



The Audit Findings Report for Waverley Borough Council

Year ended 31 March 2014

September 2014

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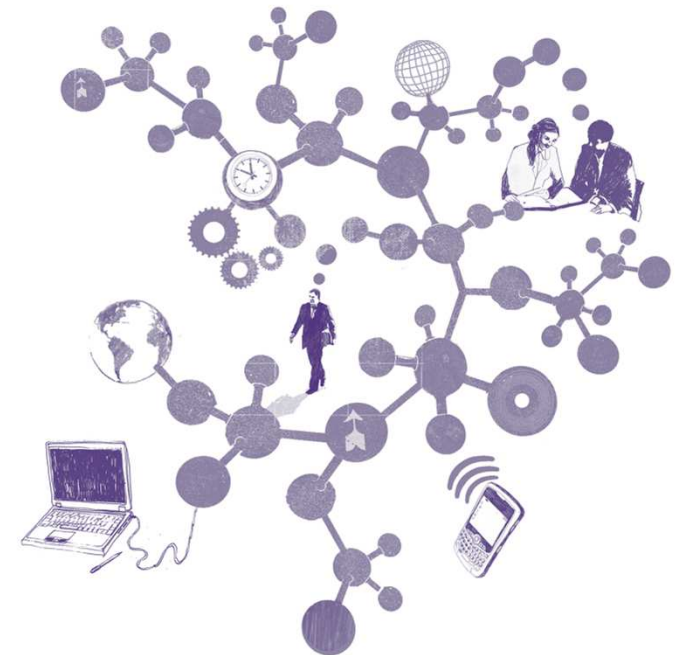
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Waverley Borough Council's (the Council) financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (ISA) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting (the Code). We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money (VfM) conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 25 June 2014. Our audit is substantially complete although we are finalising our work in the following areas:

- completion of sample of HRA revenue testing
- completion of sample of Council Tax support discount and single person discount and arrears testing
- completion of grant revenues testing
- completion of NNDR arrears testing
- completion of four third party confirmations for investments
- completion of PPE testing including additions samples, reconciliation of HRA asset numbers and assets funded by grants

- completion of payroll analytical review
- completion of operating expenditure testing, including sample of operating expenditure and review of Service Reporting Code of Practice, and also a sample of accrued liabilities
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation and Annual Governance Statement after approval by the Audit Committee
- updating our post balance sheet events review, to the date of signing the opinion.

We will provide a verbal update on progress on the small element of work outstanding to Audit Committee members.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We did not identify any adjustments affecting the Council's reported financial position. We have agreed a number of minor narrative adjustments to the notes to the accounts to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- The Council's draft financial statements were of a high standard.
- The Council's excellent working papers and early highlighting of potential financial reporting issues again contributed to the smooth audit process.

Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We have substantially completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council. We identified five areas during our audit where controls could be enhanced.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and Resources and the Head of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and Resources, the Head of Finance and the finance team.

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: *Audit findings*

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 25 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 25 June 2014.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition accounting policies • testing of material revenue streams including grants, housing rents and other revenues such as fees and charges • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle to assess the whether those controls are designed effectively • undertaken walkthrough of the key controls to confirm our understanding and ensure controls were implemented • carried out attribute and substantive testing of expenditure and creditors including accruals, for existence, completeness, classification, occurrence and cut-off • review of control account reconciliations • review of the allocation and apportioning of expenses to meet the requirements of the Service Reporting Code of Practice 	Subject to the satisfactory resolution of outstanding matters summarised on page 4, our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration (Payroll)	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle to assess the whether those controls are designed effectively • undertaken walkthrough of the key controls to confirm or understanding and ensure controls were implemented • carried out attribute and substantive testing of payroll records and remuneration disclosures and cut-off testing • review of the reconciliation of payroll to the general ledger • trend analysis of employee remuneration expenses 	Subject to the satisfactory resolution of outstanding matters summarised on page 4, our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure (Housing benefits)	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle to assess the whether those controls are designed effectively undertaken walkthrough of the key controls to confirm our understanding and ensure controls were implemented carried out certification work on the housing benefit claim, including testing a sample of claims, reconciliation of expenditure to the subsidy claim, completing the software diagnostic and analytical review Analytical review and testing of Council tax support 	<p>Our testing of a sample of benefits in payment identified an error within cell 094 Rent Allowances, that required us to carry out additional 40+ testing. We also identified an error within modified schemes and the Council reviewed all modified scheme cases for this error.</p> <p>We are satisfied that these errors would not lead to a material misstatement in the financial statements.</p>
Housing Rent Revenue Account	Revenue transactions not recorded	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle to assess the whether those controls are designed effectively undertaken walkthrough of the key controls to confirm our understanding and ensure controls were implemented analytical review and cut-off testing review of the reconciliation of the Orchard rental system to the general ledger substantive testing of rental income 	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 4, our audit work has not identified any significant issues in relation to the risk identified.</p>
Property, plant & equipment (PPE)	PPE activity not valid Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle to assess the whether those controls are designed effectively undertaken walkthrough of the key controls to confirm our understanding and ensure controls were implemented substantive testing of PPE records to deeds review of the reconciliation of PPE records (fixed asset register) to the general ledger testing that expenditure classified as operating expenditure was not capital in nature substantive testing of revaluations 	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 4, our audit work has not identified any significant issues in relation to the risk identified.</p> <p>The Council carries out a rolling programme of revaluations (except for Council dwelling assets which are revalued annually), so that each general fund asset is revalued at least once every five years. We comment on the Council's treatment of this in more detail on p13 of our report under key estimates and judgements.</p>



Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The Council prepare Group Accounts including the Shottermill recreation ground and swimming pool and the bequest of Joseph Ewart.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Shottermill recreation ground and swimming pool	Yes	Targeted	PPE carrying value Cash value	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> tested the consolidation schedules substantively tested PPE and the cash balance 	Our audit work has not identified any significant issues in relation to the risk identified.
The bequest of Joseph Ewart	Yes	Targeted	PPE carrying value Cash value	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> tested the consolidation schedules substantively tested PPE and the cash balance 	Our audit work has not identified any significant issues in relation to the risk identified.



Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.




Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> • Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. • Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that <ul style="list-style-type: none"> – the Council will comply with the conditions attached to the payments, and – the grants and contributions will be received. 	<p>The accounting policy is adequately disclosed in line with the requirements of the Code.</p> <p>Our testing of government grants and contributions, housing rents and other revenues did not identify any instances of inappropriate revenue recognition.</p>	 green
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – depreciation – useful life of PPE – impairments – pensions liability – bad debts – business rate appeals – PPE revaluation (overleaf) 	<p>Critical judgements and estimation uncertainties are disclosed in Notes 3 and 4 of the financial statements and are in line with the requirements of the Code.</p> <p>In accordance with CLG guidance, the Council has based depreciation of its council dwellings (£5.6 million) on the former Major Repairs Allowance (MRA). This approach is allowed for a period of 5 years from the introduction of HRA self-financing in 2012/13. The Code specifies that depreciation should be based on the consumption of economic benefits and service potential. The Council has demonstrated that MRA is a materially reasonable estimate of depreciation.</p> <p>We have reviewed the Council's business rate appeals provision, which falls due on the Council for the first time in 2013/14 following changes to the business rate system. We are satisfied that the Council has taken an appropriate approach to estimating this provision, which has been correctly recognised within the Council's Collection Fund Account.</p>	 green

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates – PPE	<ul style="list-style-type: none"> Page 54 of the accounts sets out the Council's rolling programme of revaluations. This shows that the date of valuations vary between 2009/10 and 2013/14. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class or property, plant and equipment simultaneously. This paragraph of the Code, which is based on International Accounting Standard 16, Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: <ul style="list-style-type: none"> the revaluation of the class of assets is completed within a 'short period' the revaluations are kept up to date. 	<p>In our view, however, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p> <p>However, this approach is similar to many other authorities and the Council has demonstrated that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014.</p>	 green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the Code and accounting standards. 	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 green

Assessment

-  (red) Marginal accounting policy which could potentially attract attention from regulators
-  (amber) Accounting policy appropriate but scope for improved disclosure
-  (green) Accounting policy appropriate and disclosures sufficient

Adjusted and unadjusted misstatements

Our audit work to date has not identified any adjustments or unadjusted misstatements that are required to the financial statements.

Misclassifications & disclosure changes



Our audit work to date has not identified any misclassifications or disclosure changes that are required to the financial statements other than minor narrative changes to improve presentation.

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<ul style="list-style-type: none"> Our work identified a high number of domain administrators with administrative privileges to the network, including generic naming conventions of guest administrator. The risk of having domain-level user accounts with elevated privileges to the network may bypass system-enforced internal control mechanisms through inappropriate use of administrative functionality; or encourage, making unauthorised changes to system configuration parameters, the creation of unauthorised accounts, making unauthorised updates to user's own account privileges, or the deletion of audit logs or disabling logging mechanisms. 	<p>Management should review domain-level accounts that have elevated privileges to the network to ensure that the permissions are necessary. Management should be reminded that administrative privileges to the network should be kept to a minimum, but which also reflects the needs of the business to ensure that IT operations can be delivered effectively.</p>
2.		<ul style="list-style-type: none"> At time of review, the System Administrator had end-user responsibilities within Agresso (general ledger) and iTrent (payroll). The combination of end-user duties and security administration is considered a segregation of duties conflict. It is appreciated that this is difficult to manage due to the size of the team and the need to provide administrative support to the application; however, there is a risk to Council that internal control mechanisms become ineffective if these mechanisms can be by-passed to perform inappropriate administrative functionality, unauthorised changes to system configuration parameters and creation, modification and deletion of user accounts and associated access rights include those belonging to the individual's own account privileges. There is an increased risk that security administration processes may not function consistently or reliably over time to control access to information assets and Internal access to information assets and administrative functionality may not be restricted. 	<p>Where possible, management should consider either:</p> <ul style="list-style-type: none"> transferring the responsibility of administering security within Agresso and iTrent to specific IT system administrators who do not perform financial reporting or end—user processes or controls. All security administration rights within Agresso and iTrent granted to personnel performing financial reporting and end-user processes and controls should be revoked; implementing a formal / documented monitoring process designed to detect misuse of administrative functionality by personnel responsible for performing financial reporting and end-user processes or controls.

Internal controls continued....

	Assessment	Issue and risk	Recommendations
3.	 Amber	<ul style="list-style-type: none"> We reviewed the aged-debtor listing at 31 March 2014 and identified a significant number of sundry debts and housing benefits debts that have been identified as very old and uncollectable on the system, but have not yet been written off. For example, we identified 275 debts totalling approximately £0.235m on the aged-debtor listing from 2010 or earlier. We note that these old debts have been fully provided for. 	We recommend that the Council regularly reviews the aged-debtor listing and takes action to write-off debt once it has been identified as being uncollectable to improve the accuracy of its accounting information.
4.	 Amber	<ul style="list-style-type: none"> The Council prepared its Annual Governance Statement (AGS) for 2013/14 in August 2014, in time for the September 2014 Audit Committee. The AGS however should be a live document, ideally prepared in draft towards the end of the financial year in question, and revisited by the Audit Committee during the year to ensure progress against the identified risks. The risk in producing an AGS late in the process is that it with the passing of time, it may not capture all the issues covering the full financial year and also limits the input and review of stakeholders. 	We recommend that the Council takes a draft Annual Governance Statement to the March and the June Audit Committees to allow management and Members full sight and comment on the draft as it is formed, as well as the September Audit Committee for approval and sign-off.

Assessment

● (red) Significant deficiency – risk of significant misstatement

● (amber) Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and been made aware of an external fraud affecting the Council in April 2014. An investigation was immediately conducted and processes and awareness within the Finance team have been strengthened. We have not been made aware of any other incidents in the period and no issues have been identified during the course of our audit relating to 2013/14.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.
7.	Internal Audit	<ul style="list-style-type: none"> We have reviewed all reports issued by Internal Audit in the year. This review did not highlight any instance of material control weaknesses which have impacted on our risk assessment. The Annual Assurance Statement for the year ended 31 March 2014 has concluded that internal controls within financial systems and operational systems operating throughout the year are fundamentally sound.
8.	Annual Governance Statement	<ul style="list-style-type: none"> We have reviewed the Annual Governance Statement to confirm it complies with the requirements of 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. The disclosures made are consistent with our knowledge of the Council and the Council's key strategic risks. We have no matters to report in this respect.

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code of Audit Practice. These criteria are:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Our conclusion is whilst the Council faces some significant risks and challenges, its current arrangements for achieving financial resilience are adequate.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Our conclusion is that the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	<ul style="list-style-type: none"> The Council achieved its recurrent savings target of £0.9m and a positive outturn of £0.73m against its revenue budget in 2013/14. It also underspent £1.9m against its capital budget of £3.4m. The Council has maintained the level of General Fund balance above the approved minimum level of £3.2m. 	Green
Strategic financial planning	<ul style="list-style-type: none"> The Council considered the areas we would expect to see in setting its 2014/15 budget, updating this and future medium term budgets for the impact of the 2013 Spending Review. The Council has updated its Financial Strategy for key areas such as its investment in housing and the Brightwells redevelopment scheme. The Financial Strategy is closely linked to the annual budget and other key strategic plans, such as the Housing Revenue Account Business Plan. The Council has used a combination of its Star Chamber process and the Foresight Programme to identify schemes to reflect the savings required of £1.27m for 2014/15. 	Green
Financial governance	<ul style="list-style-type: none"> There is an appropriate level of senior management and member engagement in the financial management process. Budgets are monitored by officers on a monthly basis and reported to members on a bi-monthly basis, supplemented by monthly exception reports. Issues affecting the current and forecast outturn position are described at both a summary and service level in relation to revenue budgets. There is regular Treasury Management reporting. The information provided to members is complete, accurate and reliable. Members regularly challenge senior officers and ensure progress has been made against recommendations. 	Green
Financial control	<ul style="list-style-type: none"> The budget setting process is subject to a detailed scrutiny through the Star Chamber, which challenges the budget and savings proposals put forward by officers. There is also good monitoring against the budget during the year. The Council achieved its savings targets and underspent against its revenue budget. Internal Audit reviewed all of the key financial systems in 2013/14 and did not raise any high priority recommendations. 	Green

Detailed findings continued.....

Theme	Summary findings	RAG rating
Prioritising resources	<ul style="list-style-type: none"> There is a good level of leadership and understanding of the financial challenges ahead. The Council uses timely and complete financial and non-financial information for decision making and understands the impact and outcomes from taking decisions that affect services within the Council. 	Green
Improving efficiency & productivity	<ul style="list-style-type: none"> The Council understand costs and uses suitable benchmarking and performance indicators to monitor progress and reports this appropriately. The Council's rolling four year Medium Term Financial Plan focuses on the achievement of recurrent savings and on-going efficiencies. 	Green
Management of Natural Resources	<ul style="list-style-type: none"> We were satisfied that the Council is meeting its obligations in regard to carbon emissions and other environmental impacts. 	Green

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	Management response
Key indicators of financial performance and financial control – capital	<p>The Council underspent by a total of £1.9m against its capital budget, which has been rescheduled to 2014/15. A further £2.1m for the Herons Leisure Centre scheme was also rescheduled to 2014/15 in December 2013. Progress on the Council's New Homes programme also slipped, with £2.3m of the proposed £3.4m expenditure delayed into 2014/15.</p> <p>As investment in affordable housing and the Brightwells redevelopment remain key strategic priorities for the Council, it should ensure that it proactively manages its capital budget and maintains appropriate control over capital expenditure.</p>	Regular monitoring of capital budgets is in place at officer and Member level. Specific focus is on monitoring the HRA Capital programmes which is overseen by Member groups. Each Executive meeting receives capital monitoring reports. The Herons project is the largest general fund capital scheme currently and this is progressing well.
Strategic Financial Planning	The Council is in the process of updating the Local Plan and should ensure that it monitors and communicates progress to all stakeholders against its timetable for completion in 2015. Likewise, the Council must similarly closely monitor and communicate the progress being made on Brightwells (the East Street) development to help advance this on-going redevelopment project.	A detailed project plan is in place for the Local Plan development work and progress is overseen by Members in a dedicated meeting each month. Corporate Management Team monitor progress of the Local Plan and the Brightwells project on a weekly basis.
Strategic Financial Planning	The Council has estimated that the level of savings required for 2015/16 will be circa £1m and are already in the process of identifying these savings and those of future years. Whilst the Council has an excellent track record in identifying and delivering savings, savings over the medium term are likely to become progressively harder to achieve.	The Council recognises the financial challenges ahead and are in the process of revising the medium term financial strategy to reflect the latest position. A range of actions have been identified to address the shortfall in 2015/16 including the continuation of the Star Chamber process to review services and identify deliverable and sustainable savings.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	70,951	70,951
Additional fee for business rates	0	900
Grant certification*	16,031	16,031
Total audit fees	86,982	87,882

There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. This is reflected in the reduced grant certification fee in comparison to the previous year. The additional fee is 50% of the average fee previously charged for NDR3 certifications for District Councils and is subject to final agreement by the Audit Commission.

*Certification work is on-going. The final fee will reported to the Audit Committee later in the year in our annual certification report.

Fees for other services

	£
Independent examination of charitable funds	4,000
Audit of the Decent Homes grant	4,000
Total	8,000

Independence and ethics

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

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

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

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

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

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium – Effect on control system

Low – Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Management should review domain-level accounts that have elevated privileges to the network to ensure that the permissions are necessary. Management should be reminded that administrative privileges to the network should be kept to a minimum, but which also reflects the needs of the business to ensure that IT operations can be delivered effectively.	Medium	Agreed. This review has been undertaken	Completed – Linda Frame IT Lead Officer
2	Where possible, management should consider either: <ul style="list-style-type: none"> transferring the responsibility of administering security within Agresso and iTrent to specific IT system administrators who do not perform financial reporting or end-user processes or controls. All security administration rights within Agresso and iTrent granted to personnel performing financial reporting and end-user processes and controls should be revoked; implementing a formal / documented monitoring process designed to detect misuse of administrative functionality by personnel responsible for performing financial reporting and end-user processes or controls. 	Medium	Agreed. The Head of Finance will undertake a risk assessment and then consider any action necessary, balancing the need to ensure sound segregation of duties with recognition of the size of team and limited spread of expertise in these key systems.	Oct 2014 – Peter Vickers – Head of Finance.

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium – Effect on control system

Low – Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	We recommend that the Council regularly reviews the aged-debtor listing and takes action to write-off uncollectable debt once it has been identified as being uncollectable to improve the accuracy of its accounting information.	Low	Agreed – Significant number of write offs approved by Executive 2 Sept - this should be completed quarterly in future	Sept 2014 – Peter Vickers Head of Finance
4	We recommend that the Council takes a draft Annual Governance Statement to the March and June Audit Committees to allow management and Members full sight and comment on the draft as it is formed, as well as the September Audit Committee for approval and sign-off.	Low	The draft AGS will be considered at the June Audit Committee meeting in future with final sign-off at the September meeting	May 2015 – Peter Vickers head of Finance and Robin Pellow Head of Corporate Governance

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

Opinion on the financial statements

We have audited the financial statements of Waverley Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes.

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 2013/14.

This report is made solely to the members of Waverley Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Director of Finance and Resources 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Waverley Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

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 form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Waverley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

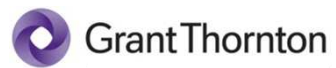
Certificate

We certify that we have completed the audit of the financial statements of Waverley Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Emily Hill
Associate Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
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xx September 2014



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