# The Audit Findings Report for Waverley Borough Council

**Year ended 31 March 2023**

**25 March 2024**

**Draft – subject to the completion of our outstanding work**

# Contents

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This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

Name: **Matt Dean**
**For Grant Thornton UK LLP**
Date: **March 2024**

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

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Waverley Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed remotely during November 2023 and January to March 2024. Our findings are summarised on pages 6 to 21. We have identified three (3) corrected adjustments that have nil impact on the General Fund. We also noted three (3) uncorrected adjustments with a potential **£1.033 million** impact on the Council's Comprehensive Income and Expenditure Statement (CIES). All material errors have been adjusted by the Council while sum of all undusted errors are not material. There were some minor presentational adjustment that were amended by the Council. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Completion of our outstanding testing (refer to page 6 for the detail)
- final reviews of the audit file by manager and engagement lead;
- receipt of management representation letter and
- review of the final set of financial statements.

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

Our anticipated financial statements audit report opinion will be unmodified, however we will need to consider whether there is any potential impact from the ongoing investigation into the letting of housing maintenance on our audit report prior to this being issued.

# 1. Headlines

| Value for Money (VFM) arrangements | |
|---|---|
| Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.<br>Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:<br>• Improving economy, efficiency and effectiveness;<br>• Financial sustainability; and<br>• Governance | We have completed almost all of our VFM work, which is summarised on page 19, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.<br>However, we cannot conclude on VFM until we been able to satisfy ourselves that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources following the ongoing investigation to determine whether correct governance processes were followed in the letting and management of housing maintenance contracts and its effects are limited to Guildford Borough Council and do not have any impact on Waverley Borough Council. We will provide a further update to Management and Those Charged with Governance following the outcome of that investigation to confirm whether it will have any impact on our Value for Money Conclusion or not. |
| **Statutory duties** | |
| The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• to certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion. |
| **Significant matters/difficulties** | During the audit we encountered difficulties in obtaining sufficient and timely responses from the Council which delayed audit progress, which was somewhat down to a level of turnover within the Council's finance team, but also a reflection of some challenges from our side of things as well. At this stage both teams are working closely to bring the audit to a close in a timely manner, subject to the resolution of the outstanding queries mentioned on page 6, and the ongoing investigation mentioned above. |

# 1. Headlines

## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us.

## National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We performed a benchmarking analysis on long-term borrowing as a proportion of long-term assets (%), the average % of borrowing over assets is 31%. The Council is below average at 22% and is in the middle of the scale compared to other district councils.

# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 March 2024. These outstanding items include:

- Outstanding testing in relation to the following areas:
  - Group accounts
  - Debtors
  - Valuation of HRA – Council dwellings, investment properties, other land and building
  - Asset componentisation
  - Completeness of expenditure
  - Other operating expenditure
  - Employee benefit expenditure
- final review of the audit file by manager and engagement lead;
- receipt of management representation letter and
- review of the final set of financial statements.

### Acknowledgements

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

# 2. Financial Statements

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan as there was not a significant change in the gross expenditure of the Council and the Group.

We set out in this table our determination of materiality for Waverley Borough Council and the Group.

| | Group Amount (£) | Council Amount (£) | Qualitative factors considered |
|---|---|---|---|
| Materiality for the financial statements | 1,571,000 | 1,562,000 | We have determined financial statement materiality for the group based on a proportion of the gross expenditure of the groups for the financial year. Materiality of our audit equates to 2% of your gross expenditure for the period for group and council. |
| Performance materiality | 1,178,250 | 1,171,500 | We have determined our performance materiality to be set at 75% of our overall materiality. This threshold is used to determine the extent of our audit procedures and to assess the materiality of any potential misstatements that may be identified during our audit. |
| Trivial matters | 78,600 | 78,100 | We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at 5% of materiality. |

# 2. Financial Statements: Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Commentary | Risk relates to |
|---|---|---|
| The revenue cycle includes fraudulent transactions (rebutted) | Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br><br>Having considered the risk factors set out in ISA 240 and nature of the revenue streams at Waverley Borough Council, we have determined that the risk of fraud arising from revenue recognition on the remaining revenue streams can be rebutted, because:<br>• There is little incentive to manipulate revenue recognition<br>• Opportunities to manipulate revenue recognition are very limited<br>• The culture and ethical frameworks of local authorities, including Waverley Borough Council, mean that all forms of fraud are seen as unacceptable.<br><br>While we have rebutted the significant risk over revenue, we have performed testing over all material income streams. During this testing we have identified that £5.17 million of grant incomes were incorrectly classified as fees and charges income. We have reported this as an adjusted misstatement (for detail refer to Appendix D) and made a recommendation in Appendix B. No other issues have been identified from the work performed in this area. | Group and Council |
| The expenditure cycle includes fraudulent transactions | In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).<br><br>We have also considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied the control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is strong. We have not found significant issues, errors or fraud in expenditure recognition in the prior years' audits.<br><br>To address this risk, we:<br>• obtained an understanding of the design effectiveness of controls relating to operating expenditure.<br>• performed testing over post-year end transactions to assess completeness of expenditure recognition.<br>• tested a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year.<br><br>Our audit work is complete, and we did not identify any material issues that require reporting. | Group and Council |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary | Risk relates to |
|---|---|---|
| Management override of controls | Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.<br><br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.<br><br>To address this risk, we:<br>• Evaluated the design effectiveness of management controls over journals.<br>• Analysed the journals listing and determined the criteria for selecting high risk unusual journals.<br>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.<br>• Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.<br>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>From our audit we identified two issues, firstly, we identified that a member of the finance team has been granted administrative super user access, which creates a conflict of responsibility. Secondly, we also identified a control deficiency related to journal authorisation procedure, the Council's financial system (Agresso) did not have integrated controls in place to ensure that journal entries were properly authorised before posting to the general ledger, and the control for journals authorisation process was not operating effectively. We have reported these recommendation in Appendix B. While we noted the above issues, we did not identify any material management override of controls or any issue with actual sample of journals tested for 22-23. | Group and Council |
| Valuation of investment properties | Waverley Borough Council revalue its investment properties on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved i.e., £37.398 million (PY £39.986 million) and the sensitivity of this estimate to changes in key assumptions.<br><br>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used.<br><br>To address this risk, we:<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• Evaluated the competence, capabilities and objectivity of the valuation expert;<br>• Wrote to the valuer to confirm the basis on which the valuation was carried out;<br>• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation;<br>• For a sample of assets, tested revaluations made during the year to see if they had been input correctly into the asset register; and<br>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.<br><br>Our audit work has not been finalised, however, at the time of writing this report, we have not identified any issues in respect of valuation of investment properties. We will provide an update to Management and Those Charged with Governance should any issues be identified from our remaining testing. | Council |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary | Risk relates to |
|---|---|---|
| Valuation of land and building (including council dwellings) | Waverley Borough Council revalue its land and buildings including council dwellings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved i.e., £628.053 million (PY £597.646 million) and the sensitivity of this estimate to changes in key assumptions. This includes the £15.584 million land and building owned by the subsidiary.<br><br>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used.<br><br>To address this risk, we:<br><br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• Evaluated the competence, capabilities and objectivity of the valuation expert;<br>• Wrote to the valuer to confirm the basis on which the valuation was carried out;<br>• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation;<br>• For a sample of assets, tested revaluations made during the year to see if they had been input correctly into the asset register; and<br>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.<br><br>Our audit work has not been finalised yet, however, at the time of writing this report, we have identified two preliminary recommendations and unadjusted misstatements.<br><br>Firstly, we have identified that the Council did not perform key reviews over expert data, resulting in two issues. The first issue is related to incorrect instruction provided to the external valuer, leading to the double counting of 32 housing dwellings (value £2.9 million) which led to a revised HRA valuations certificate being issued however currently a difference between the external valuation report and the Council's fixed asset register amounting to £433k still exists, resulting in an understatement of HRA portfolio at year-end. The second issue is related to the Council not providing information on additions and disposals to the valuer, leading to the valuation of assets that had already been disposed of at 31.03.2023, and capital additions made in the fixed asset register (FAR) that were not included in the valuation report. The impact of this on valuation is not material.<br><br>Secondly, we have identified that the Council did not prepare an analysis for other land and building (OLB) assets that had not been revalued during the year to get assurance that non-valued assets have been fairly stated in the financial statements. However, we have performed a fair value analysis to develop an expectation based on the opening balances as at 1 April 2022 by using indices and identified an understatement of £419k. Upon reporting of the issue, management has decided not to amend as this is below materiality threshold, and it has been reported as an unadjusted misstatement.<br><br>We will provide a further update to Management and Those Charged with Governance should any further issues be identified from our remaining work in this area. | Group and Council |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary | Relates to |
|---|---|---|
| Valuation of pension fund net liability | The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£16.962m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.<br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.<br>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.<br>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions, we have therefore identified valuation of the Council's pension fund net liability as a significant risk.<br><br>To address this risk, we:<br><br>• Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;<br>• Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;<br>• Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;<br>• Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;<br>• Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and<br>• Obtained assurances from the auditor of Surrey County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.<br>The Surrey Pension Fund auditors identified a £6 million undervaluation of level 3 investments due to timing differences of valuation between 31 December 2022 and 31 March 2023. The calculated difference allocated to the Council is £180k which the Council has decided not to adjust as this is below materiality threshold. Please refer to Appendix D for details.<br>In addition to above, the pension fund auditors also identified one investment totalling £7.6 million where the auditor's report on the investments was unqualified but reported an 'emphasis of matter' on going concern, valuation other than FRS102 and in liquidation. The Council's share on this investment of £228k was not considered material. Th emphasis of matter does not mean the asset valuation is incorrect at PF however it raises issue that there is uncertainty in valuation of assets. | Council |

# 2. Financial Statements: Key findings arising from the group audit

| Component | Component auditor | Findings | Group audit impact |
|---|---|---|---|
| Waverley Borough Council | Grant Thornton UK LLP | We plan to issue an unmodified audit opinion for Waverley Borough Council. No material issues were identified which will have an impact on the group. | None |
| Shottermill Recreation Ground Trust | Grant Thornton UK LLP | During our consolidation work, we have identified an issue relating to the presentation of cash held by the Council on behalf its subsidiaries (Trusts). Please refer to Appendix D for detailed explanation. | Yes |
| The Bequest of Joseph Ewart | Grant Thornton UK LLP | During our consolidation work, we have identified an issue relating to the presentation of cash held by the Council on behalf its subsidiaries (Trusts). Please refer to Appendix D for detailed explanation. | Yes |

# 2. Financial Statements: key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Valuations of land and buildings<br>NBV - £86.323 million | The Council carries out a rolling programme of revaluations that ensures that all property, infrastructure assets, plant and equipment required to be measured at current value is re-valued at least every five years.<br>Other land and buildings that were revalued in 2022/23 amounts to £81.78 million which consist of specialised assets such as leisure centre and theatre amounting to £53.35 million, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings revalued in year amounting to £28.43 million are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Montagu Evans to complete the valuation of properties as at 31 March 2023 on a five yearly rolling basis. About 97% of total assets were revalued during 2022/23.<br>Assets amounting to £1.49 million have been valued within the HRA portfolio but included in the OLB by the Council. The remaining assets amounting to £3.057 million were not revalued during the year. After depreciation and impairment, and other movements, the total year end net carrying value of Other Land and Buildings was £86.32 million, which was a net decrease of £0.15 million from the 2021/22 (£86.47 million). | The Council has engaged Montagu Evans for the valuation of other land and buildings. We have considered and completed the following in the course of our audit:<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• Evaluated the competence, capabilities and objectivity of the valuation expert;<br>• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; and<br>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.<br>Our audit work has not been finalised yet, however, at the time of writing this report, we have identified one preliminary recommendations and unadjusted misstatements. Please refer to Appendix B and D for further details on recommendations and unadjusted misstatements. | **TBC** |

**Assessment**

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

# 2. Financial Statements: key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Valuations of HRA Council dwelling<br>NBV - £541.73 million | The Council owns 4,798 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Montagu Evans to complete the valuation of these properties. The year end valuation of Council Housing was £541.73 million, a net increase of £30.56 million from 2021/22 (£511.17 million).<br><br>HRA Council Dwellings valuations involved an accounting estimate and is done by management's expert Montagu Evans. Montagu Evans is the external valuer whom the Council have commissioned to provide a full inspection and valuation of the HRA Council Dwelling portfolio which is valued as Existing Use Value for Social Housing (EUV-SH). Valuations are subject to annual (desktop) reviews with a full revaluation every five years or carried out on a rolling programme covering different parts of the stock every year. Where the Council owns a share of the interest in a property the value of the equity share must be included. The value of the share should be adjusted on the same EUV-SH basis as the rest of the HRA dwellings. Any revaluations recognized in the accounts will be based on this annual valuation work, this valuation work will also highlight buildings where an impairment has occurred. | We considered and completed the following in the course of our testing:<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• Evaluated the competence, capabilities and objectivity of the valuation expert;<br>• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; and<br>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.<br><br>Our audit work has not been finalised yet, however, at the time of writing this report, we have identified two preliminary recommendations and unadjusted misstatement. Please refer to Appendix B and D for further details on recommendations and adjusted misstatements. | **TBC** |

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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# 2. Financial Statements: key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Valuations of investment properties<br>NBV - £37.398 million | The Council's investment property portfolio has a value of £37.398 million as at 31 March 2023. All Investment properties have been valued at fair value in 2022/23.<br><br>The valuation represents a significant estimate by management in the financial statements which is sensitive to changes in assumptions and market conditions. The Council has engaged the services of a qualified valuer, Montagu Evans, who is a regulated Member of the Royal Institute of Chartered Surveyors (RICS), to estimate the current value of its investment properties.<br><br>The total year end valuation of investment property was £37.398 million, a net decrease of £2.588 million from 2021/22 (£39.986 million). | We considered and completed the following in the course of our testing:<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;<br>• Evaluated the competence, capabilities and objectivity of the valuation expert;<br>• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; and<br>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.<br><br>Our audit work has not been finalised, however, at the time of writing this report, we have not identified any issues in respect of valuation of investment properties. We will provide an update to Management and Those Charged with Governance should any issues be identified from our remaining testing. | **TBC** |

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Valuation of net pension liability – LGPS - £1.6962 million** | The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.<br><br>At 31 March 2023 the Council has a net pension liability of **£16.962 million** (2021-22 **£62.868 million**) relating to the Local Government Pension Scheme, as administered by Surrey Pension Fund.<br><br>The Council uses an external actuary Hymans Robertson to provide an actuarial valuation estimate of the Council's assets and liabilities deriving from these schemes. A full valuation is required every three years.<br><br>The latest full actuarial valuation was completed in 2022-23 for the LGPS. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements. | We have considered and completed the following in the course of our testing:<br>• We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate.<br>• We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations.<br>• We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable.<br>• The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were | Light Purple |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 4.75% | 4.75% | ● |
| Pension increase rate | 3.00% | 2.95% to 3.00% | ● |
| Salary growth | 4.00% | 4.00% | ● |
| Life expectancy – Males currently aged 45/65 Future Pensioners | 22.3 Years<br>23.4 Years | As per PwC, the life expectancy ranges may now be significantly wider at both the lower and upper bounds. The potential difference in range can be around 8-10 years at the extremes of individual employer level life expectancies. | ● |
| Life expectancy – Females currently aged 45/65 Future pensioners | 24.8 Years<br>26.3 Years | | ● |

**Assessment**

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

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Valuation of net pension liability – LGPS - £1.6962 million (cont'd)** | | • With regards to the mortality on the PwC report, they are comfortable with Hymans Robertson's approach to estimating mortality rates.<br>• We have reviewed the completeness and accuracy of the underlying information used to determine the estimate.<br>• We have confirmed there were no significant changes in 2022/23 valuation method and IAS19 assumptions are reasonable.<br>• We have reviewed the reasonableness of increase/decrease in estimate.<br>• We have reviewed the adequacy of disclosure of estimate in the financial statements.<br>The Surrey Pension Fund auditors identified a **£6 million** undervaluation of level 3 investments due to timing differences of valuation between 31 December 2022 and 31 March 2023. The calculated difference allocated to the Council is **£180k** which the Council has decided not to adjust as this is below materiality threshold.<br>In addition to above, the pension fund auditors also identified one investment totalling **£7.6 million** where the auditor's report on the investments was unqualified but reported an 'emphasis of matter' on going concern, valuation other than FRS102 and in liquidation. The Council's share on this investment of **£228k** was not considered material. Please refer to Appendix D for details. | ● Light Purple |

**Assessment**

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

# 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

| | | | ITGC control area rating | | | | |
|---|---|---|---|---|---|---|---|
| IT application | Level of assessment performed | Overall ITGC rating | Security management | Technology acquisition, development and maintenance | Technology infrastructure | Related significant risks/other risks | Additional procedures carried out to address risks arising from our findings |
| Agresso | ITGC assessment (design and implementation effectiveness only) | ● | ● | ● | ● | Management override of controls | N/A |
| iTrent | Understanding of process and controls | ● | ● | ● | ● | Payroll | N/A |

● In our IT general controls testing work we were able to test the design of local controls that exist at the council; however, we were not able to test programme changes and batch scheduling and monitoring which is done by the service organisation Midland HR, we were not able to obtain a service auditor's report from Midland HR. We confirmed that no super user exist in the finance team for payroll and in our testing of payroll we did not identify any material issues, however its best practise to obtain service auditors report if the council intends to continue to use services of Midland HR. Service organization report on IT controls provides an independent assessment of the effectiveness of IT controls and provides assurance to various stakeholders that controls necessary to protect systems and data are operating effectively and council should seek to know the overall posture of security by obtaining this report from the service auditors.

**Assessment**

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

# 2. Financial Statements: other communication requirements

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

| Issue | Commentary |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council. |
| Audit evidence and explanations | All information and explanations requested from management was provided. |
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to relevant investments held with third parties and to relevant banks to support our review of the Council's year-end cash and investment balances. This permission was granted, and the requests were sent out with all requests having been received. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. |
| Audit evidence and explanations/ significant difficulties | During the audit we encountered difficulties in obtaining timely responses from the Council which delayed audit progress. The initial responses were not always sufficient and appropriate which required a considerable element of back and forth to resolve, however we acknowledge that some of this challenge came from the audit side of things, alongside the turnover within the finance team. Overall, we feel the audit and finance teams are working constructively together to resolve outstanding audit queries to achieve the completion of the audit. |

# 2. Financial Statements: other communication requirements

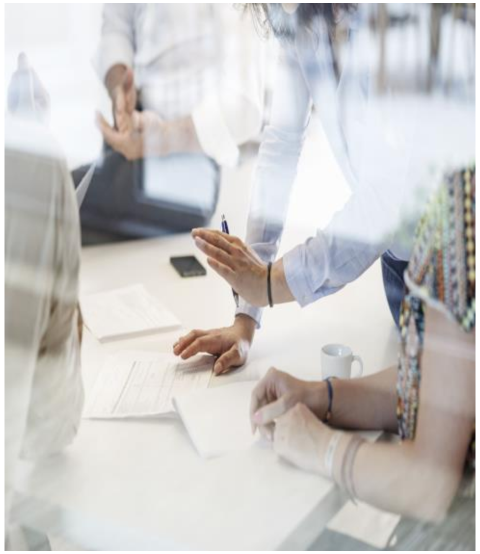
### Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

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

# 2. Financial Statements: other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br><br>No inconsistencies have been identified. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses.<br><br>We have nothing to report on these matters. |
| Specified procedures for Whole of Government Accounts | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br><br>Note that work is not required as the Council does not exceed the threshold. |
| Certification of the closure of the audit | We will be unable to certify the completion of the 2022-23 audit of Waverley Borough Council until the completion of the investigation into the housing maintenance contracts, to consider any impact this may have on our Value for Money Conclusion. |



# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

### Improving economy, efficiency and effectiveness

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

### Financial Sustainability

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

### Governance

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

## Potential types of recommendations

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

### Statutory recommendation

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

### Key recommendation

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

### Improvement recommendation

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

# 3. VFM: our procedures and conclusions

We have completed our VFM work, which is summarised on page 19, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. Our work on the Council's value for money (VFM) arrangements is provisionally complete. However, we cannot conclude on VFM until we been able to satisfy ourselves that the Council has made proper arrangements in securing economy, efficiency and effectiveness in its use of resources following the ongoing investigation to determine whether correct governance processes were followed in the letting and management of housing maintenance contracts and its effects are limited to Guildford Borough Council and do not have any impact on Waverley Borough Council.

# 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

### Audit and non-audit services

For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Certification of Housing Benefit grant | [TBC] | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is immaterial in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Certification of Housing Capital receipts grant | [TBC] | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is immaterial in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

# 5. Independence and ethics

As part of our assessment of our independence we note the following matters:

| Matter | Conclusion |
|---|---|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity. |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals. |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships | We have not identified any business relationships between Grant Thornton and the Council. |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place for non-audit services provided. |
| Gifts and hospitality | We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff that would exceed the threshold set in the Ethical Standard. |

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

# Appendices

# A. Communication of audit matters to those charged with governance

| Our communication plan | Audit Plan | Audit Findings Report |
|---|---|---|
| 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 including significant risks | • | |
| 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 | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

### Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# B. Action Plan – Audit of Financial Statements

We have identified [6] recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| ● Medium | **Super user access** – Our review of the journals process identified that a member of the finance team has been granted administrative super use access. We performed testing over journals posted by the super user and performed a reasonability test on if there were any journals approved by the super user. We have not identified any issues.<br><br>The combination of operational/financial responsibilities with the ability to administer end user security is considered a segregation of duty conflict. It creates a risk that system-enforced internal controls could be bypassed, leading to unauthorised changes being made to user accounts and logging mechanisms. | We recommend that the management review the list of users with administrative access and confirm if it aligns with their roles and responsibility. We recommend that management should implement a proper and timely journal authorisation procedure that includes clear identification of the authoriser, documentation of the reason for the entry, and timely review and approval. This would help to ensure that journal entries are properly authorised before being posted to the general ledger, reducing the risk of material misstatement.<br><br>**Management response**<br><br>[TBC] |
| ● Medium | **Lack of authorisation** – We identified a control deficiency related to journal authorisation procedures during our audit. Our testing revealed that the client's financial system (Agresso) did not have integrated authorisation controls in place to ensure that journal entries were properly authorised before posting to the general ledger.<br><br>The lack of proper journal authorisation procedures increases the risk of fraudulent or erroneous journal entries being posted to the general ledger. This could lead to misstatements in the financial statements, which could have a significant impact on the overall accuracy and reliability of the financial information reported. | We recommend that management should implement a proper and timely journal authorisation procedure that includes clear identification of the authoriser, documentation of the reason for the entry, and timely review and approval. This would help to ensure that journal entries are properly authorised before being posted to the general ledger, reducing the risk of material misstatement.<br><br>**Management response**<br><br>[TBC] |
| ● Medium | **Service auditor's report** – In our IT general controls testing work, we were able to test the design of local controls that exist at the council; however, we were not able to test programme changes and batch scheduling and monitoring which is done by the service organisation Midland HR, we were not able to obtain a service auditor's report from Midland HR. We confirmed that no super user exist in the finance team for payroll and in our testing of payroll we did not identify any material issues.<br><br>The lack of access to the Midland HR system and the absence of a service auditor's report increase the risk of errors and inaccuracies in payroll processing, which could lead to incorrect payments being made to employees. | We recommend that the Council obtains a service auditor's report from Midland HR to provide assurance over the programme changes and batch scheduling and monitoring processes.<br><br>**Management response**<br><br>[TBC] |

**Controls**

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

# B. Action Plan – Audit of Financial Statements (continued)

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | Fees and charges income reclassification – Our audit of fees and charges income identified that grant incomes were incorrectly classified as fees and charges income. This resulted in an overstatement of fees and charges income by £5.17 million and an understatement of Government Grants & Contribution and Capital Grants & Contributions by £4.12 million and £1.05 million respectively. Upon our reporting of the issue, management has decided to amend the accounts to reflect the correct classification of grant incomes. This will impact the comparative figures in CIES, we are awaiting the change for 21-22 figures once management communicate the numbers to us. This is also reported as adjusted misstatement in Appendix D.<br><br>The misclassification of grant incomes as fees and charges income increases the risk of material misstatement in the financial statements. This could impact the overall accuracy and reliability of the financial information reported. | We recommend that the management implement additional controls to ensure the correct classification of fees and charges income and grant incomes. Management should also perform regular reviews of income classifications to identify any misclassifications or errors.<br><br>Management response<br><br>[TBC] |
| Medium | Classification of CIL Debtors – During our audit of debtors, we identified a control deficiency related to the classification of Community Infrastructure Levy (CIL) debtors. Our testing revealed that some of these debtors were receivable 12 months after the year-end date, yet they were classified as short-term debtors rather than long-term debtors. This misclassification resulted in a misstatement of the short-term and long-term debtor balances in the financial statements. This is also reported as adjusted misstatement in Appendix D. We are working with finance team to assess the actual impact on long term debtors at the time of writing this report.<br><br>The misclassification of short-term and long-term debtors increases the risk of material misstatement in the financial statements. This could impact the overall accuracy and reliability of the financial information reported. | We recommend that management should establish a formal process to review and assess the classification of all short-term and long-term debtors to ensure they are correctly classified. This would involve checking the receivable dates of debtors and ensuring that they are appropriately classified as short-term or long-term based on their expected payment dates.<br><br>Management response<br><br>[TBC] |
| Medium | Group reporting – During our consolidation work, we identified an error related to the reporting of cash held by the Council on behalf of its subsidiaries (Trusts). Specifically, we found that in the Group accounts, cash and cash equivalents under current assets and current liabilities were overstated by £1.785 million, as the cash held by the council on behalf of the subsidiaries was consolidated twice.<br><br>Upon further examination, we also identified a classification error. In the separate financial statements of Trusts, cash held by the Council was presented under current assets as “Deposits with Waverley Borough Council”, but in the Group accounts, they were presented under “cash and cash equivalents,” which is not consistent with the separate financial statements of the Trusts.<br><br>The overstatement of both group current assets and current liabilities increases the risk of material misstatement in the financial statements. This could impact the overall accuracy and reliability of the financial information reported. We are working with finance team to assess the actual impact 21-22 and 22-23 group accounts at the time of writing this report. | We recommend that management should establish a formal process and robust control for the group consolidation work. This would involve the appropriate elimination of intra-group transactions and appropriate review of the consolidation work before production of the accounts.<br><br>Management response<br><br>[TBC] |

**Controls**

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

# B. Action Plan – Audit of Financial Statements (continued)

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| ● Medium | Lack of analysis of OLB assets not revalued – Our audit of other land and building (OLB) identified a control deficiency that the Council has not prepared an analysis for OLB assets that are not revalued during the year to get assurance that non-valued assets have been fairly stated in the financial statements. As at year-end, non-valued OLB assets amount to £3.06 million for the Group, comprising of £2.96 million for the Council and £0.1 million for the Trusts. However, we have performed a fair value analysis to develop an expectation based on the opening balances as at 1 April 2022 by using indices and identified an understatement of £0.42 million. Upon reporting of the issue, management has decided not to amend as this is below materiality threshold. We have reported this understatement as unadjusted misstatement in Appendix D.<br>The lack of analysis on non-valued assets in the OLB increases the risk of material misstatement in the financial statements. This could result in an inaccurate valuation of assets and affect the overall reliability of financial information. | We recommend that the Council implement additional controls to ensure that OLB assets not revalued during the year are subject to a detailed analysis to provide sufficient assurance that non-valued assets are fairly stated in the financial statements. This could include the regular preparation and review of detailed analyses by the finance team, as well as the use of independent valuers to assess the fair value of OLB assets.<br>Management response<br>[TBC] |
| ● Medium | Expert data – Our HRA – Council Dwellings revaluation work initially identified a £3.39 million difference between the fixed asset register (FAR) and the external valuer's revaluation report. Upon further examination, we found £2.96 million difference was due to the provision of incorrect information to the external valuer by the Council, resulting in double counting of 32 housing dwellings, however, valuer subsequently provided revised valuation report resulting in the resolution of this difference. The remaining £433k is the difference between the updated valuation report and the fixed asset register (FAR) resulting in understatement of HRA portfolio at year end. Management has decided not to amend this as this is below the materiality threshold. We have reported this understatement as unadjusted misstatement in Appendix D.<br>Furthermore, our work has identified a control deficiency relating to the effectiveness of the communication between the Council and the external valuer. We have identified that, during the 2022/23 valuation period, additions amounting to £2.5 million and disposals amounting to £1.76 million, were not communicated to the external valuer that has led to valuation of assets that had already been disposed of, and assets in the fixed asset register (FAR) that were not included in the valuation report.<br>Not performing key reviews over expert data, typically involving material estimates, can result in critical data inputs being incorrect. | We recommend that management review the data sent to the valuer and validate data provided by its experts. This should include performing reconciliations between the expert data and Council data to ensure completeness and accuracy.<br>Management response<br>[TBC] |
| ● Medium | In our IT general controls testing for payroll, we were able to test the design of local controls that exist at the council; however, we were not able to test programme changes and batch scheduling and monitoring which is done by the service organisation Midland HR, we were not able to obtain a service auditor's report from Midland HR. We confirmed that no super user exist in the finance team for payroll and in our testing of payroll we did not identify any material issues. | We recommend the council obtain service auditors report as it provides an independent assessment of the effectiveness of IT controls and provides assurance to various stakeholders that controls necessary to protect systems and data are operating effectively and council should seek to know the overall posture of security by obtaining this report from the service auditors.<br>Management response<br>[TBC] |

# C. Follow up of prior year recommendations

We identified the following issues in the audit of Waverley Borough Council's 2021/22 financial statements, which resulted in a recommendation being reported in our 2021/22 Audit Findings Report. We are pleased to report that management have implemented all of our recommendations.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | Our review of Starters and Leavers process identified a control finding. During our testing on starters and leavers, WBC were unable to provide approval forms for two starters and three leavers. We were, however, able to test additional samples reasonably and found no issues.<br><br>Lack of evidence raises the risk of error and non-compliance going undetected. It can also lead to inability to prove compliance and undermine trusts credibility with respect to financial reporting. | HR have built a checklist into their new starter and leaver process which includes an email to be sent to inform of any changes to staff. This is predominantly completely by the HR Admin, or alternatively the HR Officers in their absence. A copy of the checklist is filed onto an individual's civica file.<br><br>Our testing of starters, leaver and changes in circumstances made to employee data during 2022-23 did not identify any issues. |

**Assessment**

✓ Action completed

**X** Not yet addressed

# D. Audit Adjustments – adjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

| Detail | CIES £'000 Debit / (Credit) | Statement of Financial Position £' 000 Debit / (Credit) | Impact on total net expenditure £'000 Debit / (Credit) | Impact on general fund £'000 Debit / (Credit) |
|---|---|---|---|---|
| Our audit of fees and charges income identified that grant incomes were incorrectly classified as fees and charges income. This resulted in an overstatement of fees and charges income by £5.17 million and an understatement of Government Grants & Contribution and Capital Grants & Contributions by £4.12 million and £1.05 million, respectively. | Fees & Charges Income £5,172<br><br>Government Grants & Contribution (£4,123)<br><br>Capital Grants & Contributions (£1,049) | Nil | Nil | Nil |
| During our audit of debtors, we identified a control deficiency related to the classification of Community Infrastructure Levy (CIL) debtors. Our testing revealed that some of these debtors were receivable 12 months after the year-end date, yet they were classified as short-term debtors rather than long-term debtors. We are working with finance team to assess the actual impact on long term debtors at the time of writing this report | Nil | [TBC] | Nil | Nil |
| **Overall impact** | £0 | £0 | £0 | £0 |

# D. Audit Adjustments – presentation and disclosure

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Presentation and disclosure changes

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

| Disclosure/issue/Omission | Auditor recommendations | Adjusted? |
|---|---|---|
| Note 8 & Group MIRS – Our review of draft financial statements identified that Housing Revenue Account Reserve £9,913k and Major Repair Reserve (£697k) are disclosed separately in Note 8, however, in the Group MIRS, they are disclosed as net under Housing Revenue Account balance as £9,216k which has resulted in inconsistency within the financial statements. | We recommend that management disclosed these reserves consistently between Note 8 and Group MIRS.<br>Management response<br>Management has agreed to amend the financial statements. | Yes, subject to review of revised accounts |
| Note 11 Grant Income – Our audit of grants identified that two grants have been accounted twice as follows:<br>- Garden communities Programme, £81k<br>- Local Authority Housing Fund Capital Grant, £167k<br>The above grants were correctly included in the non-ringfenced government grants (other revenue grants) and Capital Grants (Note 33) respectively but were still included in the Grants credited to services which has led to incorrect reporting in Note 11. | We recommend that management remove these two grants from Note 11.<br>Management response<br>Management has agreed to amend the financial statements. | |
| Note 4 (Estimation Uncertainty) – Our review of draft financial statements identified that management has not included estimation uncertainty note relating to "Defined Benefit Obligation" in 'Note 4 - Assumptions made about the future and other major sources of estimation uncertainty' which has led to omission of estimation certainty note relating to significant balance in the financial statements. | We recommend that management include estimation uncertainty note relating to Define Benefit Obligation in Note 4.<br>Management response<br>Management has agreed to amend the financial statements. | Yes, subject to review of revised accounts |
| HRA Note 1 – Our review of draft financial statements identified that management has not explained the nature of 'Other Land and Building' in HRA Note 1 that amounts to £648k. | We recommend that management include an explanation as to the nature of 'Other Land and Building' in HRA Note 1 to improve the presentation of the note.<br>Management response<br>Management has agreed to amend the financial statements. | Yes, subject to review of revised accounts |

# D. Audit Adjustments – unadjusted misstatements

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement £'000 Debit / (Credit) | Statement of Financial Position £' 000 Debit / (Credit) | Impact on total net expenditure £'000 Debit / (Credit) | Impact on general fund £'000 Debit / (Credit) | Reason for not adjusting |
|---|---|---|---|---|---|
| Our HRA – Council Dwellings revaluation work initially identified a £3.39 million difference between the fixed asset register (FAR) and the external valuer's revaluation report. Upon further examination, we found £2.96 million difference was due to the provision of incorrect information to the external valuer by the Council, resulting in double counting of 32 housing dwellings, however, valuer subsequently provided revised valuation report resulting in the resolution of this difference. The remaining £433k is the difference between the updated valuation report and the fixed asset register (FAR) resulting in understatement at year end. | Surplus on revaluation of non-current assets (£433) | PPE – Council Dwellings £433<br>Unusable Reserves – (£433) | (£433) | (£433) | Management has decided not to amend this as this is below the materiality threshold. |
| Our audit of other land and building (OLB) identified a control deficiency that the Council has not prepared an analysis for OLB assets that are not revalued during the year to get assurance that non-valued assets have been fairly stated in the financial statements. As at year-end, non-valued OLB assets amount to £3.06 million for the Group, comprising of £2.96 million for the Council and £0.1 million for the Trusts. However, we have performed a fair value analysis to develop an expectation based on the opening balances as at 1 April 2022 by using indices and identified an understatement of £0.42 million. | Surplus on revaluation of non-current assets (£420) | PPE – Council Dwellings £420<br>Unusable Reserves – (£420) | (£420) | (£420) | Management has decided not to amend this as this is below the materiality threshold. |

# D. Audit Adjustments – unadjusted misstatements

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

| Detail | Comprehensive Income and Expenditure Statement £'000 Debit / (Credit) | Statement of Financial Position £' 000 Debit / (Credit) | Impact on total net expenditure £'000 Debit / (Credit) | Impact on general fund £'000 Debit / (Credit) | Reason for not adjusting |
|---|---|---|---|---|---|
| The Surrey Pension Fund auditors identified a £6 million undervaluation of level 3 investments due to timing differences of valuation between 31 December 2022 and 31 March 2023. The pension fund account has not been amended for the timing difference as it is not material. The calculated difference allocated to the Council based on 3% asset share over the total pension asset is £180k. In effect, the net pension fund liability is overstated by the same amount as at 31 March 2023. | Remeasurement of net pension liability – (£180) | Pension liability – £180<br>Unusable Reserves – (£180) | (£180) | (£180) | Management has decided not to amend this as this is below the materiality threshold. |
| **Overall impact** | (£1,033) | £0 | (£1,033) | (£1,033) | |

# E. Fees and non-audit services

Please see below our planned fee. We will communicate our final upon completion of audit.

| Audit fees | Proposed fee |
|---|---|
| Scale fee published by PSAA | £48,995 |
| Group audit | £3,000 |
| VFM reporting | £9,000 |
| Increased audit requirements of revised ISA 540 | £2,100 |
| Journals and grants testing | £3,000 |
| Enhanced audit procedures for Payroll – Changes in circumstances | £500 |
| Enhanced audit procedures for Collection fund – reliefs testing | £750 |
| Increased audit requirements of revised ISA 315 / 240 | £3,000 |
| **Total proposed audit fee 2022-23 (excluding VAT)** | **£70,345** |
| **Additional Fees proposed due to audit delays** | TBC |
| **Total audit fees (excluding VAT)** | **TBC** |

Reconciliation of fee to the financial statements

| | |
|---|---|
| Fee per financial statements | £72k [Exc VAT] |
| Fee per Audit Plan | £70k [Exc VAT] |

Variance is due to a difference between the accrual and the estimate and will be updated as part of the accounts closure.

# E. Fees and non-audit services

| Non-audit fees for other services | Proposed fee |
|---|---|
| **Audit Related Services** | TBC |
| Housing Benefit Subsidy Return | TBC |
| Certification of Pooling of Housing Capital Receipts Return | TBC |
| **Total non-audit fees (excluding VAT)** | **£TBC** |

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

# F. Auditing developments

## Revised ISAs

**There are changes to the following ISA (UK):**

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

**A summary of the impact of the key changes on various aspects of the audit is included below:**

**These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.**

| Area of change | Impact of changes |
|---|---|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:<br>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures<br>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control<br>• the controls for which design and implementation needs to be assess and how that impacts sampling<br>• the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• increased emphasis on the exercise of professional judgement and professional scepticism<br>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence<br>• increased guidance on management and auditor bias<br>• additional focus on the authenticity of information used as audit evidence<br>• a focus on response to inquiries that appear implausible |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.<br>• Consideration is also being given to the potential impacts on confidentiality and independence. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• clarification of the requirements relating to understanding fraud risk factors<br>• additional communications with management or those charged with governance |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

# G. Management Letter of Representation

**Waverley Borough Council**
**Financial Statements for the year ended 31 March 2023**

This representation letter is provided in connection with the audit of the financial statements of Waverley Borough Council and its subsidiary undertakings Shottermil Recreation Ground Trust and The Bequest Joseph Ewart for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

i. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

ii. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

i. Except as disclosed in the group and Council financial statements:

  a. there are no unrecorded liabilities, actual or contingent

  b. none of the assets of the group and Council has been assigned, pledged or mortgaged

  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

# G. Management Letter of Representation

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. The financial statements are free of material misstatements, including omissions.

i. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

ii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvii. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

# G. Management Letter of Representation

**Information Provided**

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council’s financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements,from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council’s Audit Committee at its meeting on 25 March 2024

**Signed on behalf of the Council**

grantthornton.co.uk