Grant Thornton

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Audit Findings

Year ending 31 March 2018

Guildford Borough Council

16 July 2018

Contents

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Headlines

This table summarises the key issues arising from the statutory audit of Guildford Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • your financial statements give a true and fair view of your financial position and of the group and your expenditure and income 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 Statement of Accounts, 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 on site June and July. Our findings are summarised on pages 4 to 12. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Governance and Standards Committee meeting on 26 July 2018, as detailed in Appendix D. These outstanding items include: - remaining testing areas as at 16 July (set out in 'Summary' page); - final senior management internal quality review of testing areas completed - receipt of signed management representation letter; and - review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of your value for money arrangements. We have concluded that Guildford Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 13 to 16.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • 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.

Acknowledgements

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

Summary

Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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 your business and is risk based, and in particular included:

- An evaluation of your internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks; and
- While we have not sought to place direct reliance on the work performed by your internal auditors, their reports and draft Head of Internal Audit opinion have been used to inform our risk assessment process.

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 Corporate Governance and Standards Committee meeting on 26 July 2018, as detailed in Appendix D. These outstanding items include:

- Investments confirmations; Financial instruments and Debt; Housing benefits substantive testing; Related party disclosures; Leases (Property, Plant and Equipment); Pension disclosures.
- final senior management internal quality review of testing areas completed;
- receipt of signed management representation letter; and
- review of the final set of financial statements.

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Summary

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 calculations remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	2,193,000	This is based on 2.00% of your gross revenue expenditure for the year 2017/18. This benchmark was chosen based on our knowledge of District Councils, your reporting framework and how stakeholders use your accounts.
Performance materiality	1,645,000	This is based on 75% of the materiality benchmark.
Trivial matters	110,000	This is based on 5% of materiality and represents the level above which uncorrected omissions or misstatements are reported to those charged with governance. Items below this are deemed to be ‘trivial’ for this purpose.

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Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
Management's assessment is based on the public sector interpretation of going concern as the continuation of the provision of services to support the preparation of the accounts on a going concern basis. Management has considered the Council's financial performance planning documents and cash flow expectations in considering that no material uncertainties need to be disclosed.	• We agree with management's assessments on the use of the going concern basis of accounting. • Management's processes for assessing going concern are adequate. • The forecasts are produced and reviewed by the finance team and the Director of Finance.
Work performed	**Auditor commentary**
We reviewed management's assessment of going concern provided to us, in conjunction with our knowledge and understanding of you. We reviewed your financial performance and submitted forecasts.	• No material uncertainty has been identified. • We have not requested any enhanced disclosures with respect to going concern.
Concluding comments	**Auditor commentary**
	• As we agree with management's assessment, there is no impact on our audit opinion.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Guildford Borough Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Guildford Borough Council.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** • We have performed the following work: – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of accounting estimates, judgements and decisions made by management – review of unusual significant transactions – review of significant related party transactions outside the normal course of business Our audit work has not identified any issues in respect of management override of controls.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** You revalue your land and buildings on a quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** We have performed the following work: • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with your valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into your asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. Our audit work has not identified any issues in respect of the valuation of property, plant and equipment.
4	**Valuation of pension fund net liability** Your pension fund asset and liability as reflected in your balance sheet represents a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration	**Auditor commentary** We have performed the following work: • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. Our audit work has not identified any issues in respect of the valuation of pension fund net liability.

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Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
5	**Employee remuneration** Payroll expenditure represents a significant percentage (24%) of your operating expenses. As the payroll expenditure comes from a number of individual transactions with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; and • reviewed the completeness of payroll expenditure through substantive analytical procedures. We did not identify any issues in respect of this risk.
6	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage (54%) of your operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated your accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of your system for accounting for non-pay expenditure and evaluate the design of the associated controls; and • Considered the completeness of liabilities through a review of post year-end bank statements and other sources. We did not identify any issues in respect of this risk.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue from the sale of goods is recognised when the Council transfers the risks and rewards of ownership to the purchaser and it is probable that the economic benefits of the service potential of the transaction will flow to the Council. • Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that the economic benefits or service potential of the transaction will flow to the Council. • Revenue relating to non-contractual, non-exchange transactions such as council tax, business rates and housing rents are measured at the full amount receivable when it is probable that the economic benefits of the transaction will flow to the Council.	Your accounting policy for revenue recognition covers all major revenue streams and is appropriate under the CIPFA Code. There is limited judgement involved in revenue recognition other than around the impairment of receivables, which is disclosed in the note on assumptions and sources of estimation uncertainty. The disclosure of the accounting policy is sufficiently clear.	Green
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund et liability – Provision for NNDR appeals – Other provisions	The critical areas of judgement applied in compiling your financial statements have been explained in the statement of accounts. You are advised by external experts in relation to property and pension fund valuations. We have reviewed the work of experts and we have not identified concerns regarding the independence or skills of your experts. Where estimates and judgements have been applied by officers we are satisfied that they are free from material bias.	Green
Other critical policies		We have reviewed your policies against the requirements of the CIPFA Code of Practice. Your accounting policies are appropriate and consistent with previous years.	Green

Assessment
- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Corporate Governance and Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**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.
4	**Written representations**	• A standard letter of representation has been requested from you.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to your banks and investment institutions. This permission was granted and the requests were sent and provided.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Significant difficulties**	• All information and explanations requested from management were provided; no significant difficulties encountered.

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Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, 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. No material inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix D
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as you do not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2017/18 audit of Guildford Borough Council in the audit opinion, as detailed in Appendix D

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Value for Money

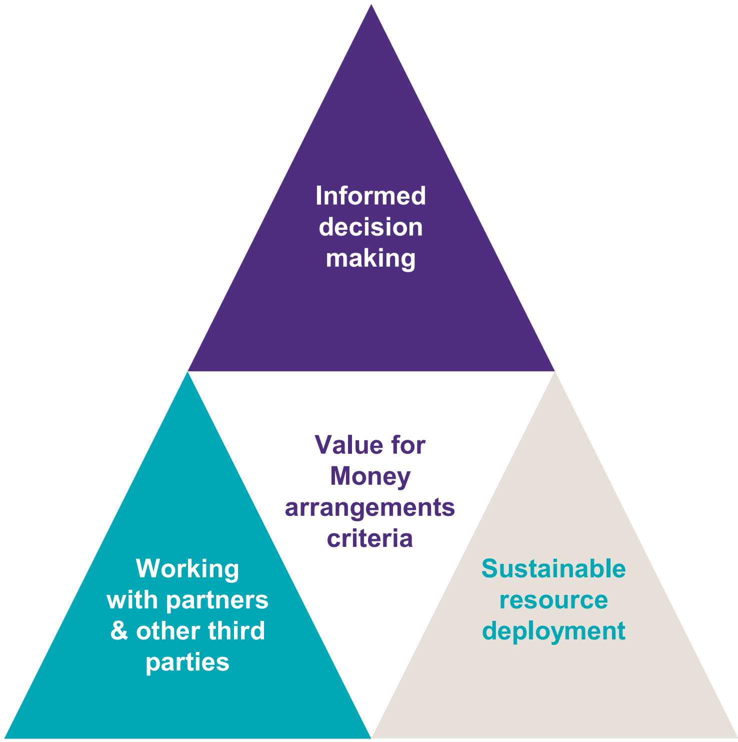
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 29 March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

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

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Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- You identified a £8.5 million budget gap for the four years from 2019/20 to 2022/23 and, along side pursuing income generation streams, you have commissioned an external specialist to review the potential for alternative operational modes.
- Your capital programme and treasury management strategies have been combined in line with best practice under the revised CIPFA Prudential Code 2018, although there remains a considerable underspend against the approved plan.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 15 to 16.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

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

Recommendations for improvement

We did not identify any recommendations for improvement.

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Medium Term Financial Planning** • You have identified a cumulative gap of some £3.4 million between projected resources and budgeted expenditure over the four years to 2021/22 *[updated to £8.5 million to the four years to 2022/23].* In part, this relies on continuing to deliver the budgeted level of savings from existing projects. You have identified a need for longer term transformation of service delivery to be able to deliver sustainable services in the period covered by the medium term financial strategy.	• Since the time of our risk assessment (February 2018) a revised Medium Term Financial Strategy (MTFS) has been prepared, due for submission to Executive on 17 July. This identifies a cumulative gap of £8.5 million for the four years to 2022/23. • This represents a £5.1 million increase on the previously identified gap and is due primarily to the inclusion of an estimated £5.674 million from the impact of negative Revenue Support Grant (RSG). Negative RSG had been included in the previous iteration of the MTFS, but at a lower overall total (£2.671 million). • You have adapted your MTFS to address feedback you received from a Local Government Association peer review, performed in December 2017, as well as to reflect updated guidance and government legislation on capital expenditure and investments. • The Local Government Finance Settlement in December 2017 stated that it would consult on the removal of 'negative RSG', so far, no consultation has been issued. You have forecast the impact of negative RSG as being £0.674 million in 2019/20 and a further cumulative £5.0 million in the subsequent three years and have amended your MTFS to reflect this. • You have undertaken a sensitivity analysis on the potential gap in your MTFS and have commissioned external consultants *Ignite* to assist in developing a cross-cutting transformation programme entitled 'Future Guildford' to explore alternative organisational models. The consultants have performed similar reviews at other comparable local authorities. The exact scope of this review is under development, you have indicated you would like to review areas such as a 'customer-first' approach, procurement, ICT investment and process automation. The aim of this transformation is to deliver savings in the medium term. The impact of the transformation has not yet been quantified in your MTFS as the project is in an early stage and the timings and nature of potential savings remain uncertain. • You are also exploring ongoing income generation opportunities including: - the expansion of North Downs Housing Ltd. as a vehicle to enable you to provide homes across a range of tenures other than social rent - the approval and continued expansion of your capital programmes - the development or expansion of commercial services where you may benefit from local opportunities and synergies with local partnerships • Part of your response to the constraints in public sector funding has been to set aside underspends in previous years to fund future budget pressures, anticipated gaps in business rates income and to put aside monies to enable you to invest in schemes to deliver savings in future years. Your earmarked reserves at 31 March 2018 are just over £41 million which is considerably higher than the current gap in your MTFS. • It was also noted that the Council has not fully achieved all of the savings target identified in the 2017-18 budget. £0.22 million of unachieved savings have been carried forward into the 2018/19 budget, which already includes a £0.5 million target; the combined transformation budget for 2018/19 is therefore £0.72 million.	**Auditor view** • A proposed revision to the MTFS has been made, which would see an increase in the cumulative gap from £3.4 million to £8.5 million. • This is a significant increase and has been driven primarily by the adoption of prudent assumptions over the future impact of Negative RSG, to the value of £5.674 million. (A lower value of £2.671 million had been previously included). • To mitigate this, the Council are engaging external consultants with a view to identifying opportunities for organisational transformation. • On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities. **Management response** • Corporate Management team recognise the need to generate significant savings in the Council's on-going general fund revenue budget to enable the council to remain financially sustainable in the future. We recognise that the achievement of planned savings in the past year has not been on target leaving us with a greater issue for 2018-19. As a result we have engaged external support to both help address the scale and pace at which savings need to be achieved.

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
2	**General Fund capital programme** • You approved a General Fund Capital Programme for the five years to 2022/23. This is an area of considerable spend, with a net cost to you of £96 million, and involves decision-making against a backdrop of many variables. The execution and timing of capital expenditure may also have revenue implications.	• In February 2018, the Capital and Investment Strategy was released, being a new requirement under the revised CIPFA Prudential Code 2018. This formally brings together your capital programme and your treasury management annual strategy into a single report. This is designed to strengthen the link between capital spending and treasury management, both of which are administered and reported by the Financial Services Manager. • Your capital programme is re-profiled on a rolling basis; the results of this re-profiling are reported to the Corporate Governance & Standards Committee 3-4 times a year. • Your general capital programme was approved for £100 million expenditure in 2017/18 and only £14 million was incurred. Within the overall capital plan, £64 million was for 'Development: Income Generating' and only £11 million was incurred. For reasons of commercial sensitivity the reasons for slippage in the capital programme are generally not reported in public forums, although internal monitoring takes place on a project by project basis. (N.B. the £96 million quoted in the risk refers to the net financing requirement over the five-year period, being the additional external financing the Council will require during this time.) • Underspending against capital budgets is not uncommon in Local Authorities. At Guildford, the key reason for slippage is due to difficulties in profiling the length of the project for budget and completion purposes. In some cases, capital project owners are optimistic in their profiling. This was noted as an issue in our prior year VfM review. As detailed in response to a prior year-recommendation (see page 18) with respect to expenditure profiling, the Council have introduced training for service leaders on business case preparation. • Your Capital and Investment Strategy is governed in a way that seeks to align to your Corporate Plan and social agenda, a key aim of your strategy is to develop commercial returns on the your investments. Within this, identifying investment opportunities is a key element and governance structures are in place to support this as well as arrangements to divest investments with poor returns (in the case of investment properties) or identifying alternative uses for operational assets. Both types of assets are reviewed against your *Asset Management Framework.* Investment Properties are reviewed by a specific Group (Investment Property Fund Management Group) with representation from Finance and Asset Development staff and senior officers. Examples were provided of recent divestments / reallocations of use amongst both Investments and Operational property. Although the primary focus has tended to be on Investment Properties, the ongoing use of Operational property will fall within the scope of the 'Future Guildford' review noted in slide 15.	**Auditor view** • While we have assessed that you have governance arrangements for the approval of bids and monitoring of performance, you continue to experience significant underspends against your approved programme of expenditure indicating the opportunity to strengthen your profiling. Delayed implementation of your capital programme may prevent you fully achieving your medium and long term financial and strategic objectives. • On this basis, we concluded that the risk was sufficiently mitigated and you have proper arrangements in place for capital programme forecasting and monitoring effectively to support the sustainable delivery of strategic priorities, but that a continued focus on the accuracy of capital profiling is required. **Management response** • Finance are continuing to work with managers to facilitate the realistic profiling of schemes.

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Independence and ethics

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

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 you. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	1,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,500 in comparison to the total fee for the audit of £57,533 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.
Non-audit related			
Place Analytics and CFO Insights License	14,500	Self-interest (because this is a recurring fee). Familiarity, advocacy, self-review.	The non-audit service is being provided by a completely separate team to minimise the threat of familiarity. Grant Thornton will provide training but not any analysis so there is no threat of advocacy or self-review. Officers will be trained to use the system and have the skills to use the service and will then exercise their own judgement. The annual fee is only 25% of the annual statutory audit fee (£57,533).

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council]'s policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Governance and Standards Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

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Follow up of prior year recommendations

We identified the following issues in the audit of Guildford Borough Council's 2016/17 financial statements, which resulted in 3 recommendations being reported in our 2016/17 Audit Findings report. *We are pleased to report that management have implemented all of our recommendations.*

	Assessment	Source, Issue and risk previously communicated [Implementation Date and Responsibility]	Update on actions taken to address the issue
1	✓	2016/17 Value for Money. We recommend that the newly established Transformation Board consider ways in which its work can be more explicitly aligned to existing Risk reporting and that progress on existing savings plans is monitored in greater detail. Priority: Medium [Director of Resources, November 2017]	• Sep 2017: The Transformation Board will introduce a RAG rated savings risk register and monitor the register at each meeting. • July 2018: Following this recommendation, the Transformation Board have now introduced a RAG rated savings risk register, which is a standing item at its meetings.
2	✓	2016/17 Value for Money. We recommend that the Council consider ways in which the timing of expenditure can be predicted more effectively. Priority: Medium. [Head of Financial Services, February 2018].	• Sep 2017: The Council will continue to train and raise awareness of service managers regarding the importance of project expenditure profiling and the impact on the council's general fund revenue budget. • July 2018: We have introduced training for service leaders on business case preparation. In addition, the Director of Finance provides regular update to CMT and Service leaders regarding the financial position of the council and its budget.
3	✓	2016/17 Accounts. We recommend that the Council implements a process to ensure all disposals are communicated to finance and updated in the asset register. Priority: Medium. [Head of Financial Services, March 2018]	• Sep 2017: Agreed. We will review the procedures in place around disposals to ensure that we capture this information completely as part of disposal and closedown procedures • July 2018: A system of in-year information updates, supplemented by year-end completeness checks, has now been introduced and applied. *Audit note: we have not identified any instances of uncommunicated or uncaptured disposals in our audit procedures over the 2017/18 statement of accounts.*

Assessment
✓ Action completed
X Not yet addressed

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Follow up of prior year recommendations

We identified the following issues in the audit of Guildford Borough Council's 2015/16 financial statements, which resulted in 2 recommendations being reported in our 2015/16 Audit Findings report. *We have followed up on the implementation of our recommendations and note that both of these remain in progress; management have provided updates below.*

	Assessment	Source, Issue and risk previously communicated [Implementation Date and Responsibility]	Update on actions taken to address the issue
4	In progress	2015/16 Accounts. The Council's Acceptable Use Policy and ICT Security Policy have not been reviewed or updated since 2008 and 2013 respectively. Without regular review, there is a risk that the policies and related procedures are no longer applicable to the needs and security of the business, which may compromise the company's IT computing environment. Recommendation: Review IT policies at least annually or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness. Once reviewed and approved by management, the policy should be published and communicated to all employees and relevant third parties. Priority: Medium [ICT Manager, March 2017]	• Sep 2016: ICT is currently undergoing a structure review under the leadership of a new ICT Manager. ICT policies will be looked at and regular maintenance schedules will be reviewed as part of this restructure. • Sep 2017: Key policies are now being reviewed and published. Following the completion of the ICT restructure and the appointment of a new Dev/Ops Manager (anticipated Q4 2017) the on-going review and publication cycle will be fully implemented by this individual using the document and knowledge management function in the new service desk product, NetHelpDesk. • July 2018: Key policies were approved in July by the Corporate Management Team. On this basis we regard this recommendation as in progress, and implemented subject to appraisal at the Executive Committee (expected for the 25th September agenda) and, where required, full Council.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations

	Assessment	Source, Issue and risk previously communicated [Implementation Date and Responsibility]	Update on actions taken to address the issue
5	In Progress	2015/16 Accounts. Security administrators for ICT systems rely on the line managers and HR to notify them when users leave the Council. We noted that HR only sends reports of leavers on a quarterly basis. The eFinancials teams performs a weekly access review by checking the users against Windows Active Directory list to ensure users not on this have access rights disabled promptly. However, there is a risk that the windows user list may not be up to date because of delays in leavers being notified. There is a potential risk that accounts belonging to leavers remain enabled within these systems. These accounts could be subject to misuse by other employees. Recommendation: All logical access within financially critical systems belonging to leavers should be revoked in a timely manner upon their departure from the Council. Security/System administrators should be provided with (a) timely, proactive notifications from HR of leaver activity for anticipated terminations and (b) timely, per-occurrence notifications for unanticipated terminations (e.g. monthly rather than quarterly). Security/system administrators should then use these notifications to either (a) end-date user accounts associated with anticipated leaver's date or (b) immediately disable user accounts associated with unanticipated leavers. Priority: Medium [ICT Manager & HR Systems Administrator, December 2016].	• Sep 2016: The majority of new pc users at Guildford Borough Council are not paid through the Selima system. A large number of staff who are paid through Selima do not have access to a pc and have no contact with ICT. HR are not usually informed when agency or casual staff leave (the managers simply stop paying their timesheets/invoices) and HR have no involvement with consultants, who are paid directly by Financial Services. Guildford Borough Council is unusual in that we use an exceptionally high number of agency, casual and consultants. HR did set up an automated email function in April 2013, which emails nominated users when leavers are put through the HR system. ICT do not receive these emails because the majority of the affected staff do not have system access. This is therefore an extremely inefficient way to manage users with a significantly increased risk of genuine leaver records being lost in the high volume of casual staff notifications. HR and IT have continually reviewed the situation and are aware of the residual risk. It is therefore proposed to commission a full review of the processes for starters, movers and leavers. This review will need to involve key stakeholders including hiring managers, HR, payroll, ICT and Financial Services. The outcome of this HR lead review will be to deliver a single policy and supporting processes for GBC to reduce the identified risks and support accurate reporting of all employees including permanent staff, casuals, agency works and consultants for consideration by CMT. • Sep 2017: This remains in progress. Management contend that a large number of staff (Casual, Agency, Consultants) are not given IT access due to the nature of their role, and that a leaver capture system based solely on IT access risks not capturing complete leaver information. Therefore methods are being explored by which line managers' reports can be tailored to ensure that the leaver reporting appropriately captures all types of staff (Permanent, Casual, Agency). This process is currently in development and also covers movers and starters. • July 2018: As part of the Future Guildford transformation project, the Council will consider changing its HR policies on recording employees regardless of the route for engagement and the use of Selima as the authoritative identity source which can be automatically linked to account provisioning and management.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements
We have not identified or proposed any adjustments aside from misclassification and disclosure changes; see next section.

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 13 – Property, Plant and Equipment	Accumulated depreciation on the revaluation of the crematorium was not written back to gross cost at the point of revaluation. As a result, the gross cost and accumulated depreciation on the crematorium are both overstated by £0.505m. The underlying net book value of the asset however is correct, and so this finding has no impact on the overall Balance Sheet position.	• The Note 13 disclosure should be amended to reflect this finding. **Management response** • These have been adjusted.	✓
Note 25 – Capital Expenditure and Financing	£3.414m of capital assets incorrectly classified as operational assets whereas they should be classified as assets under construction. Note that this finding only impacts Note 25; the underlying Property, Plant and Equipment classifications in Note 13 are correct.	• The Note 25 disclosure should be amended to reflect this finding. **Management response** • These have been adjusted.	✓

In addition to these misclassification adjustments, we have also identified a number of minor changes (such as formatting / textual corrections); these are not individually significant enough to warrant separate inclusion within this audit findings report and have been adjusted following discussions with the Finance team.

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Audit Adjustments

Impact of unadjusted misstatements

We have not identified or proposed any adjustments aside from misclassification and disclosure changes – see above.

Impact of prior year unadjusted misstatements

There are no unadjusted misstatements from prior year.

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Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	57,533	57,533
Grant Certification (Housing Benefit subsidy certification)	19,993	TBC
Total audit fees (excluding VAT)	**£77,526**	**TBC**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Our fees for Grant Certification (Housing Benefit subsidy certification) falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services: • Grant Certification (Housing Capital Receipts)	1,500
Non-audit services [list] • Place Analytics and CFO Insights License	14,500
	£16,000

DRAFT Audit opinion

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

DRAFT Independent auditor's report to the members of Guildford Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Guildford Borough Council (the 'Authority') for the year ended 31 March 2018 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Who we are reporting to

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

Conclusions relating to going concern

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

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

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **[**xx to xx**]** the Chief Financial Officer's Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement Of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Corporate Governance and Standards Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

Report on other legal and regulatory requirements - Certificate

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

Draft – Signature to be inserted

Sarah Ironmonger
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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[Date]

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