Grant Thornton

External Audit Plan – Guildford Borough Council

Year ending 31 March 2021

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

Key matters

Factors	Our response
Impact of COVID-19 pandemic The Covid-19 pandemic has impacted the Council's financial position during 2020/21. As reported to your Corporate Governance and Standards Committee in January 2021, direct costs related to the pandemic of £2.9m are offset in part by Government Grant of £2.2m however there are additional Covid related costs that create a cost pressure of £3.3m. The reduction of income from fees and charges of £7m is mitigated in part by being able to claim £4.5m from the government compensation scheme. The combined impact is a £8.2m increase in net expenditure as forecast at the end of Month 8. The Council has continually monitored the merging situation and its impact on the Council finances throughout the year and updated Members as new information has become available via regular budget monitoring. As at November 2020, the cumulative budget gap of £4m for the period 2021/22 to 2024/25. Taken together there is pressure on the Council's reserve position. The Council has received a number of covid-19 related grants from Central Government to mitigate some of the additional pressures experienced in responding to the pandemic locally, which have been incorporated into the budget and medium term financial strategy.	At this time we have not identified a specific COVID-19 significant audit risk (as we did for Local Government audits in 2019/20 which covered a number of risks including the availability of Council staff to produce accounts, year end stock take completion and valuation uncertainties in relation to land and buildings). We will revisit this assessment should the current pressures the sector faces continues and impacts year end accounting and auditing processes. We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.

Key matters

Factors

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8 . As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the COVID-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pooled property funds which impacted both the Council's and Pension Funds position. We will monitor the position for the 31 March 2021 valuations.

Our response

As part of our planning work, we considered and concluded there were not any risks of significant weakness in the council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have identified a number of areas of focus to update our understanding of the Council's arrangements as set out at page 17.

The revisions to the standard have been incorporated into our audit approach and methodology. We have already identified the material accounting estimates likely to be impacted by the new auditing standard and will work with management to agree the information required and the disclosures required in the financial statements.

We will continue to provide you with sector updates via our Audit Committee updates.

We will liaise with the Council's valuer to clarify any potential material uncertainties in 2020-21.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Guildford Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *Terms of Appointment and Statement of Responsibilities* issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Guildford Borough Council. *We draw* your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and Standards Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Corporate Governance and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of North Downs Housing Limited. We have considered our approach the components of the group on the following page.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue cycle includes fraudulent transactions (risk rebutted)
- Fraud in expenditure recognition
- Management override of controls
- Valuation of land and buildings including investment properties
- Valuation of net pension fund liability
- Implementation of a new general ledger system

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £2.52m (PY £2.2m) for the group and £2.5m (PY £2.1m) for the Council, which equates to 1.9% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.125m (PY £0.1m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness: We will continue to review and update our risk assessment over the course of the audit.

Audit logistics

Our planning and risk assessment visit took place in April, remotely, and our final visit will take place in September, with dates to be confirmed. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit is £80,300 (PY: £66,657). The fee subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Guildford Borough Council	Yes	Comprehensive	• Risks identified on proceeding pages.	Full scope audit performed by Grant Thornton UK LLP
North Downs Housing Limited	Yes	Specified audit procedures	• Valuation of Property assets, long term debtors and investments as at 31 March 2021	Specific scope procedures on Property valuations, long term debtors and investments to be performed by Grant Thornton UK LLP.
Guildford Borough Council Holdings Limited	Yes	Analytical Only	• None – we understand that this is a holding company only	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

We have confirmed via discussion with officers that the group structure remains consistent with the prior year. The Council controls North Downs Housing Limited and its parent company Guildford Borough Council Holdings Limited through its ownership of 100% of the shares of Guildford Borough Council Holdings Limited.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component’s financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk Relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council	Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and nature of the revenue streams at Guildford Borough Council, 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 • the culture and ethical frameworks of local authorities, including Guildford Borough Council, mean that all forms of fraud are seen as unacceptable	We do not consider this to be a significant risk for Guildford Borough Council.
Fraud in expenditure recognition	Council	As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results with the aim of reducing the impact on declining reserves. We have rebutted the risk in relation to other expenditure streams.	We will: • inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; and • investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and 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 will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings (including investment properties)	Group and Council	The group revalues high value fixed assets on an annual basis and the remainder of assets on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£781 million and £153 million of investment properties in 2019/20) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; • test revaluations made during the year to see if they had been input correctly into your asset register; and • evaluate 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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
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 (£114 million in your balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test 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; • undertake 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; and • obtain assurances from the auditor of Surrey County Council 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.
Incomplete or inaccurate financial information transferred to the new general leader	Group and Council	In July 2020, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Complete an information technology (IT) environment review by our IT audit specialists to document, evaluate and test the IT controls operating within the new general ledger system • Map the transfer of data to ensure accuracy and completeness of the financial information

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for grant revenues and expenditure correctly	Council	The Council (similar to all other local authorities) has been the recipient of significant increased grant revenues in 2020/21 relating to Covid-19. Some of these grants relate to the Council, and others are grants which should be passed onto other entities. The Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on that decision how the grant income and amounts paid out should be accounted for.	We will: • Discuss with management and understand the different types of material grants received during 2020/21 and what the conditions are in the grant agreements; • Understand the conditions for payment out to other entities; • Therefore understand whether the Council should be acting as agent or principal for accounting purposes; and • We will test material grant revenues to see whether the Council has accounted for these correctly.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We did not identify any issues or recommendations in our 2019/20 audit in relation to the Council's estimation processes.

Introduction

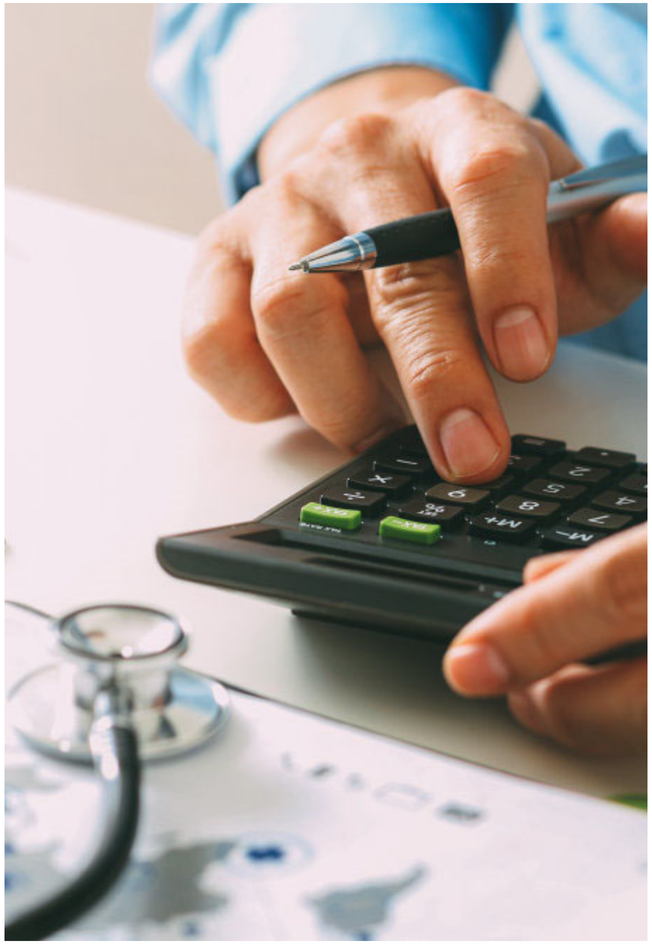
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Corporate Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Business rates appeals provision
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates (level 2)

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Accounting estimates and related disclosures

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to the management that will be shared with the Corporate Governance and Standards Committee for approval.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 17). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations, however our year end work on the financial statements will confirm if these issues have been fully addressed.

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	Ongoing	**Other land and Buildings - Guildford Lido valuation** We identified that this 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 is different to its actual value at that time by a non-trivial amount.	Management 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	Ongoing	**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 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.

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	Ongoing	**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 will liaise with housing at the end of the financial year to double check the share properties tie in with the asset register.
Medium	Ongoing	**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 aim to return to the 31 May date for preparing the draft SOA and all journals will be posted in the preparation as has happened in previous years.
Medium	Ongoing	**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.	Accountants are obtaining copies of agreements as and when grants are received so we have the information to hand when we close the accounts.

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	Ongoing	**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.	Additional resource has been created in the finance team who is responsible for company accounts which will enable the accounts to be prepared in a more timely fashion and allow more time to be spent on the consolidation.
Medium	Ongoing	**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.	This was more tricky this year with remote working. In future, we will be able to work with Councillors at committee meetings so should have a higher return rate

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	Ongoing	**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).	With the aim to prepare the draft accounts by the end of May, and the Audit for 20/21 likely to start from July, the finance team will have more time to spend on increasing the quality of working papers, with more cross referencing.
Medium	Ongoing	**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	Many discussions on the treasury management transactions we had throughout the whole audit process, there were only a couple of outstanding items that were resolved in January, the majority were resolved much earlier in the audit. We will ensure the working papers are better cross referenced in future.
Medium	Ongoing	**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.	This does depend on whether invoices are in dispute, held up or not received/paid in time during the closing process (which is what happened with one of these transactions). With the introduction of Business World, we are now operating a Purchase Order process so we hope this will mitigate this issue. Finance do also review the new year payments and will accrue for any that managers haven't accrued for and this process will continue.

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Low	Ongoing	**Fully amortised assets** We established that several assets in the intangible assets register 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.	Finance will review the assets on the asset register
Low	Ongoing	**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.	Since the introduction of Business World, the way we process invoices has changed. This should help with the source documentation being available. From 1/4/21 Orchard invoices will be dealt with differently to currently, and PO's will be raised in BW as well as Orchard.
Low	Ongoing	**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.	The starter process is being reviewed as part of the transformation programme and the implementation of the new ERP.
Low	Ongoing	**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.	Finance will work with the Asset team to review these assets in the asset register.

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Low	Ongoing	Leases (2017/18) 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 2021 (in the case of Guildford, financial year 2021/22)	Management planned to review the lease treatment of assets held on the asset register as part of their preparation for IFRS 16. The delayed implementation of IFRS16 has delayed management's action
Low	Ongoing	IT access (2017/18) 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.	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. 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 (i.e. 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.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £2.52m (PY £2.21m) for the group and £2.5m (PY £2.2m) for the Council, which equates to 1.9% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision, however given the low value of the triviality figure for the Council we are satisfied this will capture misstatements at a sufficient level across the accounts.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Corporate Governance and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.125m (PY £0.1m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Standards Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

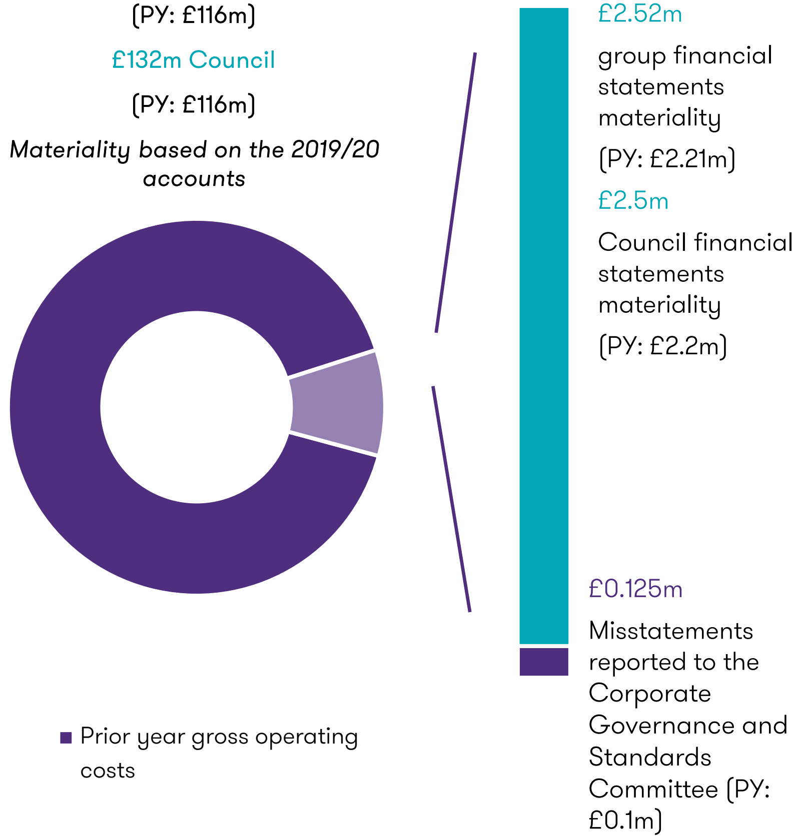
£132m group

(PY: £116m)

£132m Council

(PY: £116m)

Materiality based on the 2019/20 accounts



■ Prior year gross operating costs

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out to the right:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements, we have highlighted further key areas of focus which are listed below. We may be required to raise recommendations as a result of our findings. The potential different types of recommendations we could make are set out in the second table below.

As part of our planning work, we have considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have:

- Met with your senior officers to discuss the current risk profile and outlook for the Council and to discuss and understand any recent changes to the Council's arrangements for securing VFM;
- Reviewed publicly available reports and documentation (including minutes of all significant Council meetings), relating to both financial and operational areas of the Council's functions;
- Reviewed risk registers to understand the Council's own view and assessment of the severity of the risks it faces in the current unprecedented times.

We have not identified any risks of this nature from our initial planning work. However we have identified some specific areas of focus where we will need to obtain a deeper understanding of your arrangements in our ongoing detailed work, these are:

- The reasonableness of the assumptions underpinning the medium term financial plan from 2021/22 onwards;
- The Council's arrangements for addressing the identified gap of £6 million;
- The Council's arrangements for delivering Future Guildford, a major transformation programme;
- The Council's governance arrangements over North Downs Housing and the investment of a further £5 million in 2020/21; and
- The Council's arrangements to deliver the substantial capital programme where the 2020/21 budget was £181 million and slippage of £42 million has been experienced.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Should this additional work identify risks of significant weakness then we may need to make recommendations following the completion of our work.

The potential different types of recommendations we could make are also set out below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

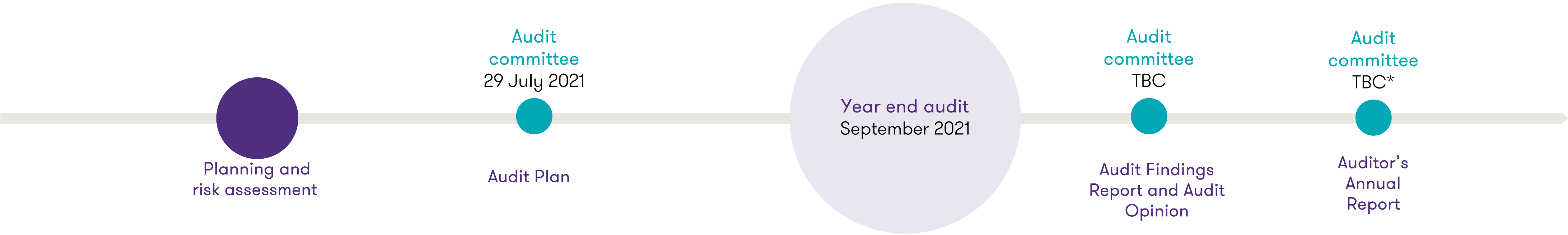
Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Paul Cuttle, Engagement Lead

Responsible for overall client relationship, quality control, provision of accounts opinions, meeting with key internal stakeholders and final authorization of reports. Attendance of Corporate Governance & Standards Committee meetings supported by Manager as required.

Emily McKeown, Audit Manager

Emily will work with the senior members of the finance team ensuring the delivery of the final accounts audit and VFM conclusion. Emily will attend Corporate Governance and Standards Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

*NAO Guidance has advised that the Auditor's Annual Report can be provided up to 3 months after the signing of the audit opinion.

Audit fees

In 2018, PSAA awarded a contract of audit for Guildford Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £44,300. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 22, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21 is set out below and detailed overleaf. As part of its response to the Redmond Review in December 2020, MHCLG committed an extra £15m to support the delivery of local audit in 2020/21. We understand that the Council will receive a grant to support 2020/21 audit fees.

	Actual Fee 2019/20	**Proposed fee 2020/21**
Guildford Borough Council Audit	£66,657	£80,300

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	Commentary	19/20	20/21
Scale fee published by PSAA		£44,300	£44,300
Additional fees relating to 2018/19 only			
Recurring variation to scale fee (first identified in 2019/20) e.g. PPE valuation and pensions		£10,500	£10,500
Non-recurring variation to scale fee (identified in 2019/20):			
Covid-19	Reported in AFR – additional requirements related to Covid-19	£7,000	
New developments 19/20	Accounting standard change	£1,500	
Variation to scale fee (identified in 2020/21):			
Value for Money (VfM)	Change in the National Audit Office Code of Practice		£9,000
New system implementation	Additional IT support required plus part year implementation requires additional testing		£10,000
New developments 20/21	Auditing standard developments on estimates		£6,500
Total audit fees (excluding VAT)		£66,657	£80,300

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy	16,000	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 low in comparison to the total fee for the audit 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.
Pooling housing capital receipts	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 low in comparison to the total fee for the audit 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.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✔
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✔
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✔

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