relating to 2020/21 to opted-in bodies. The Council's share of the surplus is £8,190.

Non-audit fees for other services	Proposed fee
Certification of Housing capital receipts grant	3,000*
Certification of Housing Benefit Claim	21,500*
Total non-audit fees (excluding VAT)	£24,500

* Estimated fees as work has not yet finished

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