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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.

The Annual Audit Letter for Guildford Borough Council

Year ended 31 March 2017

October 2017

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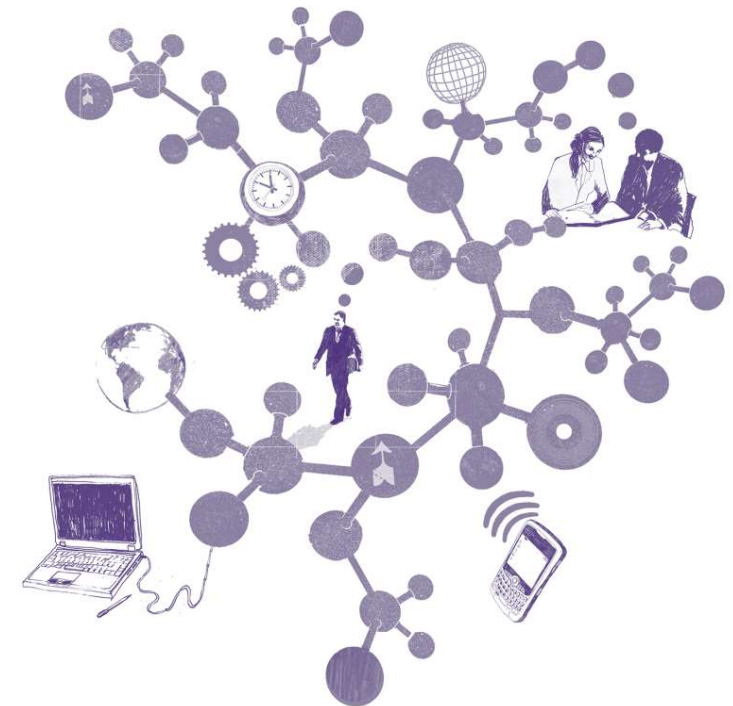
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Guildford Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Corporate Governance and Standards Committee (as those charged with governance) in our Audit Findings Report on 21 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 29 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 29 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Guildford Borough Council in accordance with the requirements of the Code on 29 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Corporate Governance and Committee in our Annual Certification Letter.

Working with the Council

Further progress was made by the Council with respect to the implementation of the Early Close of accounts. We will be liaising with the Council as the 2017/18 audit year approaches to ensure a continued streamlined approach between external audit and the Council ahead of next years move to 31 July audit deadline.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £2,200,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £110,000 above which we reported errors to the Corporate Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>As part of our audit work we:</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 of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of surplus assets and investment property / revaluation measurements not correct</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have</p> <ul style="list-style-type: none"> • identified and documented the controls put in place by management to ensure that the revaluation process does not give rise to a material misstatement. • 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 • 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 • 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 • 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 • 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 asset and investment property / the appropriateness of revaluation measurements.</p>

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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 and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p>	<p>As part of our audit work we have</p> <ul style="list-style-type: none"> • documented and evaluated the process for 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>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Corporate Governance and Standards Committee on 21 September 2017.

We did not identify any amendments needed to the primary statements, but agreed some changes to disclosure notes and the presentation of information.

We identified and reported a control issue around the completeness of disposals for property, plant and equipment. We made a recommendation around this point in our Audit Findings Report.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We received no objections or questions on the accounts and had no cause to use our statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2017, we agreed recommendations to address our findings, being:

- 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
- that the Council consider ways in which the timing of expenditure can be predicted more effectively

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	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>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>The risk of adverse cash flow driven by 'unused' interest finance expenditure is mitigated somewhat by the fact that financing is generally sought at the completion of a purchase, and not in advance.</p> <p>The capital programme is re-profiled on a rolling basis. While there has been a significant increase in the size of the capital programme year on year (£98m, £64m and £44m planned, £54m, £33m and £32m actual spend, in 2016/17, 2015/16 and 2014/15 respectively) there remains a degree of underspend, which can have potential implications on budget monitoring and, where applicable, working with external partners.</p> <p>While underspend in capital programmes is a common feature among local authorities, there may be scope for the Council to consider ways in which the timing of expenditure can be predicted more effectively.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p> <p>We recommended that the Council consider ways in which the timing of expenditure can be predicted more effectively.</p>
<p>Medium term financial planning 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>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>A Transformation Board was set up in 2016/17 to inform and oversee change across the Council. This is fulfilled primarily through the discussion of a 'channels of change' schedule which details the projects and ideas that the Council is developing to help deliver the required savings.</p> <p>An opportunity exists to shape the standing agenda of the Committee so that risks are RAG-rated in a way that aligns to the existing Budget Reporting Risk register and to ensure that progress against existing savings plans is discussed in greater detail.</p> <p>The Council continues to explore transformation service opportunities which are expected to provide sources of future income both within the timeframe of the Medium Term Financial Plan and beyond.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p> <p>We recommended 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>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Final fees £	2015/16 fees £
Statutory audit of Council	57,533	57,533	57,533
Housing Benefit Grant Certification	24,999	Tbc*	19,993
Total fees (excluding VAT)	82,532	Tbc*	77,526

* Our work on Housing Benefit certification is not yet complete. We will confirm the fee for this work in our report to those charged with governance later this year.

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.

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Audit related services:	
• Housing capital receipts return	1,500
Non-audit services	n/a

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- 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, as reported in our Audit Findings Report.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Corporate Governance & Standards Committee.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
Audit related services				
Pooling of housing capital receipts return 2016/17	Guildford Borough Council	£1,500	<ul style="list-style-type: none"> Self-interest 	<p>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 the audit (£57,533) for the Council and in particular to Grant Thornton LLP overall turnover is not considered to be significant.</p> <p>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.</p>
	TOTAL	£1,500		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.



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