

The Annual Audit Letter for Guildford Borough Council

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

Year ended 31 March 2019

August 2019



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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 (you / your / the Council) for the year ended 31 March 2019.

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 & Standards Committee as those charged with governance in our Audit Findings Report on 30 July 2019.

Our work

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 your financial statements (section two)
- assess your arrangements for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion) (section three).

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

Materiality	We determined materiality for the audit of your financial statements to be £2,130,000, which is approximately 2% of your gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on your financial statements on 31 July 2019.
Whole of Government Accounts	We completed work on your consolidation return following guidance issued by the NAO.
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 30 July 2019.
Certification of Grants	We carry out work to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is in progress and will be finalised by the 30 November 2019 deadline. We carry out work to certify your Housing Capital Receipts grant on behalf of the Ministry of Housing, Communities and Local Government. Our work on this claim will be carried out before the 31 January 2020 deadline. We will report the results of this certification work to the Corporate Governance & Standards Committee.
Certificate	We certified that we have completed the audit of the financial statements of Guildford Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of your 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 your financial statements to be £2,130,000, which is approximately 2% of your gross revenue expenditure. We used this benchmark as, in our view, users of your financial statements are most interested in where you have spent your resources in the year.

We set a lower threshold of £107,000, above which we reported errors to the Corporate Governance & 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 financial statements including the narrative report and annual governance statement to check it is consistent with our understanding of the Council.

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 was based on a thorough understanding of your 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 Financial Statements

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>Management override of internal controls</p> <p>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. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>There were no issues to report</p>
<p>Valuation of land and buildings</p> <p>You revalue your land and buildings on a five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£739 million of property, plant and equipment in 2017/18) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into your asset register challenged management's judgement that assets not revalued at 31 March 2019 were fairly stated 	<p>There were four control points raised in regards to valuation and one agreed adjustment to the valuation figure included in the financial statements. Apart from these matters there were no other issues in respect of the valuation of your land and buildings.</p>

Audit of the Financial Statements

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>Valuation of pension fund net liability</p> <p>Your pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£90 million in your balance sheet in 2017/18) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of your pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that your pension fund net liability is not materially misstated and evaluated the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation; assessed the accuracy and completeness of the information provided by you to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. 	<p>There were two adjustments agreed with management which increased the overall pension liability. Other than these, our audit work has not identified any issues in respect of the valuation of your pension fund net liability.</p>
<p>Group accounts</p> <p>In 2016, you set up North Downs Housing Limited, a subsidiary to enable you to provide homes across a range of tenures other than social rent.</p> <p>As at 31 March 2018, you held a 100% share ownership in the company and an intercompany balances (in the form of loans and equity) of £4.4m. Aside from capital acquisitions, the trading activities of North Downs Housing have been limited to date.</p> <p>However, as North Downs Housing continues to expand, the preparation of group accounts will need to be considered going forward. At present, management is not proposing to adopt Group Accounts on the basis that the rental income at North Downs Housing is not yet deemed to be financially significant. The Code of Practice requires Authorities with subsidiaries to publish group accounts unless their interest is considered not material and so there is an element of judgement in determining whether the presence of a subsidiary 'triggers' the need for Group Accounts.</p>	<p>As part of our audit work we</p> <ul style="list-style-type: none"> updated our understanding of the capital and operational activity taking place within North Downs Housing; evaluated management's determination and disclosures over whether group accounts are required. 	<p>We are satisfied that management's judgement not to consolidate North Downs Housing Limited into a group set of financial statements on the basis of materiality is appropriate in 2018/19.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on your financial statements on 31 July 2019.

Preparation of the financial statements

The capacity of your finance and payroll teams was impacted by the Future Guildford and ERP projects. This resulted in delays to provision of supporting working papers for audit and response to queries. Your draft financial statements fell below your own high standards that you have set in previous years. In the context of the reduced hours available to work on the financial statements the finance team should be commended on being able to provide a set of financial statements for audit by the statutory deadline.

As specified above, the demands on the finance and payroll teams from council-wide projects impacted the time available for audit queries, resulting in delays to the audit process. This was escalated to your finance director who took decisive action to free up people to provide the backlog of information on 12 July 2019. By working closely with your finance team we were able to complete the audit and provide the audit opinion on 31 July 2019.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Corporate Governance & Standards Committee on 30 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. You published them on your website in the Statement of Accounts 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 management and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of your financial statements in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

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 risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with you in July 2019, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects you put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Medium Term Financial Planning</p> <p>You have identified a cumulative gap of £10.4 million between projected resources and budgeted expenditure over the four years to 2022/23. In part, this relies on continuing to deliver the budgeted level of savings from existing projects. You have identified a need for longer term transformation of service delivery to be able to deliver sustainable services in the period covered by the medium term financial strategy. You have engaged an external consultant (Ignite Consulting) who in November 2018 presented a report entitled “Guildford Borough Council Future Operating Model Blueprint”. It set out to provide the ‘blueprint’ for the delivery of an ambitious transformation programme for you including a refined business case, an organisational design and a costed implementation approach and plan. We will review your project management and risk assurance frameworks to establish how you are identifying, managing and monitoring these risks.</p>	<p>The findings from our work were reported in detail in our Audit Findings report in July 2019. We concluded that you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2019.</p>
<p>General Fund Capital Programme</p> <p>You approved a General Fund Capital Programme for five years to 2022/23. This is an area of considerable spend, with a net cost 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>	<p>The findings from our work were reported in detail in our Audit Findings report in July 2019. We concluded that you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2019.</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	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £
Statutory audit	51,300	TBC
Housing Benefit Grant Certification	20,000	TBC
Housing Capital Receipts Grant Certification	1,500	TBC
Total fees	72,800	TBC

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,600
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,200
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. In addition, the use of a second management expert led to further work being required. We have increased the volume and scope of our audit work to reflect this.	2,400
Total		5,200

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Fees

	Planned £	Actual fees £
Statutory audit	51,300	TBC
Housing Benefit Grant Certification	20,000	TBC
Housing Capital Receipts Grant Certification	1,500	TBC
Total fees	72,800	TBC

Fees for non-audit services

Service	Fees £
Non-Audit related services	14,500
- Place Analytics and CFO Insights Licence	

Non-audit services

- 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

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £44,300 assumes that the scope of the audit does not significantly change.

There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,600
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,200
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,200
Audit overruns	As identified in our Audit Findings Report, we experienced a number of delays to our audit work and therefore had to apply additional resources to deliver the audit.	4,500
Value for money conclusion	Additional work to review the medium term financial strategy assumptions	7,000
Total		15,500



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