

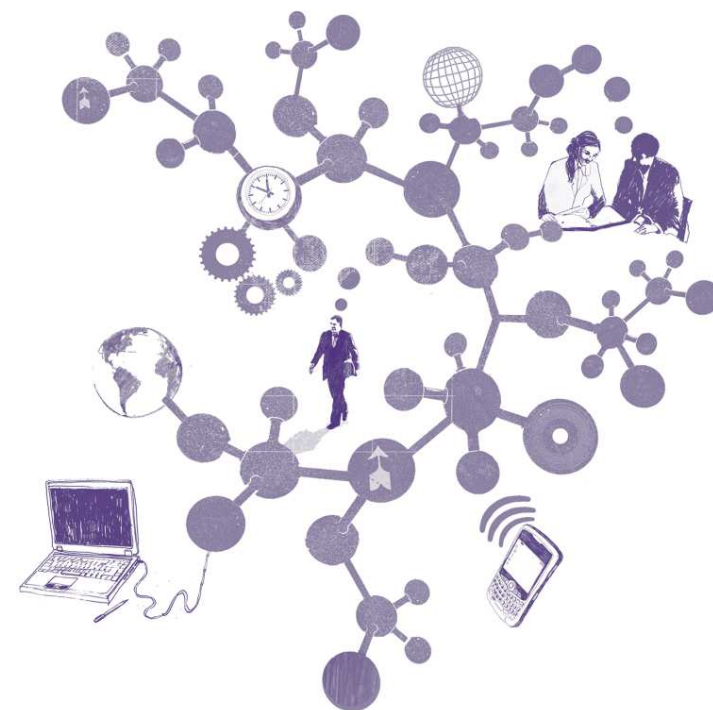
The Audit Findings Report for Waverley Borough Council

Year ended 31 March 2015

15 September 2015

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15 September 2015

Dear Councillor Edwards

Audit Findings Report for Waverley Borough Council for the year ending 31 March 2015

This Audit Findings Report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Waverley Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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.

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

Yours sincerely

Iain Murray – Engagement Lead

for and on behalf of Grant Thornton UK LLP

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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) Group and Council financial statements for the year ended 31 March 2015. 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 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Group and Council's financial statements present a true and fair view of the financial position and 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 CIPFA Code). We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money 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 March 2015.

Our audit is substantially complete although, at the time of drafting this report, we are finalising our work in the following areas:

- completion of our work on Property, Plant and Equipment, in particular focusing on the asset valuations included within the financial statements
- completion of our Council Tax and National Non-Domestic Rates analytical procedures
- completion of our work on your reserves
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation

- review of final version of the Annual Governance Statement
- final quality assurance and review processes and
- updating our post balance sheet events review, to the date of signing our opinion

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 in respect of the financial statements.

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

- As in previous years your draft financial statements are of a very high standard and this is reflected by the minimal level of issues arising from our work
- Your financial statements were supported by an excellent set of working papers and our audit has again been greatly helped by early discussions on any potential financial reporting issues with you.

We have identified no adjustments affecting the Group and Council's reported financial position (details are recorded in section 2 of this report). We did however identify a small number of suggested adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

Your strong financial reporting processes mean you are well placed to bring the accounts and audit process forward ahead of the earlier deadlines planned for 2018. We aim to work with you to deliver earlier close in a manner that minimises the impact on your wider operations and service delivery.

Value for Money conclusion

We are pleased to report that, based on our review of your 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 three of this report.

Whole of Government Accounts (WGA)

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

Controls

Roles and responsibilities

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 you.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

The way forward

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

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 2015

Section 2: Audit findings

01. Executive summary

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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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 23 March 2015. 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 changes to our Audit Plan as previously communicated to you on 23 March 2015.

Audit opinion

We propose an unqualified audit opinion as 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 (UK&I) 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 (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <p>As mentioned in our Audit Plan, we have rebutted this presumption because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Waverley Borough Council, mean that all forms of fraud are seen as unacceptable. <p>However, due to the material nature of revenue, we have still completed the following as part of our audit work:</p> <ul style="list-style-type: none"> • review of revenue recognition policies • testing of material revenue streams • 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 (UK&I) 240 there is a presumed risk of management override 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.

| 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 • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • performed substantive testing of the expenditure incurred during the year • testing of creditor payments, including accruals, for completeness, classification and occurrence • review of control account reconciliations • cut-off testing • review of allocating/appropriating expenses to meet the requirements of the Service Reporting Code of Practice | Our audit work has not identified any significant issues in relation to the risk identified |
| Employee remuneration | 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 • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • reviewed the reconciliation between the payroll system and the general ledger • undertaken trend analysis on the employee remuneration expenses incurred during the year • performed substantive testing of the payroll expenditure incurred during the year | Our audit work has not identified any significant issues in relation to the risk identified |



Group audit scope and risk assessment

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


| Component | Significant? | Level of response required under ISA 600 | Risks identified | Work completed | Assurance gained & issues raised |
|---|--------------|--|---|--|---|
| Shottermill Recreation Ground and Swimming Pool | No | Targeted | <ul style="list-style-type: none"> Property, plant and equipment (PPE) revaluation measures not correct Recorded cash at bank not valid | <ul style="list-style-type: none"> We have reviewed the relevant PPE Balances to ensure they are recorded correctly We have agreed the relevant cash balance to external confirmations | Our audit work has not identified any issues in respect of the procedures performed on the applicable group elements. |
| Ewart Bequest | No | Targeted | <ul style="list-style-type: none"> Recorded cash at bank not valid | <ul style="list-style-type: none"> We have agreed the relevant cash balance to external confirmations | Our audit work has not identified any issues in respect of the procedures performed on the applicable group elements. |

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 within your financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|--|---|---|---|
| <p>Revenue recognition</p> | <ul style="list-style-type: none"> Income from the sale of goods is recognised when you transfer 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 you. Income from the provision of services is recognised when you can measure reliably the percentage completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to you. Income from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to you, and the amount of revenue can be measured reliably. | <p>The accounting policy is adequately disclosed in line with the requirements of the CIPFA Code.</p> <p>Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.</p> | <p> Green</p> |
| <p>Estimates and judgements</p> | <ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of capital equipment Pension fund valuations and settlements Impairments PPE revaluations (covered on Page 14) Depreciation Bad debt provisions Business rate appeals | <p>Your critical judgements and estimation uncertainties are disclosed within Notes 3 and 4 of the financial statements, and are in line with the requirements of the CIPFA Code.</p> <p>We have reviewed your Business rate appeals provision, along with the calculation of depreciation in respect of Council Dwellings, and are satisfied with the approaches taken in each of these areas.</p> | <p> Green</p> |


Assessment

 **Red** - Marginal accounting policy which could potentially attract attention from regulators disclosure

 **Green** - Accounting policy appropriate and disclosures sufficient

 **Amber** - Accounting policy appropriate but scope for improved

Accounting policies, estimates & judgements continued

| Accounting area | Summary of policy | Comments | Assessment |
|----------------------------------|--|---|---|
| Going concern | Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Linked to this, you have set a balanced budget for 2015-16 and have an updated Medium Term Financial Plan in place for the next four years. For these reasons, you continue to adopt the going concern basis in preparing the financial statements. | We have reviewed management's assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements. |  Green |
| Other accounting policies | We have reviewed your accounting policies against the requirements of the CIPFA 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

Accounting policies, Estimates & Judgements— review of issues raised in prior year

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|----|------------|--|---|
| 1. | ✓ | <p>Estimates and judgements - Property, Plant & Equipment (PPE)</p> <p>In previous years you have carried out a rolling programme of revaluations, with the date of the valuations varying between 2009/10 and 2013/14. This approach was similar to many other authorities and we were satisfied that you had satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view this rolling programme did not meet the CIPFA Code's requirement to value items within a class of property, plant and equipment simultaneously, as this CIPFA Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <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, 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>You have maintained your five year rolling programme of revaluations. All items of PPE which are included within the financial statements at fair value have been revalued at least once in the last five years i.e. between 2010/11 and 2014/15.</p> <p>Your entire dwelling stock has been revalued during 2014/15, via the beacon approach prescribed by central government.</p> <p>This approach remains consistent to that taken by many other local authorities and you have adequately demonstrated that the carrying value of any items of PPE which were not revalued during the year were not materially different to the fair value of these items as at the 31 March 2015. It is however important that you continue to revisit this at the end of each year where a full revaluation of assets does not take place.</p> |

Assessment
 ✓ Action completed
 X Not yet addressed

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. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| 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 a number of disclosures that needed amending or expanding. Management agreed to amend all items identified. |
| 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. | Confirmation requests from third parties | <ul style="list-style-type: none"> We obtained direct confirmations from the PWLB and the Local Enterprise Partnership for loans and requested from management permission to send confirmation requests to several counterparties for bank and investment balances. This permission was granted and the requests were sent, and all of these requests were returned with positive confirmation. |

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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10.

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.

Internal controls – review of issues raised in prior year

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|----|------------|--|---|
| 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. This meant there was a risk that the internal controls in this area could be by-passed to allow inappropriate changes to be made or allow inappropriate levels of functionality. | <ul style="list-style-type: none"> You have undertaken a review of all active directory accounts with administrator privileges and removed all those that were not required for the effective delivery of IT services. You continue to ensure that accounts are only elevated to administrator privileges if necessary and have also confirmed that the guest administrator accounts are only used if emergency support is needed from a trusted individual. We are satisfied that sufficient action has been taken in this area and it is no longer an area of significant concern. |
| 2. | ✓ | <ul style="list-style-type: none"> Our IT review also identified that 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. This also generated a risk of the internal controls being by-passed, as mentioned under Item 1 above. | <ul style="list-style-type: none"> You have confirmed that are mitigating controls in place, such as ensuring that all key accounts i.e. bank, payroll and suppliers are fully reconciled and reviewed by management. Any changes to individual access rights on Agresso are emailed as confirmation to the user. The Head of Finance also undertakes a quarterly review of audit trails, supplier detail changes, journals and user access information to ensure they are all valid. We are satisfied that sufficient controls are in place to mitigate significant risks in this area. |
| 3. | ✓ | <ul style="list-style-type: none"> It was noted from review of the aged debtor listing as at the 31 March 2014 that there were a significant number of sundry debts and housing benefits debts which were very old and uncollectable, but had yet to be written off . For example, we identified that 275 debts totaling £0.235m were from 2010 or earlier. | <ul style="list-style-type: none"> From our review of your bad debt provision, we can see that £450k of debtors have been written off during the year, and you are providing in full for debts which are sufficiently old enough to warrant this. You should continue to monitor and review debtors balances to ensure that where amounts are no longer receivable, they are written off against the provision made. |
| 4. | ✓ | <ul style="list-style-type: none"> We identified that the Council's 2013-14 Annual Governance Statement was only prepared in August 2014, which meant that potentially it may not have covered all of the relevant risks, and didn't allow for input and review from all of the relevant stakeholders. | <ul style="list-style-type: none"> We noted that the draft Annual Governance Statement was presented to the June Audit Committee in order to allow all stakeholders to have sight and comment ahead of it being formally approved by the Audit Committee in September. |

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. There were no adjustments which affected your Statement of Comprehensive Net Expenditure or the Statement of Financial Position.

Misclassifications & 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.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|-----------------|----------------|--|---|
| 1 Disclosure | Various | Note 25 – Financial Instrument Risks | The draft financial statements did not include prior year comparatives for the impact of credit and liquidity risks. These have been included in the final version of the financial statements. |
| 2 Disclosure | £1,565 | Note 25 – Financial Instrument Risks | Borrowing from the Local Enterprise Partnership was originally classified as long term borrowing, despite this being due for repayment within the next 12 months. The disclosure has been updated to ensure this amount is correctly reflected in short term borrowing. |
| 3 Disclosure | N/A | Note 36 – Amounts reported for Resource Allocation Decisions | Management have agreed to provide some further narrative to clarify the level of payroll costs incurred during the year. |
| 4 Disclosure | Various | Note 38 – Pension Costs | The draft financial statements did not include all disclosures required by the CIPFA Code in respect of the Local Government Pension Scheme. These have been included in the final version of the financial statements. |

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) 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.

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 undertaken a review which considered your arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that you have robust financial management arrangements in place, and your Medium Term Financial Plan is updated on an annual basis. We have however identified that you need to identify an additional £900k of savings in both 2016-17 and 2017-18. Whilst you have a proven track record of delivering savings, £10m since 2007-08, the identification of these savings remains a risk to your medium term financial health.

Challenging economy, efficiency and effectiveness

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

- Prioritising resources
- Improving efficiency & productivity

Our work highlighted that again you have sound arrangements in place but there are a number of areas of residual risk which you will need to continue to manage closely to ensure they do not have any adverse impact on your business:

- the development of your Local Plan; and
- progress of the Brightwells Development in Farnham;

Further details are included in the following pages, which discuss each of the specific themes considered under the Audit Commission guidance.

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 you have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015. We are therefore proposing an unqualified VfM conclusion.

We set out below our detailed findings against six risk areas which have been used to assess your 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"> You achieved a £485k underspend against your General Fund Revenue Budget for 2014-15, some of which has been carried forward to your budget for 2015-16. You have maintained your General Fund Balance in excess of your approved level of £3.2m, this level of reserves has been consistent for several years now. | Green |
| Strategic financial planning | <ul style="list-style-type: none"> Our review of the 2015-16 budget confirms that you have applied all of the relevant considerations, such as the changes in government grants. You have also updated your Medium Term Financial Plan (MTFP) to cover the period from 2015 to 2019, taking account of further changes to items such as inflation and interest rates. You were able to set a balanced budget for 2015-16, but you are currently forecasting the need to identify an additional £900k of savings in each of the next two financial years. This is in addition to the £10m which you have saved since 2007-08. You have a good track record of achieving savings and have established arrangements in place to support the identification of savings such as your Star Chamber process. However savings of this nature in the next two years of your MTFP pose a challenge and a residual risk to your strategic financial planning. | Amber |
| Financial governance | <ul style="list-style-type: none"> We have identified strong arrangements in place to ensure robust financial governance, in particular there is an appropriate level of involvement from senior management and members in the financial management and annual budgeting processes. Regular reports are issued to the relevant Committees on performance against general fund budgets, capital spend and treasury management. This is important to enable effective oversight. It is also clear that the level of information included within these reports is complete, accurate and reliable, which is driven by the strong financial systems that you have in place. | Green |
| Financial control | <ul style="list-style-type: none"> Our review of Internal Audit's reports identified that no significant issues were identified in respect of your key financial systems. This was also supported by the work we performed during our audit. It is also clear that your budget setting process is detailed and robust, going through the Star Chamber process, Corporate Overview and Scrutiny Committee and the Executive before being put before Full Council for final approval. This is supported by robust budget monitoring and challenge during the year, in particular by management and the Executive. | Green |

| Theme | Summary findings | RAG rating |
|--|--|--------------|
| Prioritising resources | <ul style="list-style-type: none"> As mentioned above, we have identified strong arrangements in place to ensure robust Financial Governance, including a sufficient level of involvement from senior management and members in the financial management and annual budgeting processes. This is supported by having reliable information easily available from its financial systems. You have a number of key strategic risks which are currently being managed, which include the Brightwells development in Farnham, and the development of your Local Plan. Given the potential impact of these areas, it is important that you continue to manage these areas carefully to ensure they obtain the maximum benefit for the residents of Waverley. In particular ensuring the Brightwells development achieves best consideration will be critical given the time and resources which have been invested in the project to date. | Amber |
| Improving efficiency & productivity | <ul style="list-style-type: none"> As detailed above, we are satisfied that you have strong financial management arrangements in place, and are able to identify areas where further efficiencies can be generated, in particular via the use of the Star Chamber process. The MTFP is updated based on recurring savings, rather than one-off areas and this is important in ensuring your savings plans are delivering on a sustainable basis. | 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:

| Theme | Residual risk identified | Management comments |
|--|--|---|
| Strategic Financial Planning | You have identified the need to locate an additional £900k of savings in each of the next two financial years. Whilst you have a good track record of achieving savings, savings of this level to pose a challenge and residual risk to your strategic financial planning. It is important that you continue to monitor progress to identify any potential shortfalls as soon as possible so mitigating actions can be taken. | In the light of the projected savings target, officers are already working with key Members to ensure that the 16/17 budget process is effective and robust. This is likely to involve a more intense scrutiny of budgets and future service plans from Heads of Service. Officers will continue to monitor progress in this year to ensure that shortfalls and surpluses are identified and reported as appropriate. |
| Strategic Financial Planning/Prioritising Resources | The Brightwells development continues to remain a key priority, the development successfully broke ground during April 2015 meaning the existing planning application remains valid. Discussions with the developers remain in progress and you are aware of the need to obtain best consideration for the site, which will be critical given the time and resource invested in the project to date. | The Brightwells planning application has now been implemented and work has started on site. Officers continue to work with Crest and the funder to refine the financial and legal proposals of this complex project to enable them to be reported to Members for the appropriate decisions. External legal and property advice is being sought as required to ensure that due process is followed. |
| Strategic Financial Planning/Prioritising Resources | Linked to the above, your processes to develop and update the Local Plan appear to be robust, and involve the right level of stakeholder involvement. You have been clear in communicating progress to date. However the plan provides a key plank in how you will manage development in the Borough, in particular the development of more affordable housing. The Plan will be an important factor in enabling you to deliver many of your priorities over the coming years. | The Council recognises that the Local Plan is an important priority and is putting significant resources into its production. Following a major consultation exercise in 2014, officers are working through the required stages in accordance with the detailed project plan. Members are being informed of progress throughout the process. |

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

| | Per Audit plan £ | Actual fees £ |
|--|---------------------|------------------|
| Council audit | 71,851 | 71,851 |
| Shottermill Recreation Ground Trust (*) | TBC | TBC |
| Ewart Bequest Trust (*) | TBC | TBC |
| Grant certification on behalf of Audit Commission (**) | 13,240 | 13,240 |
| Total audit fees | 85,091 | 85,091 |

* We have not yet started our Independent Examinations in respect of the Council's two Trusts, and thus the final fees will only be confirmed once this work is complete.

** The work on the Council's Housing Benefit Return is still in progress at the report date, in line with the national timetable. Any fee variation in respect of this work will be discussed and agreed with the Council should the need arise, and will be reported to the Committee at a later date if applicable.

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 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 (UK&) 260, as well as other (UK&I) 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 (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

| Our communication plan | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and 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 | | ✓ |
| Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud | ✓ | ✓ |

Appendix

Appendix A: 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

We have audited the financial statements of Waverley Borough Council for the year ended 31 March 2015 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, the 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 2014/15.

This report is made solely to the members of Waverley Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer 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 2014/15, 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 also 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's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; 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 2015 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 2015 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 2014/15 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 are required to 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; or
 we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
 we designate under section 11 of the Audit Commission Act 1998 a 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

Appendix A: Audit opinion (continued)

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

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 in October 2014.

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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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 2014, 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 2015.

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 Audit Practice issued by the Audit Commission.

Iain Murray
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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xx September 2015



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