Grant Thornton

The Audit Findings for Guildford Borough Council - FINAL

Year ended 31 March 2020

March 2021

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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 group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council.

The Council have been significantly impacted by Covid-19, with front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines.

The direct impact on the core finance team has been more limited, with minimal changes to staff sickness rates, and remote working already being part of the normal course of business. However, the Finance team at Guildford Borough Council have been heavily involved in the response to the pandemic locally, both in terms of the direct response and in terms of emergency finance arrangements.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

The impact of the pandemic on our audit was considered as part of the audit plan dated April 2020 where we identified a financial statement significant risk in respect of Covid-19.

Restrictions for non-essential travel has meant both you and us have had to deliver the audit via remote access working arrangements, which has included accessing financial systems remotely, video calling, physical verification of completeness and accuracy of information produced by the entity. However we have been able to work well with you to keep the overall impact on the audit to a minimum, as evidenced by the progress made and documented within this Report.

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 group and Council's financial statements:

- give a true and fair view of the financial position of the group and Council and the group and Council's 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 (AGS), 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 remotely during October-February. Our findings are summarised on pages 5 to 18. We have identified five adjustments to the financial statements; one has resulted in an 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. Our work is currently in progress; to date there are no matters of which we are aware that would require qualification of our audit opinion or material changes to the financial statements, subject to the list of outstanding matters set out on page 5.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.

Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting material uncertainties around the valuation of land and buildings, investment properties and your share of pension fund property investments as at 31 March 2020, which you have reflected in your accounts.

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 group and Council's financial statements for the year ended 31 March 2020 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 have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19, We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 20 to 27.
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 expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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.

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 the group’s business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group’s gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for Property, Plant and Equipment balances of North Downs Housing Limited were required; these procedures were undertaken directly by Grant Thornton as part of the normal course of our audit.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

Our audit work is now substantively complete. We expect to be able to issue an unqualified audit opinion subject to our outstanding queries being resolved and final accounts reviewed.

Our fieldwork substantively began on 5 October 2020 in line with the timetable agreed with management. However, we experienced significant initial delays in the provision of audit information required to start our testing. While this information has since been received, this initial delay has had a knock-on impact on the progress of fieldwork and the date of our opinion. In addition to this, the Group Accounts were not made available until 25 November, only four working days prior to the audit deadline of 30 November.

The Council are currently finalising the migration to a new ledger system ‘Business World’ which has also contributed to delays.

We acknowledge that some delays were contributed to by the use of a new audit platform for remote working; while we have engaged with management successfully to use this to support remote working, this was set up by the auditor during the first week of testing rather than at an earlier date, which contributed to administrative time required in the early stages of the review.

Conclusion (continued)

The Corporate Governance & Standards Committee received an Audit Findings Report on 26 November 2020, along with a late sheet for any findings identified between the date of the draft audit findings and the Committee date. This final audit findings report incorporates the findings from both the original audit findings report and the late sheet, along with any findings identified since then. The findings identified relate to areas which had not been concluded on as part of our previous reports.

Our audit work is now substantively complete. We expect to be able to issue an unqualified audit opinion subject to our outstanding queries being resolved.

These outstanding items include:

- receipt of revised management representation letter; and
- review of the final set of financial statements.

Audit approach

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 levels remain the same as reported in our audit plan.

	Group Amount (£ million)	Council Amount (£ million)	Qualitative factors considered
Materiality for the financial statements	2.210	2.200	This is based on 1.9% of your gross revenue expenditure for the year 2019/20, based on your draft accounts. This benchmark was chosen based on our knowledge of District Councils, your reporting framework and how stakeholders use your accounts.
Performance materiality	1.657	1.650	This is based on 75% of the materiality benchmark
Trivial matters	0.100	0.100	This is based on 5% of (council) materiality, rounded down to £0.1 million, and represents the level above which uncorrected omissions or misstatements are reported to those charged with governance. Items below this are deemed to be ‘trivial’ for this purpose.
Materiality for senior officer remuneration	0.100	0.100	A separate materiality level has ben added for senior officer remuneration, due to the sensitivity of these disclosures.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 (Group and Council) The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a financial statement level significant risk.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31 August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. No issues have been identified with respect to this significant risk. To the extent that Covid-19 has a bearing on Value for Money arrangements, this has been considered separately as part of our VfM work reported below.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Revenue includes fraudulent transactions (rebutted) (Group and Council) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including those at Guildford Borough Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk
Management over-ride of controls (Council) Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override 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.	We have • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence; and; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions Our work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings (Group and Council) 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.	We have • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested a sample of revaluations made during the year to see if they had been input correctly into the group's asset register; and; • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. At the time of writing our audit procedures in this area remain in progress. The Council's valuer prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent restrictions and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council has reflected this uncertainty in the financial statements, and updated the wording in relation to investment properties as a result of audit challenge. We will refer to these material valuation uncertainties in our audit report as an emphasis of matter paragraph. This is not a qualification of the opinion. As part of our procedures to date we have identified two potential errors with respect to other land and buildings, relating either to the timing of the valuation or the basis for valuation. We have recommended that management evaluate these to quantify any potential uncertainty as set out in Appendix A. No other material issues have been identified from our work to date.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of the pension fund net liability (Council) 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 (£115 million in your balance sheet in 2018/19) 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.	We have • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; • obtained assurances from the auditor of Surrey Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled property and private equity investments and reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. This material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet. The Council has included disclosures in relation to the material uncertainty identified with respect to pooled property investments. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This is not a qualification of the audit opinion. No further material issues have been identified which are required to be reported to those charged with governance. We have commented separately on the basis for the pension fund's estimation as part of our procedures on page 14.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals - £2.932 million	The Council is responsible for repaying a proportion of successful rateable value appeals. Management uses internal expertise to calculate the level of provision required. This calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates.	We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate. We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector. Disclosure of the estimate in the financial statements is considered adequate.	● (green)
Land and Buildings – Council Housing - £503.7 million	The Council owns 5,220 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Bruton Knowles to complete the valuation of these properties. The year end valuation of Council Housing was £503.7 million, a net decrease of £0.9 million from 2018/19 (£504.6m).	We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues.	● (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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £232.7 million	Other land and buildings comprises specialised assets such as the leisure centres, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its external valuer to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 69% of total assets (by value) were revalued during 2019/20. In line with RICS guidance, the Group's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 32. The valuation of properties valued by the valuer has resulted in a net decrease of £1.221 million. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties.	We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. As part of our procedures to date we have identified two potential errors with respect to other land and buildings, relating either to the timing of the valuation or the basis for valuation. We have recommended that management evaluate these to quantify any potential uncertainty. Appendix A. Other than the points above, we have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues to date.	🟢 **(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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Investment Properties – £153.4 million	Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are required to be revalued annually and held at their fair value. The valuation of properties valued by the valuer has resulted in a net decrease of £1.970 million.	We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. There have been no changes to the valuation method this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. As part of our procedures to date we have identified one potential error with respect to investment properties, in relation to the basis of valuation. We have recommended that management evaluate these to quantify any potential uncertainty. The error stemmed from the fact that the property was valued as if it were operational rather than as an investment property. Appendix A. Other than the points above, we have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues to date.	🟢 **(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

Significant findings – key estimates and judgements

Accounting area: **Net pension liability – £114 million**

Summary of management's policy

Your net pension liability at 31 March 2020 is £114 million (PY £116 million) 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 2019. 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.

The Council/Group's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 32.

The latest full actuarial valuation was completed in 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £11.5 million net actuarial gain during 2019/20.

Auditor commentary

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.
- We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Guildford Borough Council Pension Fund valuation.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	●
Pension increase rate	1.9%	1.8% - 2.0%	●
Salary growth	2.8%	Employer specific	●
Life expectancy – Males currently aged 45 / 65	22.9 / 22.1 years	21.6- 23.3 / 20.5 – 22.2	●
Life expectancy – Females currently aged 45 / 65	25.7 / 24.3 years	24.6 – 26.3 / 22.9 – 24.3	●

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.
- Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 32 in our audit report.

Assessment: ●

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2/3 investments	Level 2 investments The Council holds investments in a number of financial institutions, building societies, other local authorities, investment properties and money market funds, which are collectively valued on the balance sheet as at 31 March 2020 at £27.5 million, their carrying value. The Council are also required to estimate the fair value of these assets. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the fair value, management use the following techniques: • instruments with quoted market prices – the market price • other instruments with fixed and determinable payments – discounted cash flow analysis. In the case of Level 2 investments, inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. these are based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. In the case of the Level 2 investments held, management have determined that the fair value of these assets is £28.209 million. Level 3 investments The Council have a £5.460m investment with Guildford Borough Council Holdings Ltd, the holding company of its subsidiary North Downs Housing Limited, This has been classed as a level 3 investment categorised as "shares in unlisted companies". Management have deemed the carrying value to be the same as fair value. The investment is not traded on an open exchange/market and the valuation of the investment is subjective. The value of the investment has increased by £2.5 million in 2019/20 due to the increased size of Guildford Borough Council's loan to North Downs Housing Limited. Within investment properties, the Council also has a Level 3 investment with Shalford Water Works. This is held at £2.15 million and is the only investment property held as Level 3. This has been valued at level 3 due to a lack of specific comparable evidence and information regarding operator income/profits on the subject. There are no similar assets of this class in the portfolio therefore the impact of the level of input does not affect any other asset.	We reviewed management's basis for classifying and subsequently valuing level 2 and 3 investments. We did not identify any significant issues.	● **(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 and key assumptions to be reasonable

Significant findings – 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 disclosures

In April 2020 the Council approved an emergency Covid-19 budget, in light of actual and projected loss of income, additional expenditure to address pandemic, and uncertainty over central government funding.. It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, closure of car parks with additional challenges of reopening services under new government guidelines;staff absences due to being ill , the need to free up capacity of teams in addition to normal responsibilities. The Council is facing challenges but has reported a surplus position for 2019/20. However, management anticipates that it may take a number of ears before the Council can fund its gross service expenditure without the use of its reserves. The Council will therefore use part of its financial reserves to pay its expenses in 2020/21 due to Covid and are trying to find further savings to prevent further use of reserves for 2021-22.. Given the sensitive nature of these disclosures, we have identified this as an area of focus in our audit. We therefore identified the adequacy of disclosures relating to material uncertainties that may cast doubt on the group and Council’s ability to continue as a going concern in the financial statements as a significant risk requiring special audit consideration. Given the sensitive nature of these disclosures, this is one of the most significant assessed risks of material misstatement.

Going concern commentary	Auditor commentary
Management's assessment process 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.	The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment. As noted in our VfM review, management have updated their forecasts to take into account the specific challenges presented by Covid-19. As such, management have prepared the accounts on the basis of the going concern assessment. 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 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	We are satisfied that management’s assessment that the Council is a going concern and disclosure in the financial statements is reasonable.

Other matters for communication

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	Auditor commentary
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 incidents in the period and no other issues have been identified during the course of our audit procedures to date.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to counter parties holding investment and borrowing balances. This permission was granted and the requests were sent. We are still awaiting a number of confirmation requests and our work in this area is therefore not concluded. Where confirmations are not received, alternative audit procedures will be performed.
Disclosures	Our review found no material omissions in the financial statements beyond those listed in Appendix C.
Audit evidence and explanations/significant difficulties	Our fieldwork substantively began on 5 October 2020 in line with the timetable agreed with management. However, we experienced significant initial delays in the provision of audit information required to start our testing. While most of this information has since been received, this initial delay has had a knock-on impact on the progress of fieldwork the date of our opinion. The Council are currently finalising the migration to a new ledger system 'Business World' which has also contributed to delays. We acknowledge that some delays were contributed to by the use of a new audit platform for remote working; while we have engaged with management successfully to use this to support remote working, this was set up by the auditor during the first week of testing rather than at an earlier date, which contributed to administrative time required in the early stages of the review.

Other responsibilities under the Code

Issue	Commentary
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. No inconsistencies have been identified. Subject to the completion of our review, we plan to issue an unmodified opinion in this respect.
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
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.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Guildford Borough Council in the audit report..

Value for Money

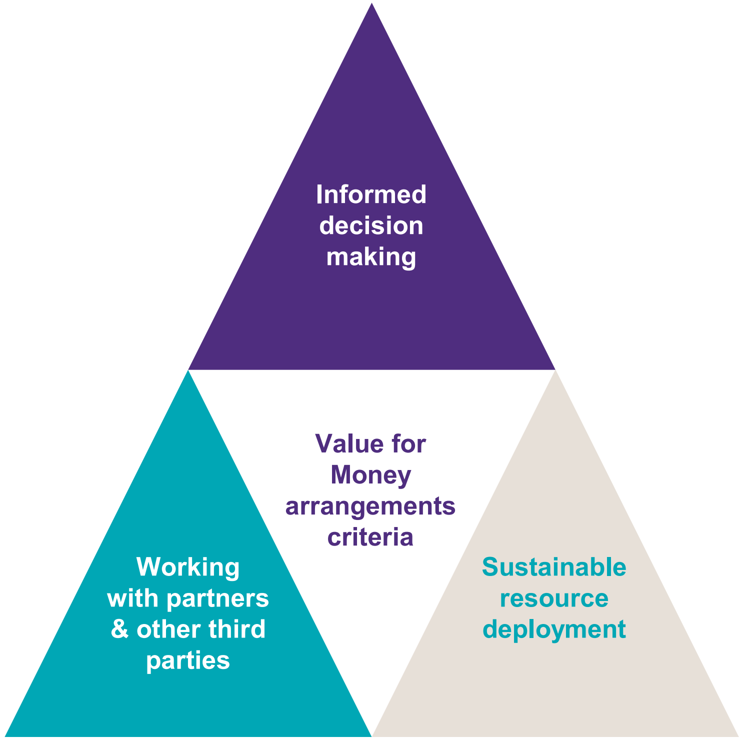
Background to our VFM approach

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 April 2020. 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 carried out an initial risk assessment in March 2020 identified a number of 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 dated April 2020.

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.

We have not identified any new VfM risks in relation to Covid-19. However, we have considered and commented on the potential impact of Covid-19 on the Council’s future financial sustainability, and plans for addressing the arising issues, as part of our work n addressing the previously identified significant VfM risks around Future Guildford Transformation Programme and the General Fund capital programme.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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:

- As at February 2020, the Council were predicting a cumulative £3.3 million budget gap for the period to 2023/24
- The implementation of the Future Guildford programme forms a key part of the Council’s future plans for financial sustainability, although Phase B and C of this have been delayed as a result of Covid-19, this is due to resume in the autumn
- As part of a separate report in February 2019, we made a number of recommendations with respect to medium term financial planning, whose implementation we have considered as part of Appendix E below. As at November 2020, all recommendations have been implemented
- In April 2020, the Council approved an emergency Covid-19 budget based on a ‘worst case’ estimate of the potential impact on expenditure and income (net of any anticipated central government funding). Medium term financial planning has been partly updated to reflect this, but the impact is not likely to be resolved solely in year, potentially putting pressure on general fund reserves. There is continued uncertainty particularly around income, central government funding and the trajectory of Covid-19 in the short and medium term future.
- 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 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.

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 pages 21 to 27

Overall conclusion

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

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.

Value for Money

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	Findings
Future Guildford Transformation Programme 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 carried out a lot of work in this area in 2018/19 and produced a separate report. Our focus in 2019/20 will be to understand how the transformation project has progressed and follow up recommendations made in our 2018/19 Audit Findings report.	**Medium term financial planning** Future Guildford was approved by Council on 26 February 2019, with Phase A starting in March of that year, and as at March 2020 was in the transition and implementation stage. Phases B and C had been due to go into consultation in March 2020, but this has been delayed on account of Covid-19, resuming in the autumn. The assumptions used in the budget setting process were initially discussed at the Joint Executive Advisory Board in November 2019. The budget assumes a further £3.4 million savings can be achieved between 2020/21 to 2023/24, the majority of these savings are as a result of the Future Guildford transformation programme. The Chief Finance Officer's Statutory Report (21 January 2020), presented alongside the budget, highlights the extent to which, in the continued uncertainty over general government funding arrangements (even prior to Covid-19), the Council is increasingly reliant on its own income generation citing the following significant sources: Parking income (25%); Council Tax (21%); Property rent income (20%) and net retained business rates (9%). This assessment was made prior to the onset of Covid-19 as significant consideration, with restrictions only occurring from mid-March 2020. As can be seen further below, all such income streams are, to varying degrees, impacted by Covid-19 . The medium term financial plan identifies a £3.3 million budget gap for the period to 2023/24. Core to mitigating the 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. Management has created specific project boards and monitoring arrangements to deal with the risks arising from a project of this scale. In February 2019, prior to the approval of Future Guildford, we performed a supplementary review of your arrangements to achieve financial sustainability to support our statutory requirement to provide a conclusion your arrangements to deliver value for money. We reported on progress made against recommendation in July 2019, at which point one of the recommendations had been implemented. An update on the remaining recommendations is at **Appendix E**.

Value for Money

Significant risk

Future Guildford Transformation Programme

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.

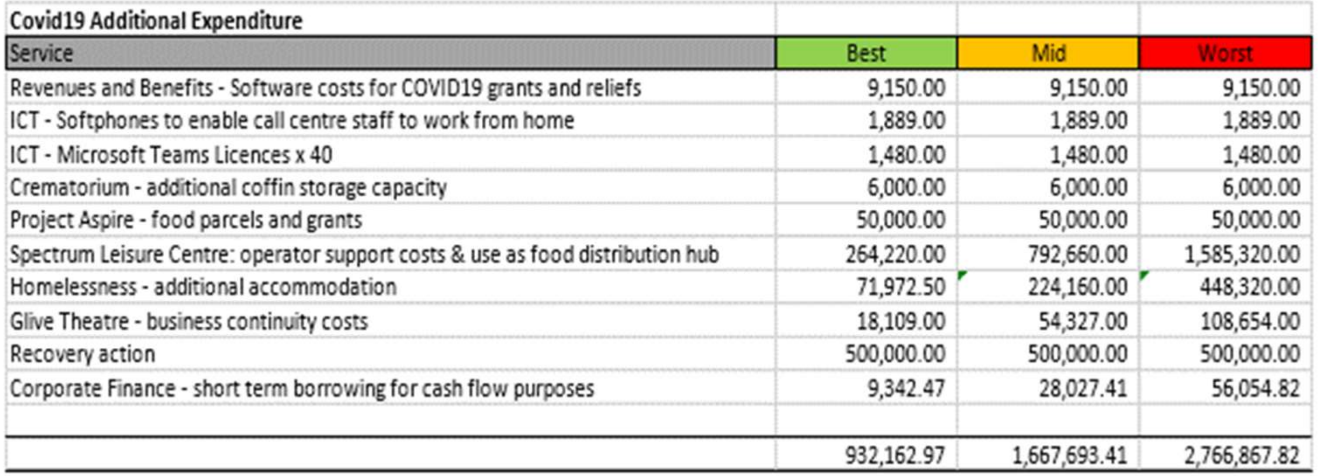
We carried out a lot of work in this area in 2018/19 and produced a separate report. Our focus in 2019/20 will be to understand how the transformation project has progressed and follow up recommendations made in our 2018/19 Audit Findings report.

Findings

Specific busines continuity arrangements post Covid-19

On 5 May 2020, the Council approved an emergency budget in response to the impact of Covid-19 on your assumptions.

As at that point in time, the financial implications of Covid-19 for 2020/21 were estimated to be between £5 million to £15 million (11% to 31% of the Council’s Net Budget Requirement). Whilst further government grant support was anticipated, the amount and timing of that support was uncertain. As a result, officers recommended that the Council put in place an emergency budget of up to £15 million funded from reserves to cover both the costs being incurred and the potential loss of income from the COVID19 Pandemic.



Covid19 Additional Expenditure

Service	Best	Mid	Worst
Revenues and Benefits - Software costs for COVID19 grants and reliefs	9,150.00	9,150.00	9,150.00
ICT - Softphones to enable call centre staff to work from home	1,889.00	1,889.00	1,889.00
ICT - Microsoft Teams Licences x 40	1,480.00	1,480.00	1,480.00
Crematorium - additional coffin storage capacity	6,000.00	6,000.00	6,000.00
Project Aspire - food parcels and grants	50,000.00	50,000.00	50,000.00
Spectrum Leisure Centre: operator support costs & use as food distribution hub	264,220.00	792,660.00	1,585,320.00
Homelessness - additional accommodation	71,972.50	224,160.00	448,320.00
Glive Theatre - business continuity costs	18,109.00	54,327.00	108,654.00
Recovery action	500,000.00	500,000.00	500,000.00
Corporate Finance - short term borrowing for cash flow purposes	9,342.47	28,027.41	56,054.82
	932,162.97	1,667,693.41	2,766,867.82

EX106 – COVID19 emergency budget (April 2020)

Value for Money

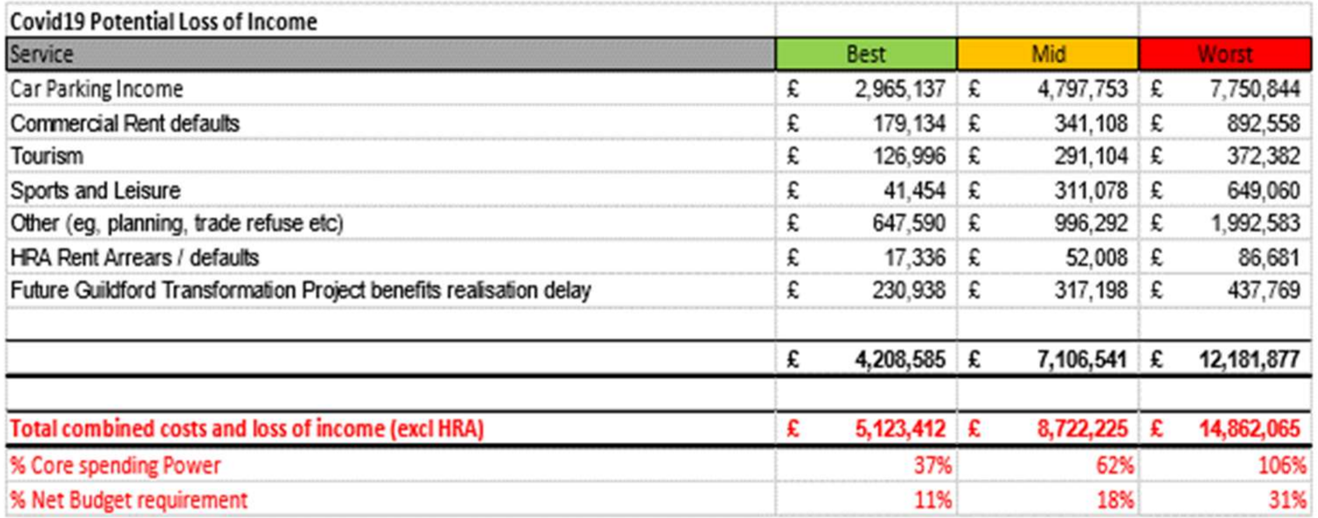
Significant risk

Future Guildford Transformation Programme

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 carried out a lot of work in this area in 2018/19 and produced a separate report. Our focus in 2019/20 will be to understand how the transformation project has progressed and follow up recommendations made in our 2018/19 Audit Findings report.

Findings



Covid19 Potential Loss of Income			
Service	Best	Mid	Worst
Car Parking Income	£ 2,965,137	£ 4,797,753	£ 7,750,844
Commercial Rent defaults	£ 179,134	£ 341,108	£ 892,558
Tourism	£ 126,996	£ 291,104	£ 372,382
Sports and Leisure	£ 41,454	£ 311,078	£ 649,060
Other (eg, planning, trade refuse etc)	£ 647,590	£ 996,292	£ 1,992,583
HRA Rent Arrears / defaults	£ 17,336	£ 52,008	£ 86,681
Future Guildford Transformation Project benefits realisation delay	£ 230,938	£ 317,198	£ 437,769
	£ 4,208,585	£ 7,106,541	£ 12,181,877
Total combined costs and loss of income (excl HRA)	£ 5,123,412	£ 8,722,225	£ 14,862,065
% Core spending Power	37%	62%	106%
% Net Budget requirement	11%	18%	31%

EX06 – COVID19 emergency budget (April 2020)

Planning was therefore performed on the basis of the 'worst case scenario' estimate. As at 5 May 2020, the Council had received two general non-ringfenced grants totalling £1.523 million; while this covered the majority of costs being incurred, it did not cover the projected loss of income and the residual estimate of £13.8 million was approved to be funded from the general fund reserves, with that funding being drawn down if further government support was not forthcoming or was insufficient.

The general fund reserves at 31 March 2020 totalled £44.3 million of which £35 million were anticipated to be available. However, after the planned usage of £13 million of earmarked reserves to 'pump-prime' the Future Guildford transformation programme, the remaining balance is £18 million earmarked reserves and £3.75 million unallocated. Your papers on the emergency budget notes that "The financial risk register presented to Budget Council on 5 February showed that **reserves of around £10 million are considered sufficient and sustainable for the Council**. If reserves fall to insufficient levels, then the Council will be advised to budget to rebuild the reserves to a sufficient level over its medium term financial plan. It is quite unlikely that sufficient cost savings will be able to be found in any one year, and so it will take a number of years to rebuild reserves."

The scale of the Covid-19 uncertainty potentially puts this £10 million target at risk; we have considered this point as part of the section entitled **November update** below.

Value for Money

Significant risk

Future Guildford Transformation Programme

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 carried out a lot of work in this area in 2018/19 and produced a separate report. Our focus in 2019/20 will be to understand how the transformation project has progressed and follow up recommendations made in our 2018/19 Audit Findings report.

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Findings

Wider context

In June 2020, the Institute for Fiscal Studies published a briefing note on the financial risk and resilience of English local authorities in the coronavirus crisis. In the case of Guildford Borough Council, overall the Council's risk profile was comparable to that of other non-metropolitan ("shire") districts (based on the average indicator scores) including a relatively low prevalence of health-related risk and business rates revenue risk. However, there were a number of areas where the Council's indicator score was in the lowest two deciles (i.e. highest 20% of authorities by risk) including

- Sales fees and charges from
    - Off-street parking, PCNs and traffic control
    - Planning
    - Culture and related services
    - Trade waste
- Commercial income from property
- Other demographic factors such as
    - Over-occupied properties (as at 2011 census)
    - Proportion of adults who are self-employed

While the risk factors above ultimately relate to *potential* exposure based on recent-historic financial information, rather than being measures of actual losses incurred, this does highlight that the Council's high reliance (relative to other districts) on income generation does present specific challenges in the Covid-19 environment. Our review of the finance risk register (that was used in the 2020/21 budget setting) indicated that the risks involved in income generation have been factored into existing planning models; for example the following already had the following amounts of risk estimated for the four year medium term financial plan risk assessment: additional meter income (£1.2 million); 1% loss of income from fees and charges (£1.386 million).

These areas are well acknowledged and have been actively considered within the Council's response to Covid-19 (including the emergency budget, as noted above).

Value for Money

Significant risk

Future Guildford Transformation Programme

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 carried out a lot of work in this area in 2018/19 and produced a separate report. Our focus in 2019/20 will be to understand how the transformation project has progressed and follow up recommendations made in our 2018/19 Audit Findings report.

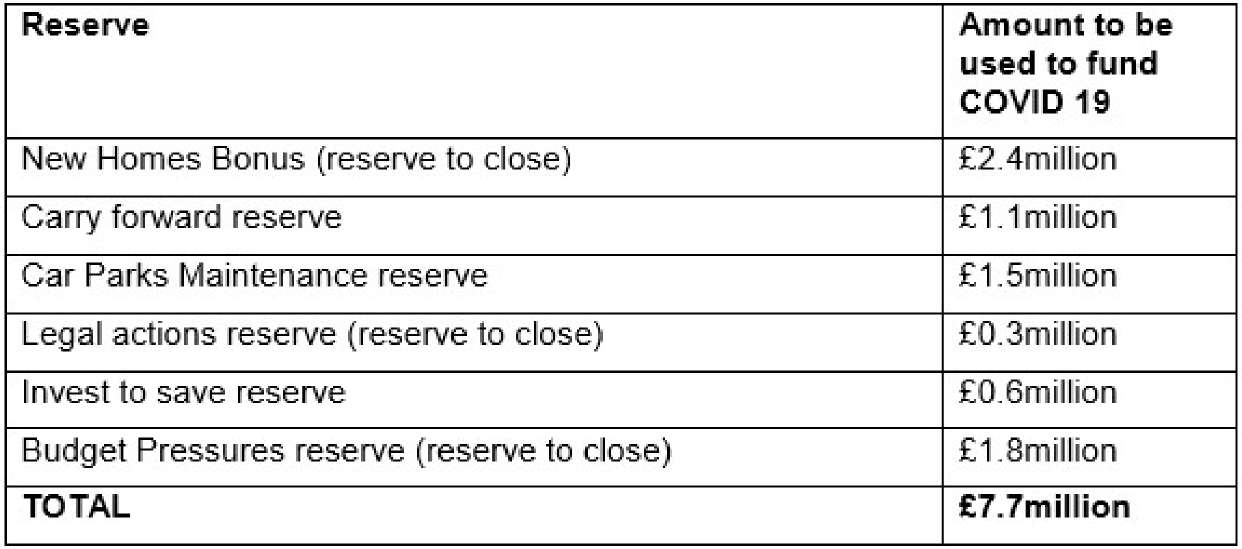
Findings

November update to Joint Executive Advisory Board / Executive

As noted above, the Covid-19 uncertainty (estimated at £13.8 million ‘worst case scenario’ for 2020/21, as at May 2020) represented a significant potential usage of the Council’s reserves, to the extent that this risked the Council’s usable reserves falling below its own benchmark of £10 million. As at November 2020 a projected decrease in general fund reserves to £27 million is projected by the end of 2020/21, noting the anticipated reserves impact of Covid-19 (£7.0 million in year) and Future Guildford (£8.3 million). Your reports stated that

> “The current financial year (2020/21) will also need to be considered as this is likely to generate a net overspend of around £7 million (this will be confirmed as the year progresses) due to the Covid-19 pandemic and the shortfall in additional expenditure incurred and the loss of income received when compared with support from central government. Reserves will need to be utilised to address this position requiring the Council to replenish its reserves over the next three years. “

A revised gap of £4.493 million therefore remains. The revised budgeted expenditure includes income reduction with respect to Covid-19 as having a residual impact of 2% in 2021/22 and 2022/23, and a further 1% in 2023/24. The assumptions also delay any further increase to fee income to only applying from 2022/23.



Reserve	Amount to be used to fund COVID 19
New Homes Bonus (reserve to close)	£2.4million
Carry forward reserve	£1.1million
Car Parks Maintenance reserve	£1.5million
Legal actions reserve (reserve to close)	£0.3million
Invest to save reserve	£0.6million
Budget Pressures reserve (reserve to close)	£1.8million
TOTAL	**£7.7million**

Use of reserves to fund Covid-19 – projected for 2020/21

Value for Money

Significant risk	Findings
Future Guildford Transformation Programme 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 carried out a lot of work in this area in 2018/19 and produced a separate report. Our focus in 2019/20 will be to understand how the transformation project has progressed and follow up recommendations made in our 2018/19 Audit Findings report.	**November update to Joint Executive Advisory Board / Executive** As noted on previous pages, alongside the implementation of Future Guildford the Council does require a degree of sustained maintenance and growth of other income sources to help assure medium term financial sustainability. One of the elements potentially supporting this is the generation of new service growth proposals. It is noted that at present, new service growth proposals are not being actively considered with your report showing “In order to arrive at the final budget, service managers prepare an outline budget based on existing levels of service, which has then been amended for existing commitments and agreed savings arising from Future Guildford. For 2021/22 Officers have not been invited to submit any new service growth proposals due to the need to reduce expenditure and resolve the budget shortfall. However, assumptions regarding on-going loss of income due to COVID19 have been included within the budget and forward projections as set out in section 4 (paragraph 4.13).” Overall, the reserves position is not yet considered by the Council to be at a ‘critical’ level but there is already an acknowledgement that addressing the pressures on the budget is not something that will be possible to contain solely in year. Whilst many other councils are in a similar position and your reports highlight the risks and action being taken, it is important to understand that action needs to be taken now to address the identified budget gaps in a planned and managed way. Without taking early action the Council will need to rely on further depleting reserve levels to balance its budget. Repeated reliance on reserves without taking action to address the underlying budget gaps will lead to the risk that either reserves levels become unsustainable or rapid service cuts are required to maintain a sustainable position. **RECOMMENDAITON** As at November 2020, there remains a cumulative budget gap of £4.493 million for the period 2021/22 to 2024/25. The continuing impact of Covid-19 and the recovery from this is likely to put continued pressure on reserves, which will not be possible to contain solely in year. While management’s current projections do not indicate that the reserves position will become critical in the immediate future, we recommend that the Council continues to monitor this on a more frequent basis, noting the fact that a reduction in projected reserves below a certain threshold (defined as £10 million within the financial risk register) may require further reprofiling of reserves in the medium term.

Value for Money

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	Findings
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. A review of the outruns in capital expenditure and revenue will be made. This may indicate the presence of quantitative factors that challenge your performance in achieving your "Future Transformation Programme“ objectives. The quantitative factors will be reviewed in detail with adequate challenge to the underlying assumptions of the transformation programme to support the value-for-money opinion.	• 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 2020/21 to 2024/25 was approved at Council on 5 February 2020. • Following re-profiling, the total expenditure against the General Fund Capital Programme in 2019-20 had been £48.1 million, which was less than the revised budget of £85.8 million, representing a 56% achievement against plan. This compares to 38% in 2018/19 (of £99.6m), 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 £85.8 million approved expenditure included £68 million for the main programme with minor and provisional schemes making up the remainder. The Council delivered 70% of the main programme. • For the year ended 31 March 2020, the Council’s investment property portfolio generated an average income return of 6.0% against a benchmark of 4.7%, which is in line with performance in previous years. • As a consequence of slippage, the Minimum Revenue Provision outturn was £926,639, which was below the budgeted £1.02 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.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to November 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £54,050 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	20,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the total fee for the audit of £54,050 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Place Analytics and CFO insights licence	14,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,500 in comparison to the total fee for the audit of £54,050 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Corporate Governance and Standards Committee. None of the services provided are subject to contingent fees.

Action plan

We have identified 15 recommendations for the group as a result of issues identified during the course of our audit and VfM work. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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	Issue and risk	Recommendations
● **Medium**	**PPE Other land and Buildings - Guildford Lido valuation** We identified that his asset was valued at 31st January 2020 for the 2019/20 accounts however, the previous valuation was completed at 1st April 2014. Therefore this asset was not revalued for over 5 years. The Code stipulates that all assets have to be revalued by a LG authority at least every 5 years. The asset had a brought forward valuation of £800,000 and a closing valuation of £2,224,000. There is a risk that the brought forward balance not revalued different to its actual value at that time by a non-trivial amount.	Management must evaluate whether the brought forward valuation for Guildford Lido is materially correct, noting that it had not been valued for 5 years as at the opening balance sheet date. **Management response** Management have sought confirmation from the valuer and confirmed that, although the latest valuation was performed at 31 January 2020, a supplementary valuation was performed as at 1 April 2019, within the five year window.
● **Medium**	**Investment Properties – Haydon Place** We identified that one asset - Haydon Place - was classified as an Investment Property by the client but the valuation was completed as if it was an operational property. We obtained an understanding of why this was - the client instructed the valuer in 2018/19 to value it as an operational property for the 2019/20 accounts based on the plans for the new lease. However, this fell through but the valuer wasn't informed, meaning the basis for this valuation was incorrect. We requested that the client obtains an investment property valuation for this asset. The value of the property in the draft financial statements is £585,000. There is a risk that, under a different valuation basis, the asset would have a non-trivially different value.	Management must seek a revaluation of its Haydon Place property based on its underlying nature (and valuation) as an investment property. **Management response** Management have sought confirmation from the valuer as to whether the asset would have a different value if it had been valued as an investment property; the estimate provide indicates the estimated different to be between 2.5% to 5.0% of the asset's value. This initial assessment would not indicate a material risk noting the valuation of the asset and the fact that the range of uncertainty is below our triviality threshold. However, this assessment will be evaluated by the auditor as part of the conclusion of our fieldwork.

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
● Medium	**HRA Dwellings disposed but not removed from asset register** From the work on the Dwellings (housing) we identified 2 HRA properties were not revalued this year. On review, these were not included in the revaluation schedule because these were equity share assets for which the last part-disposal had taken place, and GBC no longer owns these assets - they should have been taken off the fixed asset register but were not. The total value of these assets is £165k, therefore the Dwellings is overstated by £165k, this is above trivial but not material, and has been identified as an unadjusted misstatement.	Finance should ensure that part disposals are communicated by the housing team in a timely manner to ensure these are removed from the fixed asset register. **Management response** xxxxx
● Medium	**Debtors / creditors journals posted after accounts closure** The audit work on debtors and creditors revealed that the transaction listings for debtors and creditors did not match the amounts disclosed in the financial statements. Further investigation revealed that journals to record revenue from collection funds and for business improvement district charges were entered in the revenue accounts correctly, however, the corresponding entries to the receivables and liability accounts were not recorded before publication of the first draft of financial statements. Journals had not gone through at time accounts were drafted and so had to be posted as correcting journals.	Finance should ensure all required postings are made prior to the submission of the draft accounts. **Management response** xxxxx
● Low	**Employee starters contracts** From the testing of starters and leavers as part of the procedures on Employee Benefit Expenditure, we identified two starters in the 2019-20 financial year where the employee did not sign their contract. HR's view is that if they start the employment they agree to the terms implicitly. Although this practice is not uncommon, we identified that beyond this there are no specific mitigations against having unsigned contracts. Our work did not identify any issues with respect to the validity, value or accurate processing of the HR data contained within. All forms had been correctly signed by HR.	Management should reiterate the need for employees to sign contracts within a set time period after starting. **Management response** xxxxx

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
● Medium	**Grants document retention** In sample testing revenue from grants, we could not verify two sample items due to missing documentation. The client was not able to provide the audit team with source documentation to verify the occurrence and accuracy of the revenue recognized from the two sample items. We were advised that this was due to information that had not been recorded prior to the transition to Business World combined with the fact that these both related to historic grants with an ongoing income element. This generated a sample error of £552k which, though not material, is non-trivial.	Management should ensure document retention arrangements around grant income are strengthened. **Management response** xxxxx
● Medium	**Group Accounts – preparation arrangements** The draft group accounts were presented for audit on 25th November 2020, late in the audit process. The underlying workings provided did not enable the auditor to reperform management's consolidation process, particularly over intra-group eliminating entries, meaning additional audit time was required to understand and reperform management's consolidation process. Part of the reason for this is that the workings were essentially presented as two separate consolidation processes, one between North Downs Housing Ltd and Guildford Borough Council Holdings Ltd (GBCH) and another between GBCH and the Council. This two tier manual approach increases the risk of error and version control issues (which was found to be a problem). In addition, there was no documented review process or timetable for the group accounts, which should be produced at the same time as the Council's accounts as they align to the same statutory publication deadline. While no significant quantitative errors were noted, it is recommended that the production and review process be enhanced. It is acknowledged that this is the first year that Group Accounts have been produced and that this may have contributed to the delay and method in producing them; getting the process more systemised will benefit the Council in future years particularly if there are changes or expansions to the Group structure.	There is need for the Council to put in place measures to ensure that assets that are reaching/have reached their full economic useful life are evaluated and appropriate action is taken to either revise estimates or clearly show that these assets are no longer in use in the fixed asset register. **Management response** xxxxx

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
● Medium	**Related party declarations not received** As part of our testing over related party transactions, we identified that declarations were not received from 7 councillors. As per discussions with the Deputy CFO, to ensure that the Council has not omitted any material related party transactions from disclosure, a review of the prior year declarations is made and an assessment as to whether there is expectation for material transactions to have occurred in the current year is made. While this process and our work performed did not identify any unidentified related parties, receipt of declarations from councillors remains a key tool for the Council to identify related parties and so compliance in this area needs to be enhanced.	We recommend that as part of the process for identifying related parties for the year ended 31 March 2021 that the process for identifying missing declarations and then following these up is enhanced to ensure a higher rate of response **.Management response** xxxxx
● Medium	**Finance team capacity** A high volume of misstatements and adjustments appeared to stem from finance team capacity and errors made prior to the draft accounts being produced. A high volume of working papers initially provided, and evidence subsequently provided, did not initially meet our audit evidence requirements. In addition, key items such as the group accounts were not made available until very late in the audit process (25 November).	We recommend that management's capacity for financial statement closedown and response to audit queries is strengthened in 2020/21. **Management response** xxxxx
● Low	**Accounts payable document retention** For one of our accounts payable sample, the Council were not able to provide a supplier invoice. The root of this finding was an absence of synchronisation between the ledger and the housing management system (Orchard). We have gained assurance that the amount represents a creditor at year end and that the service the expenditure relates to took place.	Management should ensure document retention arrangements where service expenditure is administered in a non-finance system (e.g. Orchard) are strengthened. **Management response** xxxxx

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
● Medium	**Treasury management working papers** The initial treasury management working papers had the following did not tie back to the amounts disclosed in the accounts and were as such unsuitable for completing our testing. As such revised working papers were required, which were provided on 21 January 2021	We recommend that management's capacity for financial statement closedown and response to audit queries is strengthened in 2020/21. **Management response** Xxxxx
● Low	**Fully depreciated assets** We established that several assets in the fixed asset register have reached their full useful economic lives. These assets appear in the fixed asset register with nil net book values. There is need for the Council to put in place measures to ensure that assets that are reaching/have reached their full economic useful life are evaluated and appropriate action is taken to either revise estimates or clearly show that these assets are no longer in use in the fixed asset register.	There is need for the Council to put in place measures to ensure that assets that are reaching/have reached their full economic useful life are evaluated and appropriate action is taken to either revise estimates or clearly show that these assets are no longer in use in the fixed asset register. **Management response** Xxxxx
● Low	**Fully amortised assets** We established that several assets in the intangible assets resgiter have reached their full useful economic lives. These assets appear in the intangible assets register with nil net book values. There is need for the Council to put in place measures to ensure that intangible assets that are reaching/have reached their full economic useful life are evaluated and appropriate action is taken to either revise estimates or clearly show that these assets are no longer in use in the intangible assets register.	There is need for the Council to put in place measures to ensure that intangible assets that are reaching/have reached their full economic useful life are evaluated and appropriate action is taken to either revise estimates or clearly show that these assets are no longer in use in the intangible assets register .**Management response** Xxxxx

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
● **Medium**	**Unrecorded liabilities** As part of our review of post year end supplier payments we identified two transactions which had not been recorded as liabilities prior to year end despite these relating to 2019/20 goods or services. While the value of these was not material (and management have accepted these as an unadjusted misstatement). While we note the disruption caused by the onset of Covid-19 restrictions at year end (March/April 2020 cut-off) may have impaired the Councill's ability to effect normal processes we recommend that the root causes of the unprocessed invoices are identified and addressed.	Enhance arrangement for year-end cut off to ensure unrecorded liabilities are captured. **Management response** Xxxxx

Controls

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

Action plan

Assessment	Issue and risk	Recommendations
● **Medium**	**Value for Money** As at November 2020, there remains a cumulative budget gap of £4.493m for the period 2021-22 to 2024-25. The continuing impact of Covid-19 and the recovery from this is likely to put continued pressure on reserves, which will not be possible to contain solely in year.	While management's current projections do not indicate that the reserves position will become critical in the immediate future, we recommend that the Council continue to monitor this on a more frequent basis, noting the fact that a reduction in projected reserves below a certain threshold (defined as £10m within the financial risk register) may require further reprofiling of reserves in the medium term. **Management response** Agreed we will include an update on the projected level of reserves as part of our regular financial monitoring reports to the corporate governance and standards committee starting from the Period 8 monitoring for 2020-21.

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Guildford Bourgh Council's 2018/19 and previous financial statements, which resulted in ten recommendations being reported in our 2018/19 Audit Findings report (of which two were from prior periods). We have followed up on the implementation of our recommendations and note that while six are implemented, there are two recommendations which are implemented in principle where implementation was evidenced as part of the completion of fieldwork, one recommendation in progress and one not yet implemented. The latter two are both delayed either partly or specifically due to Covid-19.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue 1 (2018/19) – PRIORITY: 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 effect on the financial statements in 2018/19, at a value of £45k. **Recommendation** Management should review the fixed asset register and remove all assets which are leased out via a finance lease.	**Management response (2018/19)** 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**.** **Management update (2019/20)** We have implemented a regular review of all assets between the finance and assets team – those identified as finance lease are listed separately on the schedule **Auditor evaluation (2019/20)** No issues noted from fieldwork.

Assessment

✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue 2 (2018/19) – PRIORITY: 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.. **Recommendation** 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 (2018/19)** 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. **Management update (2019/20)** The valuation of HRA stock on the balance sheet is EUV-SH whereas when a property is sold under right to buy the valuation is based on a discounted market value. We do not believe there is a material difference between the two valuations and will evidence this to you for properties sold in 2019-20. **Auditor evaluation (2019/20)** No issues with valuation basis have come to light.

Assessment

✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue 3 (2018/19) – PRIORITY: 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. **Recommendation** Management should ensure that all investment property assets are revalued annually.	**Management response (2018/19)** 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. **Management update (2019/20)** All investment assets have been valued in 2019-20 **Auditor evaluation (2019/20)** Consistent with work performed. While one asset noted as classed as investment property had been valued on the wrong basis due to the history of that asset, this has already been evaluated within our action plan and was not indicative of a wider completeness issue.

Assessment

✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue 4 (2018/19) – PRIORITY: 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. **Recommendation** Management should revalue assets under construction when they are brought into use.	**Management response (2018/19)** 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. **Management update (2019/20)** The accounting policies for 2019-20 have been updated as discussed in the final accounts which will be presented to Corporate Governance and Standards Committee on 26th November 2020. We believe the recommendation has been implemented. **Auditor evaluation (2019/20)** Implemented (subject to review of final accounts).

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue 5 (2018/19) – PRIORITY: 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. **Recommendation** 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 (2018/19)** Agreed. This was an oversight in one particular instance but not normal practice. **Management update (2019/20)** This finding related to a one-off incident and we do not believe the issue has re-occurred in 2019-20 **Auditor evaluation (2019/20)** Implemented. We can confirm that this issue has not reoccurred in 2019-20 sample testing.

Assessment

✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue 6 (2018/19) – PRIORITY: 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 reader of the accounts. **Recommendation** Your accrual de-minimis level should be included in your accounting policies.	**Management response (2018/19)** Agreed. The deminimis level principally applies to debtors and creditors. We will update our accounting policies accordingly. **Management update (2019/20)** The accounting policies for 2019-20 have been updated in the final accounts which will be presented to Corporate Governance and Standards Committee on 26th November 2020. We believe the recommendation has been implemented. **Auditor evaluation (2019/20)** Implemented (subject to review of final accounts).

Assessment

✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue 7 (2018/19) – PRIORITY: 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. **Recommendation** An update against VfM recommendations in progress should be provided to a future meeting of the Corporate Governance & Standards Committee.	**Management response (2018/19)** Agreed. We can update on this at the January 2020 Corporate Governance and Standards Committee. **Management update (2019/20)** An update was not provided at the January 2020 meeting however has been provided as part of this report (see Appendix E) **Auditor evaluation (2019/20)** Implemented November 2020 (see Appendix E).

Assessment

✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Issue 8 (2018/19) – PRIORITY: 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. **Recommendation** 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 (2018/19)** 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.. **Management update (2019/20)** Additional resource was employed by the Council for the 2019-20 closing process specifically to help the Council with the accounts for its Companies, Group accounts assessment, working papers and technical advice. However, the impact of COVID19 and a delayed implementation of the ERP system had a greater impact on the completion of the 2019-20 accounts. **Auditor evaluation (2019/20)** Implemented (although as acknowledged, impact of COVID-19 and ERP system have had an impact on the progress of the audit).

Assessment

✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Not yet implemented	**Issue 9 (2017/18)** **Recommendation** 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)	**Management response (2017/18)** 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] **Management response (2018/19)** July 2019: This is still in progress and will be addressed as per our response to recommendation 1 in Appendix A **Management update (2019/20)** The implementation of IFRS16 was delayed by CIPFA as a result the review will not be undertaken for the 2020-21 accounts. **Auditor evaluation (2019/20)** Not yet implemented noting sector-wide delay in IFRS16 implementation.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially implemented	**Issue 10 (2017/18)** **Recommendation** 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.	**Management response (2017/18)** 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] **Management response (2018/19)** In progress – this will be addressed as part of the new ERP system implementation, due to go live by April 2020. **Management update (2019/20)** The implementation of the ERP system was delayed from April 2020 to August 2020 due to COVID 19. The new system does record all employees engaged by the council regardless of their engagement (ie, employee costs and details are based on person not position) however the workflows relating to the starters and leavers process within the new system are still being reviewed with the aim of updating the workflow by the end of March 2021. **Auditor evaluation (2019/20)** Partially implemented.

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 2020.
As these adjustments both relate to the primary statements, these have had 'knock-on' changes on reserves and the cash flow statement, as well as the notes to the financial statements. None of these impacts have been identified as individually material.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Note 17 – Short term debtors Short term debtors in the draft accounts totalled £13.165m. These had been understated by £0.356m due to the exclusion of Business Improvement District (BID) loan funds from MHCLG which had not been included in the debtors analysis. The corrected value is £13.521m. The CIES element had already been appropriately reflected.		356	
Note 19 – Short term creditors Short term creditors in the draft accounts totalled £32.719m. These had been understated by £0.439m due to the exclusion of income from the collection fund which had been recognized in the revenue account but had not been included in the liabilities analysis.		(439)	
North Downs Housing The Council's investment in Guildford Borough Council Holdings Ltd is split into an equity and loan amount, at 40% and 60% respectively. The disclosure requirements for each of these is different with the equity amount needing to be reflected as an investment, and the loan as an amount receivable. While the total combined value of these was correctly included in the balance sheet, a transposition error meant that these were split incorrectly in the accounts Whereas the investment and loan balance were reported as £6.995m and £6.648m respectively, the corrected values should be £8.183m and £5.460m respectively i.e. an adjustment of £1.188m to each balance.		1189 (1189)	

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 2020.
As these adjustments both relate to the primary statements, these have had 'knock-on' changes on reserves and the cash flow statement, as well as the notes to the financial statements. None of these impacts have been identified as individually material.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Bad debt provision Bad debt Provisions - A variance of £433k has been noted between the provision calculation for HB overpayments and the amount disclosed in the accounts. This has been attributed to use of an incorrect opening balance which has resulted in the provision being understated by £433k.	433	(433)	433
Balance sheet accounting treatment of debt and equity investment in Guildford Brough Council Holdigns Management had previously taken the decision to recognise their equity investment in Guildford Borough Council Holdings Ltd an amount receivable and their loan as an investment . While management have advised that this is based on an accounting treatment permissable at the time it was first adopted, a adaptation of IFRS9 for local authorty accounts requires a different treatment in order to reflect the underlying substance. Therefore the Council are required to reclassify the loan and investment balances, in essence 'swapping' the balances. This misstatement is distinct and in addition to the calculation error made in the split, noted above, which was to correct a clerical error. This additional adjustment pertains to the appropriate accounting treatment of the year end positions. The value of the adjustment is difference between the corrected values of £8.183m and £5.460m.		2723 (2723)	
Overall impact	**£433**	**(£516)**	**£433**

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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 32 Critical Judgements In Applying Accounting Policies	We recommend the inclusion of a critical judgement with respect to material uncertainties identified by the pension fund actuary and property valuation expert.	Enhance disclosure, specifically referring to the underlying standards against which the material valuation uncertainty has been determined. **Management response** Amended in accounts	✓
Note 26 Pension Liability - reference to triennial valuation	States that the last triannual revaluation was in 2016. This should be corrected to 2019.	Correct disclosure. **Management response** Amended in accounts	✓
Note 26 Pension Liability: Correct to prior year values	Present value of Scheme liabilities: PY figure of £125,299k is incorrect, PY figure of £134,354k is incorrect, PY figure of £188,537k is incorrect, PY figure of £223,358 is incorrect. These will need to be updated. Main financial assumptions: CPI and Rate of increase in pensions incorrectly shown as 1.8%, should be 1.9% in line with the actuarial report. Final paragraph in note - stating total liability is £116m, this is incorrect, total is £114m.	Correct disclosure. **Management response** Amended.	✓

In addition to these misclassification and disclosure adjustments, we have also identified a number of minor changes (such as formatting / textual corrections / clarifications) or immaterial disclosure omissions; these are not individually significant enough to warrant separate inclusion within this audit findings report and have been adjusted following discussions with the Finance team.

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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 12 - Property, Plant And Equipment (PP&E)	The impairment on AUC is shown in the Accumulated Depreciation table under 'Revaluations' but as this is an impairment it should be shown in a separate line.	Correct disclosure **Management response** Amended in accounts	✓
Note 8 – Officers' Remuneration	Termination Benefits: the 2018-19 cost figures don't agree to the prior year signed accounts as the 2017-18 values had been included in error.	Correct disclosure. **Management response** Amended in accounts	✓
Note 12 - Property, Plant And Equipment (PP&E)	Capital Commitments - The financial statements have not disclosed a figure for the 2020/21 budgeted capital commitments.	Correct disclosure. **Management response** Amended in accounts	✓
Note 29 – Financial Instruments	The table for gains and losses shows £1.483m as being attributable to Financial Assets – fair value through profit & loss. However, the table suggests that these amounts have had an impact of that value on Other Comprehensive Income and Expenditure, whereas in fact these should impact surplus/deficit on the provision of services. We were content that the CIES treatment itself was correct, but the disclosure needs correcting.	Correct disclosure. **Management response** Amended in accounts	✓

In addition to these misclassification and disclosure adjustments, we have also identified a number of minor changes (such as formatting / textual corrections / clarifications) or immaterial disclosure omissions; these are not individually significant enough to warrant separate inclusion within this audit findings report and have been adjusted following discussions with the Finance team.

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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 12 - Property, Plant And Equipment (PP&E)	Balance sheet says Note 27 is the other long term liabilities, but this should refer to Note 26 Penision Liability	Correct disclosure **Management response** Amended in accounts	✓
Note 8 – Officers' Remuneration	Defined Pension Benefit Typo on page 58, paragraph 5: still states 2018-2019..	Correct disclosure. **Management response** Amended in accounts	✓
Note 12 - Property, Plant And Equipment (PP&E)	REFCUS accounting policy is missing.	Correct disclosure **Management response** Amended in accounts	✓
Note 29 – Financial Instruments	We note that the AGS has a typo in Para 4.3 highlighted above as it refers to 2019..	Correct disclosure **Management response** Amended in accounts	✓
Note 29 – Financial Instruments	The financial instruments note shows a negative liability of £0.407m with respect to a bank overdraft. However, this should be should as a positive amount and not a negative amount, reflecting the underlying balance sheet entry (which is a credit). The corresponding balance sheet entry is correct.	Correct disclosure **Management response** Amended in accounts	✓

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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 29 – Financial Instruments	Prior year figure for fair value of loans from PWLB (note 30) to be corrected by client to match prior year audited financial statements. A 17/18 financial year end balance was inserted on the note in error.	Correct disclosure **Management response** Amended in accounts	✓
Note 1c) – Segmental Income	The draft segmental income note contained total income of £67,633k. The auditor found that this did not agree to the underlying ledger which totalled £67,847k and therefore needs to be adjusted.	Correct disclosure. **Management response** Amended in accounts	✓
Note 9 – External Audit Cost	The audit fee workings are based on amounts charged during the financial year. The Code requires the note to reflect the amounts charged relating to the financial year which can be different. In the case of "External audit services carried out by the appointed auditor for the year" the note discloses £53k payable whereas the draft agreed fee was £54k. Since then further fee adjustments have been proposed as shown in the audit findings addendum March 2021.	Correct disclosure. **Management response** Amended in accounts	✓
Narrative Report	A number of minor corrections were made to the Narrative Report following the audit process. None of these are individually signficant enough to warrant separate communication to those charged with governance.	Correct disclosure. **Management response** Amended in accounts	✓
Throughout	References to notes within the CIES, MIRS, Balance Sheet and Cashflow and group accounts are incorrect and need updating	Correct disclosure. **Management response** Amended in accounts	✓

Audit adjustments

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 29 – Financial Instruments	To match the treatment in the group accounts and the underlying nature of the accrued interest, £596k of accrued interest with respect to Guildford Borough Council Holdings Ltd should be transferred from short term to long term.	Correct disclosure **Management response** Amended in accounts	✓
Note 1c) – Segmental Income	Classification errors were noted within the credit rates subnote to Note 30 Nature And Extent Of Risks Arising From Financial Instruments. This had caused £6.000m of AA+ rated assets to be shown as long term instead of short term, and a further £6.000m of A assets to be shown as short term instead of long term.	Correct disclosure. **Management response** Amended in accounts	✓
Note 10 – Grant Income	Subsequent to the draft accounts being produced (31 August) but prior to the corresponding note being audited, management identified a spreadsheet error which was causing grant income from NDR to be shown as £7.150m whereas the corrected balance was £2.512m. This was corrected prior to audit.	Correct disclosure. **Management response** Amended in accounts	✓
Note 2 - Expenditure And Income Analysed By Nature	Subsequent to the draft accounts being produced (31 August) but prior to the corresponding note being audited, management identified a spreadsheet error which was causing £7.486m of expenditure as attributable to Depreciation, amortisation, revaluations gains and losses whereas this should have been classified as other services expenses. This was corrected prior to audit.	Correct disclosure. **Management response** Amended in accounts	✓
HRA	Subsequent to the draft accounts being produced and as a result of audit inquiries, management identified a spreadsheet error which was causing the HRA revaluation (gain)/loss to be shown as (£548k) whereas the correct balance was £5,534k	Correct disclosure. **Management response** Amended in accounts	✓

Audit adjustments

Disclosure omission	Detail	Auditor recommendations	Adjusted?
CIES transposition	As part of an update to the CIES to amend for an agreed adjustment to the bad debt provision, a number of linking issues were noted This did not change the overall CIES expenditure or income either gross or net but did change the categorisation of the following directorates: - Finance - Planning & Regeneration - Environment	Correct disclosure. **Management response** Amended in accounts	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Corporate Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Haydon Place - asset was valued as OLB but it is an Investment property and was included in investment properties. We obtained a new, investment valuation for this property and this is £45k less than the value at which the asset was included in the FAR and the Accounts.	45	(45)	45	Trivial
Dwellings assets - Two equity share assets remained on the FAR but these have been sold to the occupiers and should not be in the FAR any more. The total value of these assets is £165k.	165	(165)	165	Immaterial
In sample testing revenue from grants, we could not verify two sample items due to missing documentation. The client was not able to provide the audit team with source documentation to verify the occurrence and accuracy of the revenue recognized from the two sample items. When extrapolated across the whole population, this generated an estimated error of £552k.	552	(552)	552	Immaterial. Value is an estimate based on an auditor extrapolation.
We identified supplier payments relating to consultancy services that had not been recorded in the balance sheet or CIES at year end.	293	(293)	293	Immaterial
We identified supplier payments relating to intangible assets which were not capitalised / accrued for until after year end.	0	195 (195)		Immaterial
Overall impact	**1,055**	**(1,055)**	**1,055**	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in prior year.

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	51,800	62,157*
Group audit procedures	2,250	4,500*
Total audit fees (excluding VAT)	**£54,050**	**£66,657**

The fees reconcile to the financial statements.

Non-audit fees for other services	**Proposed fee**	**Final fee**
Audit Related Services • Certification of Housing Capital Receipts Grant • Certification of Housing Benefit Grant	 5,000 20,000	 TBC TBC
Non- Audit Related Services - Place Analytics and CFO Insights License	14,500	14,500
Total non- audit fees (excluding VAT)	**£39,500**	**£XX,XXX**

* There are two elements of increased fees which are subject to agreement with management and PSAA and relate to:

- Group audit procedures: As noted earlier in the audit findings report, the auditing of management's consolidation process required significantly more work than initially anticipated and the proposed fee for the group procedures is £4,500.
- The impact of Covid-19 has led to an increased cost of £8,100 due to the need to
  - Revisit planning – we revisited our planning and risk assessment, materiality and testing levels and identified a significant risk in respect of covid-19
  - Additional disclosures – in accordance with IAS1 we considered additional disclosures particularly in respect of material uncertainties
  - Management assumptions and estimates – there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we were required to understand and challenge the assumptions applied by management.
  - Going concern – Covid-19 has impacted on cashflows and increased the element of the work where we discussed and assessed your updated cashflow forecasts
  - Financial resilience assessment – Covid-19 has impacted on the financial resilience of all local government bodies. This increased the amount of work we needed to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our Audit Findings Report.
  - Remote working – We, as auditors, experienced delays and inefficiencies as a result of remote working. In many instances the delays were caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone proved more time-consuming. Remote working also required additional audit procedures to gain assurance over information provided by the organisation.

Theme – Area of Focus	**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**
Finding (February 2019)	**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 (July 2019)	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.
Management update (November 2020)	The Outline budget report for 2020-21 and 2021-22 includes the assumption regarding the vacancy factor. For the 2021-22 budget report we have also included a new assumption relating to the reduction in fees and charges income related to reduction in activity levels as a result of COVID19. We are satisfied that all major assumptions with an impact of £200,000 are included within the report.
Auditor evaluation	Implemented.

Theme – Area of Focus	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)
Finding (February 2019)	**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 (July 2019)	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
Management update (November 2020)	The impact of the fair funding review and 75% BRRS implementation was further delayed by government due to COVID19. The assumption regarding the impact of these reviews was included in the outline budget report for 2020-21 and has also now been included in the outline budget report for 2021-22. The estimated value of the reduction has been made based on the advice of our finance consultants LGFutures and is based on previous consultations issued by government so the estimate has been made with more certainty than in previous years as further details about the fair funding review are available.
Auditor evaluation	Implemented.

Appendix E

Theme – Area of Focus	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
Finding (February 2019)	**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. Asset lives assumption 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. Assumptions on the timing and amount of capital expenditure 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 (July 2019)	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.
Management update (November 2020)	The capital programme is being regularly reviewed and re-profiled on a quarterly basis. A significant review has recently occurred in November 2020 for our period 6 monitoring which will feed into the budget for 2021-22.
Auditor evaluation	Implemented.

Theme – Area of Focus	**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 ongoing - Review of the month 8 financial monitoring report**	
Finding (February 2019)	**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. 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.	
	Recommendations:	
	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 in your budget monitoring reports by showing more clearly progress on delivery of savings and efficiencies
Management update (July 2019)	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 comment at time: 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.*	Delivery of savings is currently being undertaken by the Future Guildford Transformation Board which will use RAG related reports to monitor the savings implementation.
Management update (November 2020)	A table showing the variance between budgeted and projected transfers to / from reserves and an explanation of the variance is reported to Corporate Governance and Standards Committee as part of our standard financial monitoring reports and has been for a while now	The Future Guildford Board has received RAG rated reports during 2019-20
Auditor evaluation	Implemented	Implemented

Theme – Area of Focus	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 ongoing - Review of the month 8 financial monitoring report (continued)
Finding (February 2019)	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 (July 2019)	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.
Management update (November 2020)	A table of variances and mitigating actions was included in the P8 and P10 financial monitoring reports presented to the January and March 2020 corporate governance and standards committees. For 2020-21 this main cause of variances have been COVID 19.
Auditor evaluation	Implemented

Theme – Area of Focus	**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 ongoing – Benefits realisation**	
Finding (February 2019)	**Background:** . 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. 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 been 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 two recommendations:	
	Recommendations:	
	Consider the capacity and skills required to manage future change programmes and obtain additional support where gaps are identified	Continue to embed a culture of ownership of financial management across the organisation.
Management update (July 2019)	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 coordination and governance of projects across the Council..	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.
Management update (November 2020)	A dedicated programme and project management governance team is now in place and a new framework and training has been rolled out to officers. **Auditor evaluation: Implemented.**	As part of the implementation of BusinessWorld (ERP System) which went live in August 2020 we have undertaken a significant programme of training of people who raise purchase and sales orders and who are budget managers. Training material is available on the intranet along with FAQs and additional information around financial processes and procedures for managers to access anytime. The training is being supplemented with additional 1:1 coaching sessions with budget managers as part of regular budget monitoring meetings. BusinessWorld provides managers with greater ability to manage budgets. **Auditor evaluation: Implemented.**

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