

The Audit Findings for Guildford Borough Council

Year ended 31 March 2017

21 September 2017

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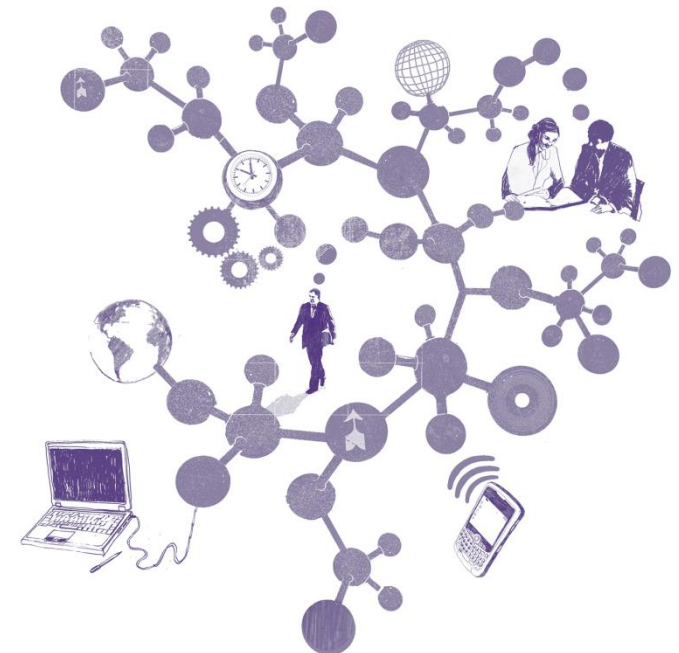
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21 September 2017

Dear Members

Audit Findings for Guildford Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Guildford Borough Council, the Corporate Governance and Standards Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Elizabeth Jackson

Engagement lead

Chartered Accountants

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Section 1: Executive summary

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03. Value for Money

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Purpose of this report

This report highlights the key issues affecting the results of Guildford Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- viewing a sample of PPE and Investment Properties to verify existence
- review of cashflow statement and CIES allocation
- review of councillors' allowances and officers remuneration
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. Specific discussions will be held following the conclusion of our audit to discuss ways in which the financial reporting and external audit process can be further streamlined to ensure a successful Early Close in 2017/18.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position). The draft financial statements for the year ended 31 March 2017 recorded a surplus on Provision of Services of £9,746k; we have not identified any changes. We have however agreed a small number of changes to disclosures within notes to the primary statements and some improvements in the presentation of the financial statements.

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

- The Council produced a good set of financial statements supported by comprehensive working papers in line with the timescales agreed. Officers have responded promptly and helpfully to queries that we raised during the course of the audit.
- The Council has reduced the time taken to produce its statements this year. We have discussed with finance staff how the accounts production and audit processes can be further streamlined to meet the requirement in 2017/18 to produce accounts by 31 May and audited by 31 July.
- We have not identified any adjustments which impact on the primary statements. We have identified some changes to disclosures in the accompanying notes and suggested improvements to the presentation of the statements which officers have accepted.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

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

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Corporate Governance and Standards Committee in early 2018.

Our certification work to date has not identified any additional findings.

The way forward

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

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

Acknowledgement

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

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £2,200k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality upon receipt of the draft financial statements.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £110k. This remains the same as reported in our audit plan.

We have not identified any specific items in the draft financial statements that require a lower materiality to be set for 2016/17.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Guildford Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Guildford Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • We reviewed and documented the Council's entity-level controls, including those around the processing and authorisation of journals. • We tested journal entries made by officers which met criteria identified from our understanding of the Council's controls. • We reviewed the key accounting estimates, judgements and decisions made by management. • We reviewed the financial statements for unusual significant transactions. We did not identify significant transactions that were unexpected for the Council. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding substantively tested payroll expenditure for Months 1 – 12 completed an analytical review to identify unusual trends and to assess the completeness of payroll expenditure 	<p>Our audit work has not identified any issues in respect of employee remuneration.</p>
Operating expenses	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding substantively tested operating expenses for Months 1 – 12 Reviewed a sample of post-year end transactions to assess the completeness of operating expenses 	<p>Our audit work has not identified any issues in respect of operating expenses.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Valuation of surplus assets and investment property / revaluation measurements not correct</p>	<p>The CIPFA Code of Practice implemented IFRS 13 for the 2015/16 financial statements. 2015/16 was the first year in which the Council was required to include surplus assets within property, plant and equipment and investment property in its financial statements at fair value, as defined by IFRS 13.</p> <p>While no errors were identified in its application by the Council in 2015/16 (either in terms of valuation or disclosure requirements), the continued presence of highly material investment property balances (and surplus assets) and the extent of judgement involved in these valuations means this continues as an area of focus.</p> <p>In addition, while not all properties fall within the scope of IFRS 13, the Council revalue land and buildings and investment properties on an annual basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> • We identified and documented the controls put in place by management to ensure that the revaluation process does not give rise to a material misstatement. • We reviewed management's processes and assumptions for the calculation of the estimate, reviewing the competence, expertise and objectivity of management's valuation experts; and reviewing the instructions issued to the valuation experts and the scope of their work. • We discussed with the valuer the basis on which the valuation was carried out and challenged the reasonableness of the key assumptions and why other assumptions were not used. • We reviewed and tested the information provided by management to the valuer in calculating the estimate to ensure it was robust and consistent with our knowledge of the assets being valued. • We tested the revaluations made during the year to ensure they were input correctly into the Council's asset register, and appropriate accounting entries were made in the financial statements. • We reviewed the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13. 	<p>Our audit work has not identified any issues in respect of the valuation of surplus assets and investment property / the appropriateness of revaluation measurements.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our audit work has not identified any issues in respect of the changes to the presentation of the financial statements.</p>
<p>Valuation of the pension fund net liability</p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented the key controls that were put in place by management to ensure that the pension fund liability and associated transactions were not materially misstated. walked through the key controls to assess whether they were implemented as expected to mitigate the risk of material misstatement in the financial statements. reviewed the competence, expertise and objectivity of the actuary who carried out the valuation of the Council's pension fund asset and liability, including using an auditor's expert to give comfort over the key assumptions used in the valuation. obtained assurance from the auditor of Surrey pension fund that controls around the inputs into the valuation were operating effectively to prevent material misstatement. gained 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. ensured that transactions and balances relating to the pension fund asset and liability and disclosures in notes to the financial statements were consistent with the valuation report from your actuary and properly processed in your financial statements. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability, or of transactions and disclosures relating to it in the financial statements.</p>

Audit findings against other risks continued


Going concern

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&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the going concern basis is appropriate for the 2016/17 financial statements.

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> 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 economic benefits or 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 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. 	<p>The Council's 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.</p>	 Green

Assessment


● Marginal accounting policy which could potentially attract attention from regulators appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Estimates and judgements</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> The judgement as to whether individual assets are classified as property, plant and equipment, investment property or heritage assets. The basis of valuation of property, plant and equipment and investment property. The estimated useful lives of property, plant and equipment and consequent depreciation on these assets. The valuation of pension fund asset and liability. The valuation of provision for doubtful debts. The valuation of provision for losses arising from appeals against business rating decisions. 	<p>We have reviewed the basis of the estimates and judgements and the disclosure of these in the Council's financial statements.</p> <ul style="list-style-type: none"> We are satisfied with the Council's judgement as to whether assets are property, plant and equipment, investment property or heritage assets and with the disclosure of this within Note 30. We have considered the independence, objectivity and capability of your valuers and determined we could place reliance on their work. We have reviewed the basis of the valuation and ensured that you had correctly reflected the results of their work in your financial statements. We concluded that property, plant and equipment and investment property were materially fairly valued in your financial statements, including those assets which were not revalued in the current year, (although we have requested a management representation with respect to the assumptions used) and that the disclosure of the valuation in your financial statements was satisfactory. We performed a substantive analytical review of depreciation against our expectations based on the value of assets and useful economic lives and concluded that depreciation on your assets was materially fairly stated. We reviewed the disclosure of depreciation methods and useful lives in your statements, including disclosure of estimation uncertainty, and found this to be satisfactory. We have considered the independence, objectivity and capability of your pension fund actuary and determined we could place reliance on their work. We gained assurance over the inputs into the valuation of the pension fund asset and liability from the work of the auditors of the Surrey Pension Fund. We have reviewed the actuary's report and are satisfied that you have correctly reflected the results of their work in your financial statements, including the disclosures which are required by the Code. We are also satisfied with the disclosure of estimation uncertainty in respect of this estimate. We have reviewed the basis of your calculation of the provision for doubtful debts and of the provision for losses arising from appeals against business rating decisions and are satisfied that these are materially fairly stated in your financial statements and that disclosure of the estimation uncertainty in respect of both these estimates is sufficient. 	<p style="text-align: center;">  Green </p>



Assessment

● Marginal accounting policy which could potentially attract attention from regulators appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	Members and officers have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy

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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with management, internal audit and the Corporate Governance and Standards Committee, who did not bring any matters in relation to fraud to our attention. 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 to bring to your attention.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed. The disclosure note has been amended to clarify that an individual grant paid to a voluntary organisation of £22,840 is part of the total grants paid in 2016/17 of £60,310 separately reported in the note.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included in the Corporate Governance and Standards Committee papers.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from PWLB for the relevant loans the Council has with PWLB. We also requested from management permission to send confirmation requests to a number of counterparties to cash and cash equivalent balances. Management have co-ordinated the confirmation of investment and borrowings confirmation requests, although we have received such confirmation responses directly and have therefore maintained control of the process. As at the date of writing the report, 1 September 2017, we have not received direct confirmations from two institutions. We have therefore undertaken alternative procedures, including confirmation to certificates of deposit for these balances held by the Council.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following 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 information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are not required to carry out any procedures in respect of the Council's whole of government accounts return as the Council is below the threshold where work is required.</p>

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> From our testing of employee remuneration (in 2014/15 and 2015/16) we identified a software issue whereby the Council's payroll system incorrectly calculates employer national insurance contributions relating to childcare payments. This led to a classification issue within gross pay costs and did not affect expenditure in the financial statements. The Council was satisfied that the issue relates only to classification between the salary and NI subjectives, and does not result in an error in NI contributions remitted to HMRC. 	<p>Payroll Manager: There was not a problem with the system (Selima); this was a configuration problem, which has now been corrected.</p> <p>[Audit comment: our sample testing has not identified a re-occurrence of this as an issue in 16/17]</p>
2.	✓	<ul style="list-style-type: none"> We identified a further software issue (in 2014/15 and 2015/16) whereby the pension contributions were incorrectly calculated for new starters commencing employment part-way through a month. From further work performed, we were satisfied in both years that this will not result in a material misstatement to the Council's employee remuneration costs. The risk is that amounts remitted to Surrey Pension Fund are incorrect. We have concluded however (in both years) that the amounts involved are immaterial from an accounts perspective. 	<p>Payroll Manager: A new item has been added to the starter checklist and any system calculation is manually overridden.</p> <p>[Audit comment: our sample testing has not identified a re-occurrence of this as an issue in 16/17]</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3.	In progress	<ul style="list-style-type: none"> 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. 	<p>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 early in Q4 this year) 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.</p>
4.	✓	<p>For Selima, we noted that:</p> <ul style="list-style-type: none"> The Selima HR system does not have a restriction on the number of times a user can validate their account using incorrect authentication details. Not having a limit on the number of incorrect password attempts will make it easier for a brute force password attack to be applied on the application, leading to unauthorised access to sensitive HR information Selima's passwords expire every 100 days, and this is not in line with the Council ICT Security Policy. Leaving a password unchanged for a longer period of time increases the risk of the password being compromised. 	<ul style="list-style-type: none"> The HR Systems Administrator emailed Grant Thornton auditor which contained a screenshot showing the system locked out after 5 failed attempts. This was the standard and has always existed. This has now been reduced to 3 failed attempts as suggested. The HR Systems Administrator continues to believe that a 100 policy is the most appropriate given that a 90 policy may 'time the user out' between payslips, reflecting the fact that payslips are updated monthly (which on average is greater than 30 days). The policy has been updated to allow for 100 day expiry.

Assessment

- ✓ Action completed
- X Not yet addressed

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
5.	In progress	<ul style="list-style-type: none"> 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 team 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. 	<p>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.</p> <p>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.</p>
6.	✓	<ul style="list-style-type: none"> Documented policies and procedures had not been formally established addressing change management processes and related control requirements within applications. Without documented and approved policies and procedures, there is a risk that changes made do not have a business justification and are applied without sufficient evaluation or testing. 	<p>A change management policy is in place for all ICT changes and has been shared with system administrators outside ICT. A Change Advisory Board has been established to consider requests for change and formal change management processes with appropriate documentation and governance have been embedded in the organisation for all ICT changes. This has already lead to a significant increase in the recording of changes and corresponding reduction in failed change. Data from this process is being monitored to identify opportunities for further improvement.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
7.	✓	<ul style="list-style-type: none"> Larger categories of Other Land & Buildings, currently subject to a rolling programme of revaluation, should be revalued on a more frequent basis. 	<p>As at 31/03/2017 the Council's valuation for Other Land & Buildings was £201.9m. Of this, £156.4m (77%) was revalued in 2016/17. This is a considerably higher proportion than the comparative percentage rate for 2015/16 (7%).</p>
8.	✓	<ul style="list-style-type: none"> Senior officers should review and authorise all journals before they are posted 	<p>Management have implemented a new process that requires:</p> <ul style="list-style-type: none"> - all journals to be supported by working papers within the e-financials system by use of the 'paperclip' function to attach the working papers directly to the journal - all journals to require authorisation by a separate member of staff to the person who has prepared the journal (with the exception of some specific system-based journals posted by Finance Systems Manager and the Finance Systems Administrator where self-review is permitted – this is not out of line with common practice). <p>This has been implemented effective 13 August 2016. Audit testing has not identified any issues with the operating effectiveness of this control.</p>

Internal control issues raised in the current year

Our work has not identified any additional control findings.

Assessment

✓ Action completed

X Not yet addressed

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.

There were no misstatements identified which management agreed to adjust.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Corporate Governance and Standard Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 Note 13: Property, Plant and Equipment A set of historic finance leases have been recognised in the Property, Plant and Equipment 'Movement in 2016-17' table despite the assets' no longer belonging to the Council. The continuing presence of these assets has the impact of overstating Property, Plant and Equipment <i>at Cost or Valuation</i> and Property, Plant and Equipment <i>Accumulated Depreciation</i> by £523k each. As the assets are fully depreciated there is no net impact on the carrying value of PPE overall.</p> <p>DR Property, Plant and Equipment Accumulated Depreciation 523 CR Property, Plant and Equipment at Cost or Valuation (523)</p> <p>There is no impact on the reported outturn position from not amending this misstatement.</p>	Nil		The balance is immaterial and so the Council has opted not to make an adjustment to this year's statements. However, the asset will be removed from the fixed asset register for future periods.
Overall impact	£ Nil	£ Nil	

Misclassifications 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	2,335	Housing Revenue Account Note 7 – Capital Expenditure and Financing	The Council have incorrectly included AUC within Council Dwellings (Capital Investments).
2 Misclassification	5,000	Note 29 - Nature and extent of risks arising from financial instruments	A loan balance of £5,000k was being classified as long term, whereas in substance the loan is short term. This misclassification was due to a misalignment of dates within the underlying spreadsheet workings.
3 Disclosure	N/A	Housing Revenue Account Note 7 – Stock Valuation – Vacant Possession Value	The note cites a Vacant Possession Value for the Council's HRA stock of £1.408 million. This should be changed to £1,408 million.
4 Disclosure	963	Grant Income Note 11 – Credited to Taxation and Non Specific Grant Income	The line for Non Domestic rates was understated by £963k.
5 Disclosure	808	Grant Income Note 11 – Credited to Taxation and Non Specific Grant Income	The line for Capital grants and contributions was overstated by £808k.
6 Disclosure	6	External Audit Costs Note 10	As communicated in Section 5 of this report, the fee variation for 2015/16 housing benefit subsidy grant certification costs have been reduced by £6,432 (from £12,500 proposed to £6,068 agreed) . The Council should reflect this in the note by deducting this from the 2016/17 line for 'fees payable to Grant Thornton UK LLP in respect of certification of grant claims and returns'. Note that this information was not available to Guildford Borough Council at the time the draft accounts were published.
7 Disclosure	Various	Various	We agreed a small number of minor disclosure amendments with management to improve presentation and disclosure in the financial statements.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2017 and identified two 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 March 2017.

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.

Significant qualitative aspects

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

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

- **Informed decision making** - The Council has strong arrangements in place to ensure robust financial governance, in particular there is an appropriate level of involvement from senior management and members in the financial management and annual budgeting processes. Our review of the 2017/18 budget confirms that you have applied all of the relevant considerations, and your medium term financial strategy (MTFS), covering the period 2017/18 - 2020/21, was updated in February 2017.
- **Sustainable resource deployment** - The Council's financial strategy identifies budget pressures in each of the three years to 2020/21. Beyond this period there is significant uncertainty around business rate and new homes bonus funding as well as interest expenditure with respect to capital financing.
- **Working with partners and third parties** The Council has a number of partners that it works with to deliver its services and to provide back office functions. As the Council looks to further improve efficiencies and identify savings it is actively working to identify contracts that will be due for renewal in 2019 to ensure that appropriate procurement methods and forward plans are in place for renewal of major contracts.

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 29 to 30.

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 B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed one recommendation for improvement as follows:

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.

Management's response to these can be found in the Action Plan at Appendix A.

We also followed up on the recommendations made in the previous value for money conclusion audit. Progress was made by the Council against both recommendations and they have been superseded by the new recommendation made in 2016/17.

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	Work to address	Findings and conclusions
<p>Medium Term Financial Planning</p> <p>The Council has identified a cumulative gap of some £7.1m between projected resources and budgeted expenditure over the four years to 2020/21. In part this relies on continuing to deliver the budgeted level of savings from existing projects.</p> <p>The Council has 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.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p>	<p><u>Transformation / Medium Term Financial Plan</u></p> <p>A Transformation Board was set up in 2016/17 and its role has recently been formalised. The purpose of the Board is to inform and oversee change across the Council and ensure that service improvements and savings are delivered in line with: the Corporate Plan; Medium Term Financial Plan; Service demands and National and local changes. In practice, this function is fulfilled primarily through discussion of the 'channels of change' schedule which details the projects and ideas that the Council is developing to help deliver the required savings.</p> <p>The Transformation Board is attended by the Council Leader, a number of other Councillors, Managing Director, Director of Resources, Audit and Business Improvement Manager, Head of Financial Services and the Business Improvement Manager, and meets on a 5-6 weekly basis. The first formal meeting took place on 15 August 2017.</p> <p>As part of our discussions with the Head of Financial Services we identified that an opportunity exists to shape the standing agenda of the Committee so that i) risks are RAG rated in a way that properly aligns to existing Budget Reporting Risk register to assist effective monitoring and saving, ii) progress made against existing savings plans is discussed in greater detail. The Council should update the agenda of the Board for these areas.</p> <p>The Council has continued to explore transformation service opportunities which are expected to provide sources of future income, many of which may start to generate net income towards the end of the Medium Term Financial Plan. These include</p> <ul style="list-style-type: none"> - the establishment of North Downs Housing Ltd. as a vehicle to enable the Council to provide homes across a range of tenures other than social rent - the approval and continued expansion of capital programmes - the development or expansion of commercial services where the Council may benefit from local opportunities and synergies and local partnerships - the establishment of the Transformation Board (above) <p>Part of the Council's response to the constraints in public sector funding has been to set aside underspends in previous years to fund budget pressures, anticipated gaps in business rates income and to put aside monies to enable the Council to invest to make savings in future years. The total of earmarked reserves held by the Council at 31 March is just over £35 million which is considerably higher than the current gap in the Council's medium term financial strategy.</p> <p>On that 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.</p> <p>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 against existing savings plans is monitored in greater detail.</p>

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	Work to address	Findings and conclusions
<p>General Fund capital programme The Council has approved a General Fund Capital Programme for the five years to 2021/22. This is an area of considerable spend, with a net cost to the Council of £125 million, and involves decision making against a backdrop of many variables. The execution and timing of capital expenditure may also have revenue implications.</p> <p>In previous Value for Money reviews we have identified recurring capital underspends. While to some extent this can be attributed to inherent uncertainties and complexities in capital investment (such as the availability of appropriate investment properties, negotiations with multiple stakeholders) the Council needs to assure itself that its assumptions in setting capital programmes are realistic, and that the Council has sufficient staff capacity for monitoring this effectively based on accurate information and reasonable assumptions.</p>	<p>We reviewed the Council's capital programme to establish the arrangements the Council has in place to realistically forecast and monitor capital expenditure and associated revenue implications.</p>	<p>Our review of the capital programme also considered the exposure to adverse cash flow risks. From a financial management perspective, the risk of having 'unused' finance is mitigated somewhat by the extent that additional financing is generally sought at the completion of a purchase, and not in advance, which lowers the risk of having unnecessarily large loans in place and thereby incurring excessive interest charges. In addition, the timings of other borrowings are informed by the Treasury Strategy which identifies general capital needs in advance, employing liability benchmarking. Where working with local partners (such as the Local Enterprise Partnership Funding or Surrey County Council) (SCC) there is a risk that delays in project completion may result in funding being withdrawn, leading to potential reputational risk and funding not being offered for future projects. However the monetary value of these projects (in 2017/18) is not significant, and there is already a degree of shared planning on individual projects where SCC is the partner.</p> <p>The capital programme itself 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. Our review of the 2016/17 programme (£98m approved) showed a £54m outturn was achieved (55%). This compares to 52% in 2015/16 (£33m out of £64m) and 78% in 2014/15 (£32m out of £44m). It should be noted that the outturn rate for 2016/17 is higher than that achieved in 2015/16 amidst a significant increase in budget (from £64m to £98m). This to some extent demonstrates the Council's ability to expand its spending in a way that aligns to its ambitious plans. 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.</p> <p>Underspensing against capital budgets is a common theme in Local Authorities. In part, this is a reflection of the governance arrangements and project management of significant capital schemes not being as robust as needed. The key reason for slippage is often that the capital project owners are not being realistic when profiling the length of the project for budget and completion purposes. Too many schemes are overly optimistic in this respect. This is a view across the public sector and is not purely a Guildford BC issue. However to the extent that the timing of acquisitions or project plans have an impact on budgeting and monitoring, the Council needs to consider ways in which the timing of expenditure can be predicted more effectively, for projects of all sizes.</p> <p>We concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for capital programme forecasting and monitoring effectively to support the sustainable delivery of strategic priorities.</p> <p>We recommend that the Council consider ways in which the timing of expenditure can be predicted more effectively.</p>

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none"> We have not used this duty

Section 5: Fees, non-audit services and independence

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05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	57,533	57,533
Grant certification (*)	24,999	TBC
Total audit fees (excluding VAT)	82,532	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). We reported to the Corporate Governance and Standards Committee (30 March 2017) that, in connection with our 2015/16 housing benefit subsidy grant certification, in addition to the indicative scale fee set for 2015/16 (£13,925) a variation for an additional £12,500 was proposed giving a total proposed fee of £26,425. Following PSAA review, the final variation has been agreed as £6,068, giving a final total fee for 2015/16 of £19,993.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which 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'.

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

Independence and ethics

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

Fees for other services

Service	Fees £
Audit related services:	
• Housing Capital Receipts	1,500
Non-audit services	0

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Audit related services				
Pooling of housing capital receipts return 2016/17	Guildford Borough Council	£1,500	<ul style="list-style-type: none"> Self-interest 	This is a recurring fee, therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total fee for the audit (£57,533) for the Council and in particular to Grant Thornton UK LLP overall turnover is not considered to be significant. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.
	TOTAL	£1,500		

Section 6: Communication of audit matters

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06. Communication of audit matters

Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues 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

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

- A. Action Plan
- B. Audit Opinion

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	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.	Medium	The Transformation Board will introduce a RAG rated savings risk register and monitor the register at each meeting.	Director of Resources, November 2017
2	We recommend that the Council consider ways in which the timing of expenditure can be predicted more effectively.	Medium	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.	Head of Financial Services, February 2018

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GUILDFORD BOROUGH COUNCIL

We have audited the financial statements of Guildford Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements 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] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Chief Financial Officer's Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in 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 audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act 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 Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

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

Respective responsibilities of the Authority and auditor

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.

We are required under Section 20(1)(c) of the Act 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.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether 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 criteria 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 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper 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 criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

[Signature]

Elizabeth Jackson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square
London
EC2P 2YU

[Date] 2017



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