Grant Thornton

The Audit Findings for Guildford Borough Council

Year ended 31 March 2019

30 July 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Guildford Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and 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 • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on the next few pages. We have identified three adjustments to the financial statements that have resulted in a £3.2m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. The capacity of your finance and payroll teams has been impacted by the Future Guildford and ERP projects. This has 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. We are working closely with your finance team with the joint objective of completing the audit by the end of this month, however receiving this information so late in the timetable has put pressure on the achievement of this goal. There are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters; - finalising our work on journals, payroll, operating expenditure, income, PPE revaluations, pension liability, HRA, Collection Fund debtors, creditors, related parties, financial instruments and reserves - Reviewing your AGS and Narrative Report - final internal quality review - receipt of management representation letter; and - review of the final set of financial statements. We anticipate providing an unqualified audit opinion.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Guildford Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Guildford Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources[We therefore anticipate issuing an unqualified value for money conclusion.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties We will certify the closure of the audit when all work is complete.

Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Corporate Governance and Standards Committee on 30 July 2019.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of your business and is risk based. Highlights include:

- An evaluation of your internal controls environment, including your IT systems and controls;
- An evaluation of your judgement not to consolidate your subsidiary, North Downs Housing Limited into your financial statements; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 28 March 2019.

Conclusion

Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Governance and Standards Committee meeting on 30 July 2019.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions (rebutted)** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	**Auditor commentary** As reported in our Audit Plan we rebutted the risk that revenue may be misstated due to the improper recognition of revenue. There have been no circumstances that have caused us to change this assessment.
2	**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. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance. 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.	**Auditor commentary** Summary of work performed and audit findings: • We evaluated the design effectiveness of management controls over journals • We analysed the journals listing and determined the criteria for selecting high risk unusual journals • We tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • We gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence • We evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of land and buildings** 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. 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. 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.	**Auditor commentary** Summary of work performed and audit findings: • We evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • We evaluated the competence, capabilities and objectivity of the valuation expert • We 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 • We challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • We tested revaluations made during the year to see if they had been input correctly into your asset register • We challenged management’s judgement that assets not revalued at 31 March 2019 were fairly stated Our audit work has identified some matters which we have detailed in our action plan in Appendix A. There was also one agreed adjustment to the valuation figure included in the financial statements. Apart from these matters and subject to completion of work as detailed on page 3, there were no other issues in respect of the valuation of your land and buildings.
4	**Valuation of pension fund net liability** 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. 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. 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.	**Auditor commentary** Summary of work performed and audit findings: • We 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; • We evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary’s work; • We assessed the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation; • We assessed the accuracy and completeness of the information provided by you to the actuary to estimate the liability; • We 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; • We 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. There were two adjustments agreed with management which increased the overall pension liability. These are detailed later in this report. Other than these, our audit work has not identified any issues in respect of the valuation of your pension fund net liability.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
5	**Group accounts** 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. 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. 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.	**Auditor commentary** Summary of work performed and audit findings: • We updated our understanding of the capital and operational activity taking place within North Downs Housing; • We evaluated management's determination and disclosures over whether group accounts are required. 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.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £116m	Your net pension liability at 31 March 2019 is £116m (PY £90m) comprising the Surrey Local Government Pension Scheme. You use Hymans Robertson to provide actuarial valuations of your assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. Management amended the past service cost on the advice of your actuary due to additional liabilities resulting from recent court cases (GMP equalisation and McCloud) and the return on assets due to actual returns being lower than forecast. Both amendments were made between the draft and final set of financial statements.	• We have assessed your actuary, Hymans Robertson LLP, to be competent, capable and objective. • We have reviewed the 2018/19 roll forward calculation carried out by the actuary and have no issues to raise. • We have used an auditor's expert to assess the actuary and assumptions made by your actuary – see table below for our comparison of actuarial assumptions:	● (green)

Assumption	Actuary Value	Auditor comments	Assessment
Discount rate	2.4%	Assumption is reasonable but towards the more optimistic end of expected ranges	● (amber)
Pension increase rate	2.5%	Assumption sits towards the middle, slightly towards the higher, more prudent end of expected ranges	● (green)
Salary growth	1.00% to 2020	In line with public sector pay caps	● (green)
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.5 Non-pensioners: 24.1	Assumption is based on the CMI 2013 model and allowance is towards more prudent end of expect ranges	● (green)
Life expectancy – Females currently aged 45 / 65	Pensioners: 24.6 Non-pensioners: 26.4	Assumption is based on the CMI 2013 model and allowance is towards more prudent end of expect ranges	● (green)

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Going concern

Our responsibility

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) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management's assessment is based on the public sector interpretation of going concern as the continuation of the provision of services to support the preparation of the accounts on a going concern basis. Management has considered the Council's financial performance planning documents and cash flow expectations in considering that no material uncertainties need to be disclosed.	• We agree with management's assessments on the use of the going concern basis of accounting. • Management's processes for assessing going concern are adequate. • Forecasts are produced by your finance team and reviewed by your Director of Finance.
Work performed	**Auditor commentary**
We reviewed management's assessment of going concern provided to us, in conjunction with our knowledge and understanding of the Council. We reviewed your in year financial performance as well as your budget assumptions for the next 4 years in your Medium Term Financial Plan (MTFP).	• We did not identify any material uncertainties in relation to going concern. • Assumptions in your MTFP are reasonable and estimates are prudent. • The disclosures in relation to going concern in your financial statements are appropriate and in line with our understanding of your financial affairs.
Concluding comments	**Auditor commentary**
	• We are satisfied that management's assessment that the Council is a going concern and disclosure in the financial statements is reasonable.

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**	• We have previously discussed the risk of fraud with the Corporate Governance and Standards Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• Subject to completion of our work in this area, we are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	• 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**	• A letter of representation has been requested from the Council, which is included in papers.
5	**Confirmation requests from third parties**	• We requested permission from management to send confirmation requests to institutions with which you bank, invest or borrow. This permission was granted and the requests were sent were returned with positive confirmation. At the time of writing we are awaiting confirmations from Goldman Sachs, M&G and Santander
6	**Disclosures**	• Our review found some material omissions in the financial statements, particularly where notes had not been updated for 2018/19. management have agreed to amend the financial statements for these omissions – see Appendix C for details.
7	**Audit evidence and explanations/significant difficulties**	The capacity of your finance team has been affected by council wide projects such as Future Guildford and the preparation for implementation of your new ERP system. We understand that the Council has limited resources and has to prioritise demand. The effect of the reduction in the finance team's capacity has impacted the progress of the external audit in a number of ways: • A draft set of financial statements which is below your usual standard • Transaction listings which were previously agreed to be provided prior to the start of the audit in June were not forthcoming. • Working papers which were previously agreed to be provided at the start of the audit in the first week of June were not provided. • Delays in response times to audit queries.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Subject to the completion of our work in this area, no inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Council does not exceed the threshold;
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit in the audit opinion.

Value for Money

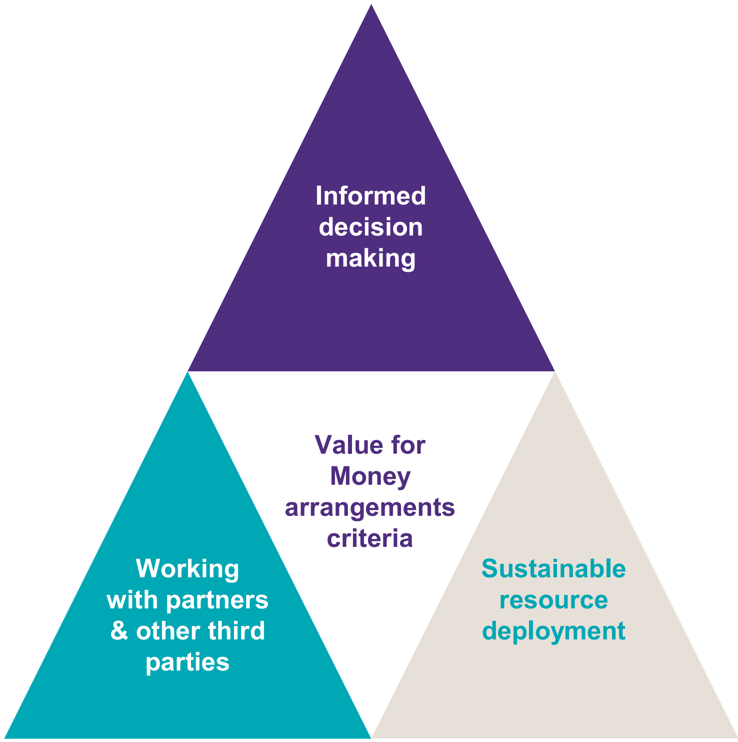
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We completed our initial risk assessment in January 2019 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 on 28 March 2019.

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.

Value for Money

Our work

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:

You identified a £10.4 million budget gap for the four years from 2019/20 to 2022/23. In 2018 an external specialist was commissioned to review potential alternative operational modes. This resulted in a blueprint plan named ‘Future Guildford’ which was adopted by the Council on 26 February 2019.

At management’s request, we performed a supplementary review of Value for Money arrangements, particularly with respect to the assumptions within the Medium Term Financial Plan. Based on fieldwork and interviews conducted in December 2018 and January 2019, we reported that while these assumptions were generally sound there were a number of areas for potential enhancement. These findings were considered by the Overview and Scrutiny Committee on 6 February 2019, and were also shared with the Executive and Council meetings later that month.

We made a number of good practice recommendations based on our review. We have followed up progress on these as part of this report and included this in an appendix.

Your capital programme and treasury management strategies have been combined in line with best practice under the revised CIPFA Prudential Code 2018. Although there remains considerable underspend against the approved plan, management are taking steps to mitigate this, including further reprofiling. There were a number of significant acquisitions that took place after our review period.

Following elections in May 2019, there is debate as to the extent to which members should be directly involved in the income generation process.

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 the next few pages.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that you had proper arrangements for securing economy, efficiency and effectiveness in your use of resources.

Recommendations for improvement

We have not identified any areas for improvement. We have however followed up on recommendations that were raised as part of our Supplementary VfM findings as reported in February 2019. The results of this follow up process can be found in Appendix E.

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.

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

Medium Term Financial Planning

- 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.
- In February 2019 we presented a supplementary finding reports in response to a specific request by the Authority. As part of this we reviewed your arrangements to achieve financial sustainability to support our statutory requirement to provide a conclusion your arrangements to deliver value for money.

Findings

- Our supplementary findings as reported in February 2019 were based on our review of the Medium Term Financial Plan to 2022/2023 (four year horizon), as it stood at the time, including the ten significant assumptions that were approved in July 2018. Ordinarily, revised assumptions would be being considered in July on an annual basis, although management have advised that this process is being deferred to Autumn this year to allow appropriate time for the new Executive to understand and discuss the financial strategy and position of the Council and also due to a lack of government funding update. As a result, the commentary we provided against these assumptions in February 2019 remains valid.
- Core to mitigating the £10.4m gap is ‘Future Guildford’; although the Council has a history of delivering transformation through fundamental service reviews, these have generally focussed on specific areas, whereas Future Guildford is more holistic in nature and larger in scope. As noted below, management have created specific project boards and monitoring arrangements to deal with the risks arising from a project of this scale.
- Our Supplementary VfM findings focused primarily on the validity of the assumptions used in identifying the £10.4m gap, as well as your strategic finance more broadly. As part of our findings, we made nine good practice recommendations in areas where we identified scope for improvement. We have obtained management’s updates on progress against these - this has been set out in Appendix E. Overall it can be seen that management’s future plans will embed these considerations into the 2020/21 budget setting process when it resumes in Autumn.
- Since February, planning for Future Guildford has taken the following developments:
    - Future Guildford was approved by Council on 26 February 2019 with Phase A starting in March.
    - As part of Phase A (Strategy and Resources Directorate), workshops have been taking place with staff. Information is being pulled together for a formal consultation process that will start on 18 July. Phase A is on-going, with some recruitment in process to help facilitate the next phases (B & C) due to start in the Autumn.
- At the time of writing, the extent of savings actually incurred is not quantifiable and not understood to be significant. However, this is in line with expectation; the opening stages of Future Guildford were intended to represent a series of actions, with the aim of benefits being realised from 2020/21 onwards when the restructure starts to take effect.

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.

Findings (continued)

- The Council has established governance arrangements to ensure the ongoing monitoring of progress. A 'Future Guildford' Board has been established, which meets on a monthly basis and includes member representation. It is planned that the output of this Board will be reported to the Overview and Scrutiny Committee, although as at the time of writing his has not yet occurred. Additionally, the Corporate Management Team receive weekly updates on progress from the Business Improvement Team.
- Alongside Future Guildford, which focusses primarily on expenditure and transformation, income generation remains a key part of the medium term strategy. In May 2019 Borough elections (in which all wards were contested) saw a significant change in the political make up and control of the Council. We challenged management as to whether this change could have an impact on the aggregate institutional attitude to income generation. From conversations with the Chief Finance Officer, this is not perceived to be a significant issue at Guildford Borough Council in so far as the new membership have not sought to significantly change or challenge the Council's wider approach to income generation, although the Chief Financial Officer also acknowledges that it may be difficult to form an objective assessment of this so early into the new members' tenure.
- As part of our publication *In Good Company* (September 2018) we commented that while Local Authority Trading Companies can represent an effective way of promoting commercialisation in a way that is consistent with a local authorities aims, there is an important balance to be struck to ensure that the governance structure is set up in such a way that member input is fostered positively, but in a sustainable way that is not disproportionately influenced by electoral cycles.

Conclusion

- **Based on the work performed, the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.**

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

General Fund capital programme

- 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.

Findings

- We reviewed your capital programme to establish the arrangements you have in place to realistically forecast and monitor capital expenditure and associated revenue implications.
- The General Fund Capital Programme now falls within the wider Capital and Investment Strategy; the Strategy for 2019-20 to 2023-24 was approved at Council on 26 February 2019.
- Following re-profiling, the total expenditure against the General Fund Capital Programme in 2018-19 had been £37.7 million, which was less than the revised budget of £99.6 million, representing a 38% achievement against plan. This compares to 14% in 2017/18 (of £100 million), 55% in 2016/17 (of £98 million), 52% in 2015/16 (of £64 million) and 78% in 2014/15 (of £44 million). Therefore the rate of achievement is low compared to some of the earlier years, although in absolute terms is comparable to more recent years, echoing the ambitious growth of the capital programme in recent years.
- 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 2018/19, the Council introduced training for service leaders on business case preparation, this training is on-going. The £99 million approved expenditure included £44 million for the main programme with minor and provisional schemes making up the remainder. The Council delivered 79% of the main programme.
- For the year ended 31 March 2019, the Council's investment property portfolio generated an average income return of 6.3% against a benchmark of 4.6%, which is in line with performance in previous years.
- As a consequence of slippage, the Minimum Revenue Provision outturn was £795,190, some way below the budgeted £1.2 million.
- Your Capital and Investment Strategy is governed in a way that seeks to align to your Corporate Plan and broader social agenda, a key aim of your strategy is to develop commercial returns on the your 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 types of assets are reviewed against your 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, such as Lysons, Cobbs; management determined that this property was management intensive and did not meet the Council's investment criteria, and as such has been disposed. 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' as part of the Phase B review (starting October 2019).

Conclusion

- **Based on the work performed, the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.**

Action plan

We have identified eight recommendations as a result of matters identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Matter arising	Recommendations
1	● (Medium)	Our work identified that your asset register includes some assets which are finance leased out. When entering into a finance lease arrangement the counterparty should recognise the asset on their balance sheet and it should no longer appear on your balance sheet. We are satisfied that this has not had a material affect on the financial statements in 2018/19, at a value of £45k.	• Management should review the fixed asset register and remove all assets which are leased out via a finance lease. **Management response** • Agreed. As part of the implementation of the new accounting standard for Leases for the 2019-20 accounts we will need to carry out a full review of how all of our leases are accounted for and will address the audit point as part of that review.
2	● (Medium)	The accounting for any profit or loss on disposal for a HRA asset is not correct. When a HRA asset is sold the current value should be taken out of the asset register and compared to the sale price, the difference gives you any profit or loss on disposal. We found that the sale price is taken out of the asset register meaning that no profit or loss is shown in the financial statements. As you revalue your HRA assets each year, any incorrect starting point due to profit or loss not being accounted for is taken through your accounts in the form of a revaluation. The impact of any profit or loss is therefore accounted for through revaluation rather than shown as profit or loss. We are satisfied that this has not had a material impact on your financial statements in 2018/19 at a value of £1m.	• Management should remove the current value of HRA assets when sold in order to correctly account for any profit or loss on disposal. **Management response** • The Council does not receive individual property level valuations for the HRA stock, however, we do receive average valuations for properties of a certain type with a certain number of bedrooms in different areas. We therefore propose in future years to use the average valuation of a property in that area as the current value which we will write out of the accounts on disposal and recognise the difference between the sale price and the average value as the profit / loss.
3	● (Medium)	One investment property was not revalued in year. Accounting standards mandate that assets held at fair value should be revalued annually. We are satisfied that this has not had a material impact on your financial statements in 2018/19. Asset value is £20k.	• Management should ensure that all investment property assets are revalued annually. **Management response** • Agreed. We recognise that all investment properties should be revalued each year and do normally revalue all properties, the fact that one was not revalued was a mistake which will be rectified in the 2019-20 accounts.

Controls

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

Action plan

We have identified eight recommendations as a result of matters identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Matter arising	Recommendations
4	Medium	Assets under construction were not revalued when brought into use in year. These assets should have been valued under the basis of 'existing use for social housing' instead of at cost. We are satisfied that this did not have a material impact on the financial statements in 2018/19.	• Management should revalue assets under construction when they are brought into use. **Management response** • It is our interpretation that the CIPFA code of practice allows assets under construction to be recognised at cost on the balance sheet. The issue appears to have arisen on HRA assets that were completed late in the financial year and therefore changed category at year end. As a result the assets were not included in the listing provided to the valuer for revaluation and were therefore not revalued. Whilst we accept that the code of practice would expect us to revalue assets as they move category, in practice it is not always possible to do this without undertaking bespoke valuations in year. As a result assets are still recognised at cost in the year they move category and then revalued in the following financial year. We believe this approach is consistent with the recognition of assets on acquisition at cost or market value, followed by the revaluation of assets as part of the annual rolling revaluation programme. We do not consider that the approach undertaken would lead to a material uncertainty in the accounts. However, for clarity we will update our accounting policies to reflect this for 2019-20.
5	Medium	During our payroll testing we found one incidence where an employment contract (statement of terms and conditions of service) had not signed by HR.	• As per your internal processes and procedures, an employment contract should be signed by HR. Management should ensure this control is in place and working effectively. **Management response** • Agreed. This was an oversight in one particular instance but not normal practice.
6	Low	Your accrual de-minimis level (£1,000) is not currently stated in your accounting policies. Including this level would provide this information to the redder of the accounts.	• Your accrual de-minimis level should be included in your accounting policies. **Management response** • Agreed. The deminimis level principally applies to debtors and creditors. We will update our accounting policies accordingly.

Controls

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

Action plan

We have identified eight recommendations as a result of matters identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Matter arising	Recommendations
7	● Low	Value for Money: we have considered progress against recommendations that were advised in February 2019 . To ensure continued monitoring of progress against these, we recommend that updates against those recommendations that are still listed as in progress (as per Appendix E) are reported to the Corporate Governance & Standards Committee at a future meeting.	• An update against VfM recommendations in progress should be provided to a future meeting of the Corporate Governance & Standards Committee. **Management response** • Agreed. We can update on this at the January 2020 Corporate Governance and Standards Committee.
8	● Low	Capacity issues in your finance team caused a deterioration in the quality of your draft financial statements presented for audit and delays to the external audit process. There is a risk of not achieving the statutory deadline for publishing audited accounts.	• Management should ensure that the finance team has enough capacity to produce a quality set of financial statements with an accompanying set of supporting working papers and transaction listings by the beginning of June. Officers should be available to respond to audit queries in a timely manner. **Management response** • Agreed. 2018-19 has been an exceptional year for us. The Director of Finance was not made fully aware of what the internal staff resource requirement for workshops as part of the Future Guildford Phase A design phase would be until fairly late at which point it was too late to bring in additional external resources. Similarly, once the ERP system had been procured, it became apparent that further design work shops would be required at the same time as the audit process. This all impacted on the preparation of the accounts and also on the availability of staff at the audit. That said, whilst additional external resource was not employed, in order to deliver the accounts by the statutory deadline, some members of the finance team have worked a significant amount of overtime both during the closedown process and over the audit process. The Director of Finance has ensured that the overtime and commitment of the staff involved has been recognised and is grateful for the positive comments from the auditors about having met the 31st May deadline. For 2019-20 we know that we will be going live with the new ERP system and so will plan to bring in additional external resource before the closedown period to ensure that the quality of the accounts and the working papers is better next year.

Controls

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

Follow up of prior year recommendations

We identified matters in prior year audits, which resulted in recommendations being raised in our 2017/18 and 2016/17 Audit Findings reports. We have followed up on the implementation of our recommendations and note [progress in the table below.

	Date raised	Issue and risk previously communicated	Update on actions taken by management	Assessment
1	July 2018	• We recommend that management ensure that the classification of leases are monitored on an ongoing basis and that the classification and subsequent financial reporting treatment is consistent with the underlying nature of the transaction. This will be particularly relevant given the adoption of a new accounting standard IFRS 16, which will apply to public sector bodies for periods starting on or after 1 April 2019 (in the case of Guildford, financial year 2019/20)	• July 2018: Officers will review the lease treatment of assets held on the asset register by the end of February 2019. Finance will consider this in their preparation for IFRS 16. [Asset Development Manager / Financial Services Manager, February 2019] • July 2019: This is still in progress and will be addressed as per our response to recommendation 1 in Appendix A	X
2	July 2018	• We recommend that, as part of the closedown procedures for 2018/19, management explicitly confirm with the pension fund accountants that the correct inputs have been used in that year.	• July 2018: We will review the information provided to SCC and check the correct information has been included and interpreted correctly. [Senior Accountant, March 2019] • July 2019: Implemented – information was checked in 2018-19.	✓
3	July 2017	• Review IT policies at least annually or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness. Once reviewed and approved by management, the policy should be published and communicated to all employees and relevant third parties.	• July 2018: Key policies were approved in July by the Corporate Management Team. On this basis we regard this recommendation as in progress, and implemented subject to appraisal at the Executive Committee (expected for the 25th September agenda) and, where required, full Council. Priority: Medium [Head of Financial Services, March 2018] • July 2019: Implemented – ICT policies were updated during 2018-19.	✓
4	July 2017	• All logical access within financially critical systems belonging to leavers should be revoked in a timely manner upon their departure from the Council. Security/System administrators should be provided with (a) timely, proactive notifications from HR of leaver activity for anticipated terminations and (b) timely, per-occurrence notifications for unanticipated terminations (e.g. monthly rather than quarterly). Security/system administrators should then use these notifications to either (a) end-date user accounts associated with anticipated leaver's date or (b) immediately disable user accounts associated with unanticipated leavers.	• July 2018: As part of the Future Guildford transformation project, the Council will consider changing its HR policies on recording employees regardless of the route for engagement and the use of Selima as the authoritative identity source which can be automatically linked to account provisioning and management. Priority: Medium [ICT Manager, March 2017] • July 2019: In progress – this will be addressed as part of the new ERP system implementation, due to go live by April 2020.	X

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	The valuation of two assets was not correctly transposed from the valuers' report into your financial statements	No impact	Dr PPE £4,394 Cr Revaluation Reserve £4,394	• None
2	Updated pension past service cost due to impact of GMP equalisation and McCloud.	Dr past service cost (1,000)	Cr pension liabilities (1,000)	• (1,000)
3	Updated return on assets income due to actual returns being lower than estimated amount.	Dr return on assets (2,200)	Cr pension assets (2,200)	• None as shown 'below the line'
	Overall impact	**£(3,200)**	**£(3,200)**	**£(1,000)**

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification 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.

Area of accounts	Detail	Adjustment agreed
CIES	• Prior year figures restated in order to show a true comparison to current year figures. Prior period adjustment note added to explain the difference to the reader.	✓
CIES	• Internal recharges were incorrectly included; artificially inflating gross income and expenditure	✓
Note 8	• Link to Councillors' Allowances only had allowance published up to 2016-17	✓
Note 9	• Senior officers' total emoluments figures were incorrect as figures had been double counted	✓
Note 13	• Capital commitments figure for 2018/19 had not been included • Rolling programme of revaluations had not been updated	✓
Note 25	• Capital expenditure and capital financing note figures did not agree to supporting information	✓
Note 27	• Defined pension benefit note updated for past service cost and return on assets	✓
Note 30	• Borrowings figures did not agree to the balance sheet or treasury summary.	✓
HRA account	• Notes had not been updated for 2018/19	✓
Collection fund	• Notes had not been updated for 2018/19	✓

Audit Adjustments

Impact of unadjusted misstatements

There were no unadjusted misstatements in 2018/19

Impact of prior year unadjusted misstatements

There was one unadjusted misstatement reported in the 2017/18 Audit Findings report. This adjustment related to your closing pension liability and estimated to have an impact of increasing your liability by £0.556 million. As your pension fund liability has been estimated again in its entirety in 2018/19 we are satisfied that this unadjusted misstatement does not have an impact on your 2018/19 accounts.

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	51,300	tbc
Total audit fees (excluding VAT)	**£51,300**	**£tbc**

- The fees reconcile to the financial statements as follows:
  - fees per financial statements note 10 £44k
  - Enhanced value for money work and interim report £7k
  - total fees per above £51k

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of Housing Capital Receipts Grant	1,500
• Certification of Housing Benefit Grant	20,000
Non-audit services	
• Place Analytics and CFO Insights License	14,500

Supplementary Value for Money Findings - Executive Summary

Review and challenge the 4 year budget projections produced by the finance team to ensure that the estimates are based on evidence and/or realistic assumptions that can be supported

Your budget is produced using a robust arrangement where we were able to agree a sample of assumptions to underlying documentation. We identified an area of improvement where you could improve transparency by setting out more clearly the significant assumptions enabling focused scrutiny.

Estimates within the MTFP have been found to be based on realistic assumptions and there is a good understanding of the financial risks within the position. The cumulative deficit of £10.4 million identified in your MTFP is therefore considered to be an reasonable and prudent forecast and the Council should continue to explore ways to bridge this gap to ensure long term financial sustainability.

We did identify scope for you to review your Minimum Revenue Provision (MRP) forecasts. Your MRP forecasts are linked to your capital programme. Slippage in your capital programme changed the profile of when you need to obtain external borrowing which has in turn impacted on your required MRP.

Review the 2018-19 in year financial performance, in particular looking at the underlying financial position by assessing if over / under spends in year are one-off or on-going

Based on your most recent budget monitoring report, your current in-year performance is broadly in line with budget, with the exception of MRP which is significantly less than budgeted due to slippages in the capital programme. Our work did identify a number of recommendations within this area where there is scope:

- To give greater prominence for significant variances between budget and outturn together with proposed mitigating actions
- To improve transparency in your budget monitoring reports for where reserves are being used to pump-prime investments and where they are being used to fund service overspends
- To improve transparency by showing more clearly progress on delivery of savings and efficiencies
- To review and strengthen your arrangements to identify, monitor and deliver financial and non-financial benefits from projects
- To consider the capacity and skills to manage the future requirements of change and obtain additional support where gaps are identified

Provide commentary on the context of local government funding nationally and in particular, review the impact of the national funding proposals on district councils

Local government funding is entering a period of significant uncertainty after a period of reducing government funding. As a result councils need to be planning their finances for a range of scenarios and anticipating risk. Key areas of uncertainty are:

- Negative Revenue Support Grant
- Fair funding review
- Government policy
- Prospects for the UK economy
- Local factors

To provide an independent review (sense check) of the approach the Future Guildford Transformation Programme proposes.

In November 2018, Ignite Consulting 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. Our independent high level review did not identify any significant issues or omissions, however in our detailed findings section we have outlined a number of key considerations you may want to take on board when assessing the proposal.

Supplementary Findings

Theme	Area of focus	Finding (February 2019)	Progress (July 2019)
1. Review and challenge the 4 year budget projections produced by the finance team to ensure that the estimates are based on evidence and/or realistic assumptions that can be supported	Deep-dive into the validity of assumptions at the individual cost centre line	**Background:** At random, we selected a cost line flowing into the 2019/20 budget and requested information to support the figures and key assumptions used. The cost line selected was 'Pay costs' of £31 million Supporting documentation obtained confirmed the use of the executive approved assumption of a 2% pay increase. We are satisfied that the source data used in the calculation, i.e. the full establishment list was appropriate. We also obtained evidence of independent review and scrutiny by an appropriate person. In conclusion, no issues were identified and we are satisfied that the assumptions and methodology used to prepare the estimate are reasonable. **Key observation:** Within the forecasted budget figures for pay there is an assumption about the vacancy rate of general staff. This is currently set at 2.5% and is based on historic evidence. Whilst this assumption is not considered to be unreasonable, it is not one which is set out in the Executive Budget Assumptions Report and therefore not given the same level of challenge and scrutiny. This is despite the fact that this assumption has a sensitivity of £255k for a 1% change, which is comparable to the sensitivity of pay inflation which is £300k. **Recommendation:** To improve transparency, the Executive Budget Assumptions report should clearly set out what constitutes a significant assumption and a review should be conducted to ensure all parameters required to prepare the budget which meet this agreed threshold of significance is reported and given the appropriate level of scrutiny.	**Management update:** Due to the change in Council political administration following the May 2019 elections and a lack of information from government around the future funding of local government, we have not taken a budget assumptions report and MTFS update to the July 2019 Executive as we would normally do in the annual cycle. This was in order to allow appropriate time for the new Executive to understand and discuss the financial strategy and position of the Council and also due to a lack of government funding update. We will report the key assumptions as part of the outline budget in the autumn 2019 and have every intention of including the vacancy factor as a key assumption in the report. In the same report we will set out the criteria for Key Assumptions as being similar to what we class as a key decision within our constitution, which is a decision which involves the expenditure of £200,000 or more. **Auditor Conclusion:** Recommendation is in progress

Theme	Area of focus	Finding (February 2019)	Progress (July 2019)
1. Review and challenge the 4 year budget projections produced by the finance team to ensure that the estimates are based on evidence and/or realistic assumptions that can be supported	Anticipated impact of the fair funding review (FFR)	**Background:** Within the medium term financial plan, you make an assumption that the settlement funding assessment will reduce by 20% per annum over the 4 year period to 2022/23. This assumption is based on the expectation of a reduction to baseline need following the fair funding review and an anticipation that local government will need to continue to make further reductions to meet national austerity targets. To put into context, the cumulative impact this assumption has over the medium term financial plan is £3.7 million which equates to 35% of the £10.4 million cumulative budget gap. As to whether a reduction of 20% per annum is a realistic assumption, past experience does support this assumption. The indicative LGFS for the 4 years 2016-17 to 2019-20 shows that your settlement funding assessment reduced by 24% over the period. In the provisional local government finance settlement released in December 2018, which has since been confirmed as final, negative RSG has been removed. This is correctly reflected in the MTFP as there is a nil impact in this period. However, after 2019-2020 the future of local government funding is uncertain due to the fair funding review, and so budgeting and forecasting in this environment is challenging. Whilst it is advisable to take a prudent view in these circumstance, as you have done, it is important that this estimation uncertainty is clearly defined and considered as part of any decision making process on the back of its impact. **Key observation:** The cumulative budget gap of £10.4 million is predicated on a number of assumptions and judgements. One of the most significant assumptions relates to the fair funding review. The cumulative impact of the fair funding review and business rates reform assumption equates to 35% of the cumulative budget gap. **Recommendation:** You should ensure that the decision making process, where applicable, takes into account and understands the impact of assumptions with a high degree of estimation uncertainty	**Management update** We are still awaiting the results of the fair funding review and 75% BRRS implementation. Indications are now that the Spending Review for 2019 may be delayed by government and so the impact on local government remains uncertain. Changes to the assumptions around the baseline need were taken into account in the sensitivity analysis but we accept that the impact of say, a 10% change in that assumption was not specifically identified in the budget assumptions report. We intend to set out the impact of the assumption in the Autumn 2019 Outline Budget report **Auditor Conclusion** Recommendation is in progress.

Theme	Area of focus	Finding (February 2019)	Progress (July 2019)
1. Review and challenge the 4 year budget projections produced by the finance team to ensure that the estimates are based on evidence and/or realistic assumptions that can be supported	Review and challenge assumptions related to MRP projections	**Background:** The Minimum Revenue Provision (MRP) charge is the means by which capital expenditure which is financed by borrowing or credit arrangements is paid for by council tax payers. Local Authorities are required each year to set aside some of their revenues as provision for this debt. Between 2019/20 and 2022/23 the MRP charge almost quadruples from £1 million to £3.9 million. The sharp rise relates to your estimated increase in capital expenditure during the MTFP to £400 million. Within the MRP calculation we identified two key assumptions which have been subjected to challenge and review in this report as detailed below. <u>Asset lives assumption</u> A high level review has been conducted on all asset lives flowing through into the MRP calculation. No issues have been identified from this review, assumptions are considered to be reasonable and in line with our expectations. <u>Assumptions on the timing and amount of capital expenditure</u> Our review found that the MRP calculation assumes 100% delivery of capital spend in the capital programme, despite historical slippages of 65%. There is therefore a risk that the MRP forecast is over prudent as it is not based on realistic assumptions about capital delivery. Slippage impacts on the timing of when the MRP charge will increase not whether the charge will increase. **Key observation:** Review and challenge of the assumptions and judgements within the MRP forecast calculation has indicated a level of over-prudence in relation to the timing of the charge. **Recommendation:** There is scope to consider whether to re-profile the capital expenditure phasing and the associated impact on your forecasted MRP calculation.	**Management update** As part of the Month 2 financial monitoring for 2019-20 we have conducted a further re-profile of the capital programme which has resulted in updated assumptions on the timing of some schemes and also the removal of some schemes from the programme (the latter of which will generate a saving). This will be reported as part of the P2 monitoring to Corporate Governance and Standards Committee in July 2019. The capital programme will be kept under continuous review so that updates on scheme timing are regularly made. Although the MRP calculation assumes 100% spend, for the purposes of MRP, the timing of the spend and then the year MRP is first charged is different to what may be stated in the capital programme as typically MRP lags 12 months behind the spend profile. We will however, keep this under constant review. **Auditor Conclusion** Recommendation is in progress.

Theme	Area of focus	Finding (February 2019)	Progress (July 2019)
2. Review the 2018-19 in year financial performance, in particular looking at the underlying financial position by assessing if over / under spends in year are one-off or on-going	Review of the month 8 financial monitoring report	**Background:** You are forecasting an underspend on the general fund revenue account of £792k which equates to 2.13% of the original net budget. The main cause for the underspend is a reduction in the MRP charge to the general fund as a result of slippages in capital schemes. From our review of the financial monitoring reports, it was difficult to conclude what your underlying position was. In part this is due to the way you report your use of reserves within the general financial position. It is difficult to easily determine the extent to which you are using reserves to pump-prime one-off investment or whether you are meeting a budget deficit through use of reserves. Greater clarity on the use of reserves will make it more transparent for you to demonstrate your underlying financial position. **Recommendation:** To improve transparency in your budget monitoring reports for where reserves are being used to pump-prime investments and where they are being used to fund service overspends Efficiencies and savings are embedded within budgets and monitoring is undertaken at the budget level. It is therefore difficult to clarify whether savings are being delivered or not. It is helpful to monitor delivery of savings and efficiencies separately together with their impact on the budget. Where organisations are able to identify savings separately they have the opportunity to learn which type of savings are delivered successfully and which are not. There is a risk that underlying issues in managing savings plans are masked by unplanned easing of budget pressures elsewhere. **Recommendation:** To improve transparency in your budget monitoring reports by showing more clearly progress on delivery of savings and efficiencies *Continued overleaf…*	**Management update** We believe we addressed this in the 2018-19 GF outturn report by reporting the movements on reserves during the year and the purposes of those movements. **Auditor Conclusion** Recommendation is in progress – although the General Fund outturn report does include this, we would reiterate our original suggestion the Council consider including this as part of regular budget monitoring reports as well as annual outturn reports. **Management update** Delivery of savings is currently being undertaken by the Future Guildford Transformation Board which will use RAG related reports to monitor the savings implementation. **Auditor Conclusion** Recommendation is in progress.

Theme	Area of focus	Finding (February 2019)	Progress (July 2019)
2. Review the 2018-19 in year financial performance, in particular looking at the underlying financial position by assessing if over / under spends in year are one-off or on-going	Review of the month 8 financial monitoring report	In the appendix to the main monitoring report is another report which shows detailed information for each service split between direct expenditure, income and indirect costs. The document also provides detailed commentary to explain the reason for variations between projected outturn and budget. This document runs to 31 pages and provides a significant amount of information. It is however difficult to disseminate the key messages and risks to the financial position. Within the 31 page document, some significant variations are identified which require considered thought, scrutiny and potential actions. To this end, services with the larger variances are picked out and reported in the main monitoring document to ensure due prominence is given. The detailed report provides information on why a variation has occurred however it is less easy to identify the context of the financial risk or what mitigating actions may or may not be taking as a result. **Recommendation:** Significant variances between budget and outturn at the service level should have greater prominence in the financial monitoring report. A greater level of detail should be included against each significant variance, including what mitigating actions are being proposed. Together this can help build financial accountability and ownership.	**Management update** Significant variances between budget and outturn are reported in the main body of the financial monitoring report rather than just the detailed appendix. More commentary on mitigating actions will be included in monitoring reports from P2 2019-20 onwards. **Auditor Conclusion** Recommendation is in progress.
2. Review the 2018-19 in year financial performance, in particular looking at the underlying financial position by assessing if over / under spends in year are one-off or on-going	Benefits realisation	A significant proportion of your discretionary investment spend and planned savings within your medium term forecast and future Guildford blueprint relates to change and transformation programmes within the organisation. This in turn depends on planned benefits from transformation being realised in line with business case forecasts. Delivery of financial and non financial benefits is key to your transformation success and long term financial sustainability. Benefits realisation is an area that has proved difficult to do well across the public sector and many public sector organisations. Based on interviews with your team, you have a mixed track record of achieving the planned for benefits. *Continued overleaf…*	

Theme	Area of focus	Finding (February 2019)	Progress (July 2019)
2. Review the 2018-19 in year financial performance, in particular looking at the underlying financial position by assessing if over / under spends in year are one-off or on-going	Benefits realisation	You do have a process with model template business cases in place however your team has expressed a view that the quality of submitted business case varies including the following issues: • Poor articulation of non-financial benefits in business cases • A lack of governance arrangements to monitor and track the benefits from individual projects • No post implementation review of projects back to original business case to assess whether benefits have bene achieved as intended leading to a lack of arrangements for sharing best practice as well as 'lessons learnt' It is important that change and transformation programmes achieve the intended benefits and therefore this is an area where you should consider taking action. We discussed the arrangements for benefits realisation with a number of relevant officers and in all cases, a similar view was shared. Overall, the arrangements were not considered to be robust and this was partly due to skills and capacity but also a general culture and attitude within the authority. From these discussions we identified three recommendations: **Recommendation:** Review and strengthen your arrangements to identify, monitor and deliver financial and non-financial benefits from projects. **Recommendation:** Consider the capacity and skills required to manage future change programmes and obtain additional support where gaps are identified **Recommendation:** Continue to embed a culture of ownership of financial management across the organisation.	**Management update** The Council has recently procured CIPFA to deliver the 'Better Business Case' training to the majority of service leaders and project managers within the Council. The first cohort of training was undertaken in June 2019 with further cohorts planned for later in the year. This should improve the quality of business cases coming forward over time, including documentation of the financial and non-financial benefits from projects. **Auditor Conclusion** Recommendation implemented. **Management update** Future Guildford is looking at the Council's arrangements for project management and governance. As part of the restructure a dedicated programme management team is likely to be created which will be responsible for the co-ordination and governance of projects across the Council. **Auditor Conclusion** Recommendation is in progress. **Management update** The implementation of the new ERP system and self service for budget managers as part of the Future Guildford Project will further embed a culture of ownership of budgets and better financial management by budget holders, this will be supported by regular training from the finance team. **Auditor Conclusion** Recommendation is in progress.

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