

Annual Audit Letter

Year ending 31 March 2018

DRAFT

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

Guildford Borough Council
30 August 2018



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Your key Grant Thornton team members are:

Sarah Ironmonger

Engagement Lead

T: (0)129 3554 072

E: sarah.i.ironmonger@uk.gt.com

Sebastian Evans

Manager

T: (0)207 728 3451

E: sebastian.evans@uk.gt.com

Sophie Butler

In-charge accountant

T: (0)207 865 2624

E: sophie.i.butler@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Guildford Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that 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 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 Committee as those charged with governance in our Audit Findings Report on 7 August 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £2,193,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 7 August 2018.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 7 August 2018.
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 2018. We will report the results of this work to the Corporate Governance and Standards Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Guildford Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you. We have worked with you to streamline your processes, shared our insight by providing regular audit committee updates covering best practice.

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

Respective 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 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 and financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating 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 the audit of the Council's accounts to be £2,193,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in 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 sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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>Improper Revenue Recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; • the culture and ethical frameworks of local authorities, including Guildford Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>This risk was rebutted.</p>
<p>Management Override of Controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed of accounting estimates, judgements and decisions made by management; • tested journal entries' • reviewed accounting estimates, judgements and decisions made by management; • reviewed unusual significant transactions; • reviewed significant related party transactions outside the normal course of business. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of Property, Plant and Equipment The land and buildings are revalued on a quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed the;</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of any management experts used; • review of the instructions issued to valuation experts and the scope of their work; • discussions with your valuer about the basis on which the valuation was carried out, challenging the key assumptions; • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; • testing of revaluations made during the year to ensure they were input correctly into your asset register; • evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>Our audit work identified an issue with the accounting treatment of the Onslow Village Park and Ride asset. The draft accounts included a valuation for the Onslow Village Park and Ride as the asset had been reclassified as a finance lease and the valuer provided a valuation on this basis. In response to audit queries on the movement in the valuation of this asset, management determined that the asset was an operating lease and should not have been classified as a finance lease. As a result, the asset (and associated revaluation reserve amount) was removed from the balance sheet.</p>	<p>With the exception of the amendment made for the accounting treatment of the Onslow Village Park, our work did not identify any further issues in respect of the valuation of property, plant and equipment.</p>

Audit of the Accounts

<p>Valuation of Pension Fund Net Liability</p> <p>The pension fund asset and liability as reflected in your balance sheet represents a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation; • 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; • reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from the actuary. 	<p>Our audit work did not identify any issues in respect of the valuation of pension fund net liability.</p>
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Audit opinion

We gave an unqualified opinion on the Council's financial statements on 7 August 2018.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Corporate Governance and Standards Committee on 7 August 2018. The amendments required to correct the accounting treatment of the Onslow Village Park and Ride were not able to be concluded for the planned Corporate Governance and Standards Committee on 26 July and a revised meeting was arranged on 7 August 2018 which was after the national deadline of 31 July 2018.

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 in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

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.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Guildford Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 were:

- Medium term financial planning
- General fund capital programme

The results of our work are set out overleaf.

As part of our Audit Findings report presented to the Corporate Governance and Standards Committee on 7 August 2018, we did not identify any recommendations for improvement.

Overall Value for Money 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 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
<p>Medium Term Financial Planning</p> <p>The Council identified a cumulative gap of £3.4 million between projected resources and budgeted expenditure over the four years to 2021/22 [updated to £8.5 million to the four years to 2022/23]. In part, this relies on continuing to deliver the budgeted level of savings from existing projects. The Council 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>	<ul style="list-style-type: none"> Following our risk assessment in February 2018, a revised Medium Term Financial Strategy (MTFS) was prepared which identified a cumulative gap of £8.5 million for the four years to 2022/23. This represented a £5.1 million increase on the previously identified gap and was due primarily to the inclusion of an estimated £5.674 million from the impact of negative Revenue Support and Grant (RSG). Negative RSG had been included in the previous iteration of the MTFS, but at a lower overall total (£2.671 million). The Council adapted the MTFS to address feedback received from a Local Government Association peer review, performed in December 2017, as well as to reflect updated guidance and government legislation on capital expenditure investments. The Local Government Finance Settlement in December 2017 stated that it would consult on the removal of 'negative RSG', at the time of our work, no consultation has been issued. The revised MTFS included the Council's forecast of the impact of negative RSG as being £0.674 million in 2019/20 and a further cumulative £5.0 million in the subsequent three years. The Council undertook a sensitivity analysis on the potential gap in the MTFS and has commissioned external consultants to assist in developing a cross-cutting transformation programme entitled 'Future Guildford' to explore alternative organisational models. The consultants have performed similar reviews at other comparable local authorities. The exact scope of the review is under development, and the Council has indicated that the areas for review should include a 'customer-first' approach, procurement, ICT investment and process automation. The aim of this transformation is to deliver savings in the medium term. The impact of the transformation has not yet been quantified in the MTFS as the project is in an early stage and the timings and nature of potential savings remain uncertain. The Council is also exploring ongoing income generation opportunities including: - the expansion of North Downs Housing Ltd. as a vehicle to enable the provision of homes across a range of tenures other than social rent - the approval and continued expansion of the capital programmes - the development or expansion of commercial services to benefit from local opportunities and synergies with local partnerships Part of the Council's response to the constraints in public sector funding has been to set aside underspends in previous years to fund future budget pressures, anticipated gaps in business rates income and to put aside monies to enable you to invest in schemes to deliver savings in future years. Earmarked reserves at 31 March 2018 are just over £41 million which is considerably higher than the current gap in the MTFS. It was also noted that the Council has not fully achieved all of the savings target identified in the 2017-18 budget. £0.22 million of unachieved savings have been carried forward into the 2018/19 budget, which already includes a £0.5 million target; the combined transformation budget for 2018/19 is therefore £0.72 million. 	<p>The latest MTFS increased the cumulative gap from £3.4 million to £8.5 million. The increase was driven by the adoption of prudent assumptions over the future impact of Negative RSG. To mitigate the risk, the Council are engaging external consultants with a view to identifying opportunities for organisational transformation.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for planning finances effectively to support the sustainable delivery of strategic priorities.</p>

Value for Money conclusion

Key Value for Money Risks (continued)

Risks identified in our audit plan	Findings	Conclusion
<p>General Fund capital Programme</p> <p>The Council approved a General Fund Capital Programme for the five years to 2022/23. This is an area of considerable spend, with a net cost to the Council of £96 million, and involves decision making against a backdrop of many variables. The execution and timing of capital expenditure may also have revenue implications.</p>	<ul style="list-style-type: none"> In February 2018, the Capital and Investment Strategy was released, being a new requirement under the revised CIPFA Prudential Code 2018. This formally brought together the capital programme and the treasury management annual strategy into a single report. This is designed to strengthen the link between capital spending and treasury management, both of which are administered and reported by the Financial Services Manager. The capital programme is re-profiled on a rolling basis; the results of this re-profiling are reported to the Corporate Governance & Standards Committee 3-4 times a year. The general capital programme was approved for £100 million expenditure in 2017/18 and only £14 million was incurred. Within the overall capital plan, £64 million was for 'Development: Income Generating' and only £11 million was incurred. For reasons of commercial sensitivity the reasons for slippage in the capital programme are generally not reported in public forums, although internal monitoring takes place on a project by project basis. (N.B. the £96 million quoted in the risk refers to the net financing requirement over the five-year period. The net financing requirement being the additional external financing the Council will require during this time.) Underspending against capital budgets is not uncommon in Local Authorities. At Guildford, the key reason for slippage is due to difficulties in profiling the length of the project for budget and completion purposes. In some cases, capital project owners are optimistic in their profiling. This was noted as an issue in our prior year VfM review. In response to a prior year recommendation, the Council introduced training for service leaders on business case preparation. The Capital and Investment Strategy is governed in a way that seeks to align the Corporate Plan and social agenda, a key aim of the strategy is to develop commercial returns on investments. Within this, identifying investment opportunities is a key element and governance structures are in place to support this as well as arrangements to divest investments with poor returns (in the case of investment properties) or identifying alternative uses for operational assets. Both Investment and Operational assets are reviewed against the Council's Asset Management Framework. Investment Properties are reviewed by a specific Group (Investment Property Fund Management Group) with representation from Finance and Asset Development staff and senior officers. Examples were provided of recent divestments / reallocations of use amongst both Investments and Operational property. Although the primary focus has tended to be on Investment Properties, the ongoing use of Operational property will fall within the scope of the 'Future Guildford' review. 	<p>We assessed that the Council has governance arrangements in place for the approval of bids and monitoring of performance, the Council continues to experience significant underspends against the approved programme of expenditure indicating the opportunity to strengthen profiling. Delayed implementation of the capital programme may prevent the Council fully achieving the medium and long term financial and strategic objectives.</p> <p>On the basis of the overall arrangements, we concluded that the risk was sufficiently mitigated and you have proper arrangements in place for capital programme forecasting and monitoring effectively to support the sustainable delivery of strategic priorities.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	29 March 2018
Audit Findings Report	31 July 2018
Annual Audit Letter	30 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	57,533	57,533	57,533
Housing Benefit Grant Certification	19,993	TBC	19,993
Total fees	77,526	TBC	77,526

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

Fees for non-audit services

Service	Fees £
Audit related services	1,500
- Grant Certification (Housing Capital Receipts)	
Non-Audit related services	14,500
- Place Analytics and CFO Insights License	

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 non-audit services which were identified.
- We have considered whether non-audit 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.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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