



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.

The Annual Audit Letter for Guildford Borough Council

Year ended 31 March 2016

October 2016

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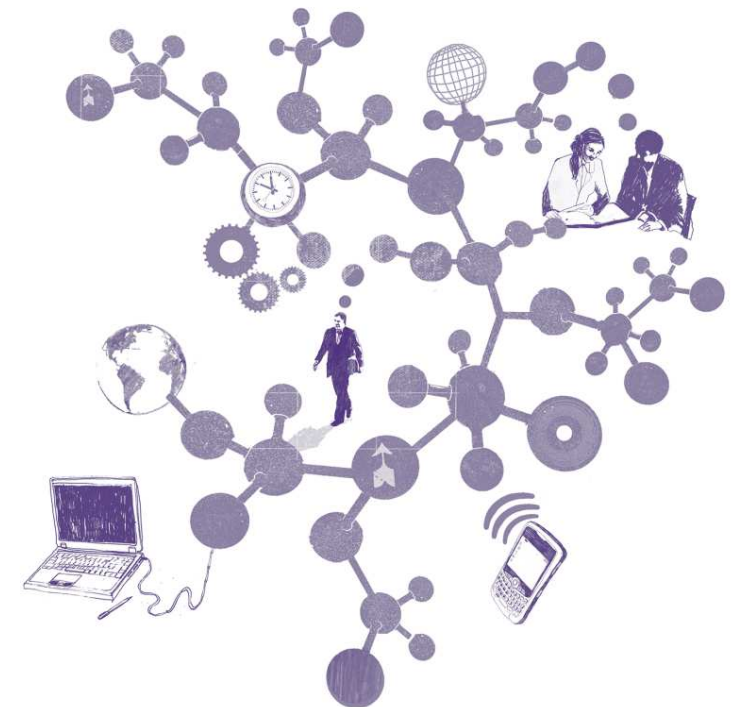
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Guildford Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (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 22 September 2016.

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 23 September 2016.

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 2016. We reflected this in our audit opinion on 23 September 2016.

Certificate

We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 23 September 2016.

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 2016. We will report the results of this work to the Corporate Governance and Standards Committee in our Annual Certification Letter.

Working with the Council

We have set out on page 11 how we have worked with you across a number of areas of the audit. 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 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, 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 our audit of the Council's accounts to be £2,209,000, 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 also set a lower level of specific materiality for certain areas such as cash and senior officer remuneration to reflect their inherent nature and public interest.

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 that 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 on which we give 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
<p>Valuation of property plant and equipment</p> <p>The Council's property, plant and equipment, including its housing stock, represents 71% of its total assets. Their value is estimated by property valuation experts. The Council revalues these assets on a rolling basis.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> ▪ Reviewed whether the valuers used by the Council were sufficiently knowledgeable and independent for us to rely on their work • Reviewed the Council's instructions to its valuer and the information on the assets it gave to them • Reviewed the valuer's report to understand the valuation method used and any key assumptions. • Discussed with management the key assumptions they made about the basis of valuation, including asset lives, to ensure these were appropriate. • Checked that the valuation had been correctly reflected in the Council's asset register. • Reviewed the Council's assumptions about assets which were not revalued this year and how they satisfied themselves that these were not materially different from current value. <p>We were satisfied that the value of these assets was materially accurate in the balance sheet but asked the Council to explain the basis of their assumptions and to include in the letter of representation.</p>
<p>Valuation of surplus assets and investment property</p> <p>The Council changed the basis on which it valued surplus assets and investment property in 2015/16 because of the introduction of a new international financial reporting standard (IFRS 13). These assets represent 12% of the Council's total assets and their value is estimated by property valuation experts.</p> <p>The Council also needed to make changes to the disclosures for items valued at fair value under the new financial reporting standard.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> ▪ Reviewed whether the experts used by the Council were sufficiently knowledgeable and independent for us to rely on their work ▪ Reviewed the Council's instructions to its valuer and the information on the assets it gave to them ▪ Reviewed the valuer's report to understand the valuation method used and the key assumptions. ▪ Tested revaluations made during the year to ensure they were input correctly into the Council's asset register ▪ Reviewed the disclosures made by the Council in its accounts to ensure they met the requirements of IFRS13 and of the CIPFA Code of Practice. <p>We did not identify any issues to report.</p>

Audit of the accounts (continued)

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
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 22% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> ▪ Reviewed whether the experts used by the Council were sufficiently knowledgeable and independent for us to rely on their work • Reviewed the Council's instructions to its actuary and tested the information on staff and pensioners it gave them to calculate the pension fund liability. • Reviewed the key assumptions made by the actuary using the work of an actuarial expert and tested whether any assumptions specific to the Council were appropriate. • Checked that the Council had correctly made entries in its accounts following the report from the actuary and that the disclosure requirements of the Code of Practice were met. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 23 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, 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.

The Council were able to reduce the time taken to produce the statements and we were able to complete the majority of our work earlier this year. We have met with the finance team to discuss further improvements to meet the earlier deadline for producing and auditing the accounts in 2017/18.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the Council's accounts to its Corporate Governance and Standards Committee on 22 September 2016. 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 on some control issues around the coding of NI and pension contributions and the Councils general controls around IT systems. We made recommendations around these points in our Audit Findings Report. Since that time officers have carried out further work and we have reflected this in the updated action plan overleaf.

Annual Governance Statement and Narrative Report

We are also 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/Authority and with our knowledge of the Council/Authority.

Whole of Government Accounts (WGA)

As the Council is below the threshold set by the National Audit Office, we did not need to carry out any work on the Council's consolidation schedule for WGA.

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.

Updated actions from accounts audit

Recommendation	Priority	Updated response	Implementation date & responsibility
Continue to discuss the issues identified as part of payroll testing with your software provider and implement a fix to ensure that employer contributions for NI and pensions are correctly remitted.	High	<ol style="list-style-type: none"> 1. The Council identified this was a configuration problem which it has addressed. 2. The Council has implemented a control as part of the starter checklist to address this. 	Payroll Manager March 2017
Review ICT policies at least annually or when significant changes occur. Publish and communicate updated policies to all employees and relevant third parties	Medium	The policies were updated but not communicated adequately to officers. The Council is taking action to address this.	ICT Manager March 2017
Password settings for Selima should be consistent with the Council's ICT security policy	Medium	<p>The number of failed attempts has been changed from 5 to 3 as recommended.</p> <p>The Council considers that it is acceptable that passwords expire every 100 days rather than 90 as the majority of staff view this system monthly.</p>	No further action proposed by Council

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 2015 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 2016, we agreed recommendations to:

- establish a project management approach to identify savings and plans to achieve them, and to monitor how these are delivered in practice.
- improve the process for modelling and profiling the capital programme,

These were both agreed by the Council and progress on these is reflected on the next page.

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 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Medium financial term planning</p> <p>The Council identified a cumulative gap of some £5.5 million between the resources it expects to have available and the amount it expects to spend over the four years to 2019/20.</p> <p>The Council recognises that it needs to change the way it delivers services to be able continue to deliver the same services with reduced resources.</p>	<p>We reviewed the framework established by the Council to manage its medium term financial planning process, including:</p> <ul style="list-style-type: none"> • identification and assessment of savings plans, • risk management of savings plans • arrangements for Members to scrutinise and agree the projects included in the medium term financial strategy. 	<ul style="list-style-type: none"> • The Council has assessed opportunities and threats to its existing financial position and started to identify actions to deal with these. • Officers have been tasked with finding savings plans against each of these opportunities and threats, including the effect of existing savings plans. • The Council has set aside underspends made in previous years to fund anticipated pressures in the future. The total of reserves set aside at £30 million is higher than the gap in the medium term financial strategy. • The Council recognises that it cannot rely on underspending against its budget, and that more work is required to identify savings plans to bridge the gap in its medium term financial strategy. <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 recommended that the Council formalise the project management of the medium term financial strategy and that all officers needed contribute to identifying and delivering savings. The Council has set up a new Lead Councillor/Officer Transformation Board to monitor the progress of projects and delivery of savings, which will also be monitored by the Corporate Management Team.</p> <p>We also recommended that the Council improve the accuracy of modelling and profiling of the capital programme. The Council has implemented a system called Verito and has set up a group to monitor this more closely.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit 7 days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. We have shared our insight from other clients about how to streamline your financial reporting processes to assist with faster closedown of your accounts.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non-pay expenditure and property plant and equipment. We have identified areas to improve the robustness of your IT controls.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for a clearer focus on identifying and delivering savings plans over the next 4-5 years.

Working with you on certification – we introduced you to one of our national HB specialists to support you in completing work on the subsidy claim and help reduce the amount of additional work we needed to carry out this year.

Sharing our insight – we provided regular updates to the Corporate Governance & Standards Committee covering best practice. Areas we covered included *Reforging Local Government* – our summary of findings from financial health checks and governance reviews across local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services, including the provision of housing.

Providing training – we provided members of your finance team with training on financial accounts and annual reporting as part of our closedown workshops for 2015/16.

Providing information – We introduced you to colleagues from our Place Analytics and CFO Insights teams to demonstrate our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	57,533	57,533	76,710
Housing Benefit Grant Certification	13,925	Tbc*	33,330
Total fees (excluding VAT)	71,458	Tbc*	110,040

* 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.

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016

Fees for other services

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



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