

The Audit Findings for Guildford Borough Council

Year ended 31 March 2021

Guildford Borough Council
July 2023



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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.

This Audit Findings 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. Its contents were discussed with management and the Corporate Governance and Standards Committee.

Paul Cuttle
For Grant Thornton UK LLP
July 2023

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1. 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 Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was substantially completed remotely between June 2021-July 2023. Our findings are summarised on pages 24 to 47. We have identified ten adjustments to the financial statements that have resulted in a £8.5m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised a number of 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 substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Remaining procedures on investment properties, other expenditures, completeness of expenditures, financial instruments, remuneration disclosures, capital disclosures and collection fund;
- Receipt of management representation letter; and
- Review of the final set of financial statements.

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

Our anticipated audit report opinion will be unmodified.

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Our value for money work is substantially complete and we intend to issue our Auditor's Annual Report imminently.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify a risk of significant weakness at the planning stage of the audit however as a result of the issues arising during the audit we expect to report there are significant weaknesses in arrangements relating to capacity within the finance team and ability to prepare financial statements. Our assessment is explained in detail on page 18.

1. Headlines

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 at this time but are considering doing so. As explained on page 18, we expect to report there are significant weaknesses in arrangements relating to capacity within the finance team and ability to prepare financial statements. We may also determine that it is appropriate to issue written recommendations 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.

A decision on whether to do will be based on the Council's progress in the in developing a financial recovery plan that will demonstrate how the Council can deliver a balanced general fund budget post 2023/24, developing financial capacity and producing good quality updated 2021/22 draft financial statements with supporting working papers.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements.

Significant Matters

We encountered significant delays in completing our audit. The financial statements have gone through a series of revisions and the Council struggled to provide underlying evidence to support disclosures. Consequently there were a significant number of adjustments required to the accounts and evidence of control weaknesses in key financial systems and processes. The implementation of a new accounting system for the year 2020/21 is largely the reason for the issues encountered but the Council has also recognised there is a need to assess the size and experience of the finance function.

2. Financial Statements

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 were discussed with management and the Corporate Governance and Standards Committee.

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 Council's business and is risk based, and in particular included:

- An evaluation of the Council'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 Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Corporate Governance and Standards Committee meeting on 27 July 2023.

2. Financial Statements



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 in June 2021.

We detail in the table on the right our determination of materiality for Guildford Borough Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	2.52m	2.50m	This is based on 1.9% of your gross revenue expenditure for the year 2020/21, 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	1.638m	1.625m	This is based on 65% of the materiality benchmark.
Trivial matters	126k	125k	This is based on 5% of (council) materiality 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.



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Management override of controls</p> <p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Group and Council	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; analysed the journals listing and determine 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 made 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. <p>We have not identified significant findings in this regard however we raised a control recommendation in Appendix A.</p>
<p>The revenue cycle includes fraudulent transactions [rebutted]</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities 	Council	There are no changes to our assessment reported in the audit plan. We do not consider this to be a significant risk for Guildford Borough Council.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Fraud in expenditure recognition Council</p> <p>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.</p> <p>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.</p>	Council	<p>We have:</p> <ul style="list-style-type: none"> inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; inspected 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 investigated 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. <p>We have not identified significant findings in this regard however we raised a control recommendation in Appendix A.</p>
<p>Valuation of land and buildings (including investment properties)</p> <p>The group revalues high value fixed assets on an annual basis and the remainder of assets on a rolling five-yearly basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£781 million of PPE and £153 million of investment properties in 2019/20) and the sensitivity of this estimate to changes in key assumptions.</p> <p>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.</p> <p>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.</p>	Group and Council	<p>We have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; evaluated the competence, capabilities and objectivity of the valuation expert; 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, the valuer's report and the assumptions that underpin the valuation; tested revaluations made during the year to see if they had been input correctly into your 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. <p>We have not identified significant findings in this regard however we raised a control recommendation in Appendix A.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Valuation of the pension fund net liability</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£114m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. 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.</p>	Council	<p>We have:</p> <ul style="list-style-type: none"> 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; and obtained 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. <p>Our audit work has not identified any issues in respect of valuation of the pension fund net liability.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Incomplete or inaccurate financial information transferred to the new general Ledger</p> <p>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.</p> <p>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.</p>	Group and Council	<p>We have:</p> <ul style="list-style-type: none"> Completed 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; and Mapped the transfer of data to ensure accuracy and completeness of the financial information. <p>Our audit work has not identified any issues however we raised recommendations on Appendix A.</p>
<p>Accounting for grant revenues and expenditure correctly</p> <p>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.</p> <p>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.</p>	Council	<p>We have:</p> <ul style="list-style-type: none"> Discussed with management and understand the different types of material grants received during 2020/21 and what the conditions are in the grant agreements; Obtained understanding on the conditions for payment out to other entities; Obtained understanding on whether the Council should be acting as agent or principal for accounting purposes; and Tested material grant revenues to see whether the Council has accounted for these correctly. <p>Our audit work has not identified any issues however we raised recommendations on Appendix A.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations – £796m</p>	<p>You revalue your land and buildings on a five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£781 million of property, plant and equipment and £153m 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 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.</p>	<p>The Council has engaged DVS Property Specialists for the valuation of land and buildings and investment properties. We have considered and completed the following in the course of our audit:</p> <ul style="list-style-type: none"> • 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. 	

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension liability – £143m	<p>Your pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£114m in your balance sheet in 2019/20) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of your pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We have considered and completed the following in the course of our testing:</p> <ul style="list-style-type: none"> Assessment of management's expert Assessment of actuary's approach taken, based on the full valuation as at 31 March 2020 to confirm reasonableness of approach. Use of PwC as auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.00%</td> <td>1.95%-2.05%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.85%</td> <td>2.80-2.85%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.75%</td> <td>2.80%-3.80%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.3</td> <td>21.2 -23.2</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.7</td> <td>24.7 -26.1</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Completeness and accuracy of the underlying information used to determine the estimate Impact of any changes to valuation method Reasonableness of the Council's share of LPS pension assets Reasonableness of increase/decrease in estimate Adequacy of disclosure of estimate in the financial statements. 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.00%	1.95%-2.05%	●	Pension increase rate	2.85%	2.80-2.85%	●	Salary growth	3.75%	2.80%-3.80%	●	Life expectancy – Males currently aged 45 / 65	22.3	21.2 -23.2	●	Life expectancy – Females currently aged 45 / 65	24.7	24.7 -26.1	●	
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.00%	1.95%-2.05%	●																								
Pension increase rate	2.85%	2.80-2.85%	●																								
Salary growth	3.75%	2.80%-3.80%	●																								
Life expectancy – Males currently aged 45 / 65	22.3	21.2 -23.2	●																								
Life expectancy – Females currently aged 45 / 65	24.7	24.7 -26.1	●																								

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £525.2m	The Council owns 5,231 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 £525.2m, a net increase of £15.1m from 2029/20 (£510.1m).	<p>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</p> <p>There have been no changes to the valuation method this year.</p> <p>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.</p> <p>We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted significant findings.</p>	
Provisions for NNDR appeals - £4.6m	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.	<p>We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate.</p> <p>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.</p> <p>Disclosure of the estimate in the financial statements is considered adequate.</p>	

Assessment

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

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
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 will be requested from the Council.
Confirmation requests from third parties	We obtained direct confirmations from the PWLB loans and requested from management permission to send confirmation requests to various financial institutions and other local authorities for bank and investment balances. This permission was granted, and the requests sent. We have received direct confirmations requested other confirmation of investments from fund managers.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Guildford Borough Council in the audit report due to incomplete VFM work.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2020/21

The National Audit Office issued its guidance for auditors in April 2020. 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 the three specified reporting criteria.



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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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



3. Value for Money arrangements

Approach to Value for Money work for 2020/21

Due to the delays in completing the 2020/21 financial statements audit and the impact that has on our assessment of value for money arrangements we have agreed with management to report the findings for 2020/21 and 2021/22 in a joint report. This report will be finalised imminently, and we expect to report there are significant weaknesses in arrangements relating to capacity within the finance team and ability to prepare financial statements. As explained below, the result of failures to produce accurate financial information since the implementation of the new General Ledger from 1 April 2020 has impacted on the Council's financial sustainability. Subsequent decision making relating to financial budgets and plans have been predicated on the accuracy of 2020/21 financial information particularly in relation to reserves.

Our audit of the Council's 2020/21 financial statements, as communicated in this report, has identified material adjustments to the accounts including to the primarily statements and identified a number of control recommendations (refer to Appendix A). The difficulties the finance team has encountered in producing account draft accounts, providing working papers that reconcile to the accounts and underlying financial records is indicative of weaknesses in arrangements in the preparation of the financial statements and capacity of the finance team. We therefore propose issuing key recommendations in relation to these two areas.

Our 2019/20 Audit Findings Report raised a recommendation regarding management's capacity for financial statement closedown and response to audit queries. The implementation of a new General Ledger in 2020/21 has clearly exacerbated issues because the quality of the 2020/21 draft financial statements and supporting evidence to support the audit has significantly deteriorated from the prior year.

The Council's new Joint Management Team (JMT) commissioned a review of the Council's financial position and arrangements and reported this to the Executive meeting on 20 July 2023. This review has identified a number of weaknesses including:

- The implementation of the new systems was not fully mature by the end of the project in 2021 and, as acknowledged to the Overview and Scrutiny Committee on 18 January 2022, the changes in business processes were not fully "embedded";
- Finance team capacity was depleted in favour of services using IT systems via self-service, including financial management and outturn forecasting. Additionally, the finance team is lacking certain capabilities including management accountancy or commercial finance expertise.
- There have been deficiencies relating to with treasury management and balance sheet management resulting in reconciliations not being routinely performed that has meant financial write-downs have been required.

The consequence of the above problems in producing financial information and poor financial governance has implications on the Council's financial sustainability going forward. The 2020/21 audit has identified a material error in relation the Council's useable reserves balance and in combination with other net adjustments means the Council's £32m cash backed reserves position as at 31 March 2023 as reported in February 2023 is actually £16m and thus less than the projected MTFP deficit of £18.3m. The draft 2021/22 financial statements published by the Council will therefore require significant re-working to reflect the adjustments identified during the 2020/21 audit. There are therefore risks there are further errors in the financial information that has been used to support subsequent budget decisions and actions.

We note the Council's implementation of a financial recovery plan and proposal for a revised MTFP for approval in October 2023. The progress of developing a financial recovery plan that will demonstrate how the Council can deliver a balanced general fund budget post 2023/24, developing financial capacity and producing good quality updated 2021/22 draft financial statements with supporting working papers will determine whether it is appropriate for us to our powers to make written recommendations under section 24 of the Local Audit and Accountability Act.

4. 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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

4. 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 July 2023, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	7,500	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £7,500 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. 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	37,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £37,000 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. 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.

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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 24 of recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 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.

IT recommendations

Assessment	Issue and risk	Recommendations
	<p>Data migration - inadequate system implementation documentation</p> <p>On assessing the system implementation project we observed that the following key project information was not documented:</p> <ol style="list-style-type: none"> 1. Remediation of Identified Testing Exceptions - Although errors or exceptions identified during user acceptance testing were logged and documented, there is no evidence of the actions taken to resolve identified exceptions. 2. Data Validation Assessment - No evidence could be obtained to ascertain that a post-implementation assessment over data validation and system functionality was undertaken and formally approved by management. This process was not documented to ensure a clear paper trail was in place to confirm that the system works to design, and that all data output was complete and accurate. 3. System Roll Back Plan - No roll back or failover procedures were documented for the Business World implementation project. <p>There is a risk that functionality including basic operations, automated controls and interfaces may not operate to design. This may then impact on the consistency of operation and / or integrity of data held within the application.</p> <p>If no checks are performed by senior stakeholders over the completeness and accuracy of migrated data, data migrated into the new application may contain errors and may not be complete and accurate. This may not be identified in a timely manner and impact on the integrity of reporting and the financial statements.</p> <p>The transition to live usage of the new system may not be appropriately managed leading to higher risk of system failure, data corruption and user error.</p>	<p>We recommend that Management ensure that the Council’s approach for large scale IT projects be updated so that key documents and conclusions supporting the implementation of new systems are retained.</p> <p>In particular, the following documents should be part of a successful project:</p> <ul style="list-style-type: none"> • Central issues log to record the defects from testing procedures and their resolution • Test closure report to summarise and conclude on the outcome of the testing phase • Formal evidence of sign offs for validation checks • A failover/rollback plan <p>Management response</p> <p>Guildford accept your recommendations for future implementations and upgrades.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment Issue and risk

ITGC - inadequate user access management procedures

During our review, we noted the account of a Financial Specialist whose employment was terminated on 31/12/2020 was still Active within the Business World application.

Additionally, the Resources Case Management team was notified of the Finance Specialist's termination on 04/01/2021 by a Resource Caseworker. The ticket to disable the leaver's Active Directory account was created on 26/01/2021, 3 weeks after the leaver's termination date.

There is a risk that enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls. Terminated employees may continue to access information assets through enabled, no-longer-needed user accounts leading to processing of unauthorised transactions.

Recommendations

We recommend that Management should consider the following:

- Leavers notifications to ICT service desk should be done prior to employees last working day e.g. a week
- System access for leavers should be disabled on a timely basis, e.g. within 48 hours from the date of last employment and turnaround time should be specified on the leaver ticket request.

Management response

Account still active – PARTIALLY DISAGREE

1. The Business World front-end uses single-sign-on with our Microsoft Active Directory accounts. Once the Microsoft Active Directory account is disabled, it is no longer possible for the user to log into the application front-end, even if their account is marked "Active" in Business World.

2. Menu options and data access within Business World are based on employment details. If a user was able to get into Business World whilst having no active employment, they wouldn't have access to any data, or menu options.

3. From June 2021, ICT has been receiving notifications from Business World (as the HR system) notifying of employees with no active employment. These Business World accounts are then manually disabled.

3 weeks to disable leaver account – AGREE

The leavers process is for a leavers form to be completed in the Case Management System by their Line Manager. Resource Case Services aims to disable such accounts within 2 working days. It appears that a leavers form was not raised at the time for this sample individual.

Resources Case Services perform regular checks of leavers they have handled in supporting HR services. The sample leaver highlighted was identified by these checks, and disabled as shown in the finding. Resources Case Services also disable user accounts when hardware is handed in.

The leavers form will be moving from the Case Management System to Business World. This will place the form in a more logical location, minimizing the risk of manager's directly notifying services of leavers, rather than using the form.

In addition, earlier in 2022 ICT begun manually running an interface between Business World and Active Directory. Once implemented this will provide an extra control, expiring leaver Active Directory user accounts for individuals with an HR record that shows their employment has ended.

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>ITGC - weak password controls</p> <p>During our review, we inspected the Active Directory Password Policy and observed the following configuration weakness:</p> <p>The minimum password age has been set to 0 as opposed to the best practice of setting it to 1. Combining immediate password changes with password history allows someone to change a password repeatedly until the password history requirement is met and re-establish the original password again.</p> <p>There is a risk that setting the minimum password age to 0 allows immediate password changes. Even though the Enforce password history policy setting has been configured to 24 passwords remembered on the Active Directory, because the Minimum password age policy setting has been set to 0, users can change their password 24 times in a few minutes and reuse their original password. If an attacker is targeting a specific individual user account, with knowledge of data about that user, reuse of old passwords can cause a security breach.</p>	<p>Active Directory password configurations should be set as per the following leading practice: Minimum password age – 1</p> <p>Management response</p> <p>Minimum password age should be set to 1 – AGREE – This has already been highlighted in a separate security review. The risk would require a user to change their password 25 times to be re-use a password. As the NCSC currently recommends that passwords are not changed frequently, we have not updated this setting to-date but intend to do so.</p>
	<p>ITGC - lack of review of privileged user activity logs</p> <p>We noted the use of an Active Directory Privileged account with a generic ID whose password is accessible to all members of the IT Infrastructure Team. We noted that the activity of privileged accounts such as this account is logged though the use of the Councils auditing tool, however, no review is performed of these logs.</p> <p>Without formal, proactive, and routine reviews of privileged user activity and security event logs, inappropriate and anomalous user activity (activity violating information security policies) may not be identified and/or addressed in a timely manner.</p>	<p>We recommend that privileged user activity especially of generic accounts and security event logs be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity.</p> <p>These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day administration of the network.</p> <p>Management response</p> <p>No review is performed of privileged account logs – PARTIALLY DISAGREE – A morning set of checks is performed by the ICT Infrastructure team which includes a review of AlienVault which is our centralised log system. These checks are not specific to the one account highlighted. AlienVault is designed to make it easy to highlight suspicious log entries to administrators for investigation.</p> <p>In terms of the recommendation for the review to be conducted by an independent person, this was in-place until 30 April 2021. The Information Assurance Officer sits outside the ICT Specialist team, and does not have access to the highlighted account but independently monitors logs in AlienVault for suspicious activity. The post has been vacant since 1st May 2021, while options of combined roles with Waverley are considered. Once the post is filled, these independent checks are expected to resume.</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>ITGC - no change management policy</p> <p>During our review, we noted the Council does not have a documented and approved Change Management Policy in place that governs the process to be followed for changes made to the Business World application.</p> <p>Without a documented change policy and procedures for managing changes to systems, it is likely that different developers will carry out changes inconsistently. This tends to increase the likelihood of errors arising from the change process.</p>	<p>Management should document and approve a comprehensive Change Management policy that provides guidance and process to follow for managing Business World application changes and maintenance.</p> <p>Management response</p> <p>No documented and approved Change Management Policy for Business World – AGREE – There is a documented and approved Policy for ICT systems as a whole, but the Business World project has not been required to adhere to this whilst project governance is in-place. We will review the Change Management arrangements for Business World.</p>

A. Action plan – Audit of Financial Statements

Accounts recommendations

Assessment	Issue and risk	Recommendations
	<p>Financial statements preparation – less precision of management review</p> <p>Our audit of the financial statements revealed a number of fundamental errors on the financial statements such as:</p> <ul style="list-style-type: none"> • Errors in the brought forward comparatives (not matching with PY audited balances). E.g. (cash flow, MIRS, Capital disclosures, HRA); • A number of adjustments on the statement of accounts noted since publication as evidenced by a number of version of accounts before the final draft accounts were produced; • Typographical errors within the financial statements; • Inconsistency on Notes to the accounts, supporting work paper, and general ledger data/breakdown. • Lack of work paper for critical judgement and accounting estimates (e.g. valuation and covid grant) • Lack of supporting work papers for all notes to the accounts (include reference to the guidance) including evidence and details of adjustments (e.g. adjustments made to both income and expenditures). We noted a number of manual adjustments within the work papers that cannot easily be followed. <p>For example, Initially the amount for "Other Service Exp" under "Expenditure And Income Analysed By Nature" stood at £78m. In the revised draft accounts shared with us in March 2023, the corresponding figure changed to £50m. The reduction of £28m cannot be easily reconciled with the adjustments made to the accounts since the publication. A revised version of account was provided showing a revised balance of £69m but on the latest draft accounts provided in April 2023, this has again gone down to £61m. The constant changing of the amounts in SOA caused delay in completing the audit.</p>	<p>We suggest management to revisit their financial reporting process and ensure that certain level of management oversight and/or secondary reviews are implemented to ensure errors, minor or major, are remediated before these are circulated to the Corporate Governance and Standards committee for approval and before the draft is published on the Council's website. Evidence of review should also be put on file to ensure accountability.</p> <p>Management response</p> <p>The Expenditure and Income Analysis note in the draft accounts was inconsistent with other notes in the draft accounts and it was also inconsistent with the financial ledger. This whole note had to be re-worked from first principles and it is unfortunate that GT relied on an erroneous note for their testing. The final note had lower expenditure and lower income so if anything GT's sample sizes would have been higher than necessary.</p>

A. Action plan – Audit of Financial Statements

Assessment Issue and risk

Journals – self approved journals and lack of reconciliation of data migrating to the new system

In 2020-21, the Council changed accounting software from eFinancial to Business world. The data up to June 2020 from eFinancial were transferred to Business world via journals. In our testing, journals for data migration were selected. A reconciliation of data between the old system and new system was obtained from the Council however this was prepared during the audit in March 2023 upon auditors' request. A high level reconciliation was undertaken by the audit team using the translation tables provided by the Council however, there were significant variances noted. The Council investigated the issue and confirmed the translation table provided was incomplete and there were account 21 general ledger codes and cost centres mappings which were not documented.

During the samples testing, we found transactions which appear to be auto approved. For these auto approval journals, we noted that in absence of second approver the system automatically assigns the deputy finance manager as proxy approver. Consequently some transactions were prepared and approved by the same individual.

HRA Revaluations – challenging the valuation method

Based on our work on HRA revaluations, we noted the gross value of shared equity assets is multiplied by the equity percentage held by the Council, which we consider appropriate. However, as per Section 9.9 of the DCLG Stock Valuation for Resource Accounting Guidance for Valuer - 2016, "Where the authority own a share of the interest in the property, the value of the equity share must be accounted for in the portfolio valuation. The approach is to value the property based on the beacon value assumptions and calculate the appropriate equity share. This share should then be adjusted to reflect the occupation at less than market rents by adopting the regional adjustment factor." As a result, we expect that the EUV-SH for the such asset be accounted for as follows: Gross Value x Equity percentage held by the Council x Regional Adjustment Factor (which in this case is 33%). We have noted that for such assets, there has been no consideration made on the regional adjustment factor when calculating the EUV-SH.

Recommendations

Any data migrated or transferred internally within the system should be supported with reconciliation to ensure completeness of data transferred. This should be completed on a timely manner.

Management should consider reviewing transactions that are self-approved. If the system is not capable of setting a parameter to ensure segregation of duties, these self-approved journals should be extracted from their system and should be reviewed by authorised individual/s and review should be evidenced.

Management Response

Noted. Guildford will implement these suggested controls and processes for any future migration

The Council should perform procedures to ensure that the valuations made by the external valuer are appropriate and are in line with the guidance. Such procedures include review of the work and challenge meetings with the valuer.

Management response

We will discuss this with the valuer for 23/24 valuations. (They confirmed they had followed the same practice as our previous valuer so the best thing is for us to review together when we start the 23/24 process).

A. Action plan – Audit of Financial Statements

Assessment Issue and risk

Debtors - lack of subsidiary ledgers and issues on record keeping

During our audit, we found that the subsidiary ledgers that are meant to support the breakdown of debtors are not kept for all debtor account codes. We were instead provided a transaction listing that matches with the balance sheet, but this includes a number of opening balance adjustments with no available breakdown. Consequently, the Council had to undertake a significant exercise of completing to allow us to select samples for testing.

In addition, we noted that the Council had to make multiple adjustments to their accounts, and the balances in these debtors codes were constantly changing throughout our testing.

Our testing also revealed the following deficiencies in the accounting for debtors as follows:

- Subledger opening balances - when requesting listings to sample from, the Council was only able to provide the entire opening balance as a single entry. This means we could not examine debtors raised in previous years to test whether they are still appropriately recorded.
- Subledgers not cleansed properly - the Council was only able to produce listings with all in year transactions (which contra out), this made it difficult to test the residual balance making up the debtors figure.
- Adjustments to debtor balance – we noted a number of adjustments on debtor balances. This could have been prevented if a separate monitoring of material debtor balances were in place.

Recommendations

We recommend the Council improves its approach to managing debtor information. This would include record keeping of corresponding subsidiary ledgers that would support the breakdown of outstanding debtor balances. The minimum information required would be name of organisation, invoice details (if any), ageing, and if possible, how it is considered as part of the of bad debts provisioning. If the system is not capable of creating subsidiary ledgers, this may need to be monitored manually on a separate spreadsheet. This will help the Council monitor long outstanding receivables and can also support the assessment of the reasonableness of bad debts provisions.

Further, we recommend that these subsidiary ledgers are kept up to date and reviewed regularly.

Management Response

Guildford accept that they need to have a balance sheet reconciliation document for each of the cost centres making up short term creditors with opening balances , movements and closing balances backed up by evidence e.g. VAT return

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Creditors - lack of subsidiary ledgers and issues on record keeping</p> <p>Our testing identified the following deficiencies in the accounting for creditors:</p> <ul style="list-style-type: none"> ▪ Subledger opening balances - when requesting listings to sample from, the finance team could only provide the entire opening balance as a single entry. This means we could not examine creditors raised in previous years to test whether they are still appropriately recorded. ▪ Subledgers not cleansed properly - the Council was only able to produce listings with all in year transactions (which contra out), this made it difficult to test the residual balance making up the creditors figure. ▪ The Council did perform a review of the annual holiday accrual or Bid Agency codes for 2020/21. ▪ We were unable to test Unidentified Receipts Suspense as individual line items cannot be corroborated to supporting evidence. GT considered this in the overall conclusion on creditors and audit misstatements reported in Appendix C. 	<p>We recommend the Council improves its approach to managing creditor information. This would include record keeping of corresponding subsidiary ledgers that would support the breakdown of outstanding creditor balances. If the system is not capable of creating subsidiary ledgers, this may need to be monitored manually on a separate spreadsheet. This will help the Council monitor long outstanding payables. Any long outstanding payables should be assessed and well understood as to what is causing delay in payment. Further, we recommend that these subsidiary ledgers are kept up to date and reviewed regularly.</p> <p>Management Response</p> <p>Guildford accept that they need to have a balance sheet reconciliation document for each of the cost centres making up short term creditors with opening balances , movements and closing balances backed up by evidence e.g. VAT return</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Infrastructure assets – outdated accounting policy</p> <p>Depreciation expense - we note that the Council used 50 years in calculating depreciation expense for all items on their infrastructure assets. Were componentisation to be applied the depreciation expense would be higher and the carrying value would be lower.</p> <p>In January 2023, CIPFA issued "Bulletin 12 - Accounting for Infrastructure Assets - Temporary Solution" which includes a section on helping authorities regarding the estimations which need to be made. This includes practical examples and range of reasonable useful lives and consideration of disaggregation that might be required as determined by individuals with relevant experience and expertise. The methodologies set out in the Bulletin 12 also presents illustrations of how weighted averages can be used in calculating depreciation expense. Authorities however may be able to devise alternative approaches that will satisfy Code requirements for local conditions and their own circumstances and must use an approach which best reflects the consumption of economic benefits or service potential for its local circumstances.</p> <p>The Council has not componentized any infrastructure assets.</p>	<p>The Council's accounting policy should clearly set out the approach in determining the appropriateness of useful lives used and methodology in accounting for future disposal or replacement documented and approved. The accounting policy should include commentary on the statutory prescriptions on Bulletin 12, how this was incorporated in the accounting treatment, in estimating appropriateness of useful lives used and in assessing any indicators of impairment of both infrastructures assets in use and those that remain in progress as at year end.</p> <p>Management response</p> <p>Noted and we will be reviewing accounting policies in this area.</p>
	<p>Accruals - design of process</p> <p>As part of our substantive testing we found five samples recorded in the wrong period. Refer to Appendix C for the extrapolation of differences across the remaining population. Although we noted the resulting difference is immaterial, a more robust method of accruals needs to be implemented to ensure this type of error does not occur in future years.</p> <p>The process should include consistent and appropriate communication with the procurement team to identify expenditures where invoices or any corresponding evidence to support occurrence expenditures have not been received and therefore have not gone through the accounts payable control ledgers.</p> <p>We have separately raised issue on holiday accruals not recalculated for 2020/21 (see "Creditors - Lack of subsidiary ledgers and issues on record keeping").</p>	<p>Non-accrual of expenses in the correct period could lead to an understatement of both expenses and accruals, and overstatement of net deficit/surplus position. Management should revisit their accrual process to ensure appropriate controls are in place to capture all expenditure incurred during the year. The accruals should be supported by a working paper that can be recalculated with inputs and assumptions clearly outlined.</p> <p>Management response</p> <p>Guildford's year end process needs to be more transparent and consistent. Either accountants are going to look at the invoices processed in the first 6 weeks of the new year and accrue any relating to the old year. Or they will rely on the budget managers and BW system so that any invoices that are goods received will be accrued and any other type of accrual will need a form to be completed by the budget managers and then centrally reviewed. Also they need to provide training on year end for the whole authority.</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>PPE Disposals – lack of assessment of properties held under right-to-buy (RTB) arrangements</p> <p>The Code requires an authority to have a continuous process of assessing when sale of properties held under RTB become highly probable. If these assets met all criteria to be classified as assets held for sale, then the fair value of the assets being disposed of should be reclassified to assets held for sale measured at discounted value. We understand the Council did not carry out this assessment in 2020/21.</p>	<p>Assessment should be completed at least annually to ensure appropriate measurement basis are applied to properties and correct presentation made on the accounts. This can be achieved through involvement of individuals dealing with sale of properties under RTB and reasonable estimate done through historical experience or through use of hindsight.</p> <p>Management response</p> <p>We routinely get information as to what properties are in the RTB process, we just haven't changed these in the past to AHFS – we will review the list going forward within the first 6 weeks of the financial year and make adjustments accordingly only to those that have sold in that period.</p>
	<p>Payroll reconciliation – missing payroll reconciliation</p> <p>The Council was only able to provide a detailed payroll reconciliation for months 4-12. No such reconciliation was performed in the first three months of the year.</p> <p>This information is fundamental record-keeping to ensure what's being transferred from the payroll system to the GL is properly supported and accounted for appropriately.</p>	<p>Payroll reconciliation should be completed as a fundamental reporting requirement within the Council.</p> <p>Management response</p> <p>Noted and we accept the recommendations. We will review processes and controls in this area to avoid these issues moving forward.</p>
	<p>PPE and Investment Properties – reconciliations</p> <p>Our testing of PPE and Investment Properties found a number of reconciliation issues between the fixed asset register (FAR) and the general ledger (GL). Going forward, the Council should implement a regular control that ensures the FAR reconciles with the GL. Any manual adjustments made in the general ledger it should be appropriately reflected in the FAR.</p>	<p>The Council should ensure that FAR is updated on a timely basis and should be reconciled with the properties subject to valuation during the year.</p> <p>Management response</p> <p>This has been implemented.</p>
	<p>Collection fund – errors on the disclosure</p> <p>Whilst the closing collection fund balance was unchanged income and expenditure figures were amended following the revised model used for collection fund. This resulted was material adjustments to the draft financial statements.</p>	<p>The Council should review the models used for the preparation of accounts to ensure proposed year end balances are correct and supporting by underlying evidence.</p> <p>Management response</p> <p>Agreed to amend</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Grant income – insufficient monitoring</p> <p>We encountered difficulties in auditing grant income due to the lack of supporting tracker that shows the receipts and expenditures of each grant. The Council provided a transaction listing making up the grant income recognised in year that match with financial statements however the lack of a schedule that could track individual grants from opening balances of deferred grant carried forward resulted in numerous revisions of grant notes and adjustments made to correct the balances of grant income. There were particular issues in relation to Covid-19 grants and the ability for the Council to be able to demonstrate the flow of income and principal and agent transactions splits.</p>	<p>The significant issues encountered in our testing of grant income related to Covid-19 and going forward these types of grants will not exist. However the Council needs to ensure it maintains a grant income tracker, where details related to the opening balance of grants (deferred grants brought forward from prior year), grant receipt during the year, expenditure from the grant income during the year, closing balance of grants are recorded.</p> <p>Management response</p> <p>Noted. The majority of the Council's grants come from DWP or DLUHC. There is a grant tracker DELTA for the latter and remittance advices for the former. During 2020/21 there were many COVID grants which was a (hopefully) one-off and that made dealing with grants more challenging for all.</p>
	<p>Grants received in advance – insufficient monitoring</p> <p>The Council does not have a process to verify the completeness of grants received in advance. This resulted in a number of revisions to the grant note and adjustments to the financial statements.</p>	<p>A supporting work paper should be in place to keep track of recorded as grants received in advance (or deferred grants). Linked to previous recommendation, this should be in sufficient details to show which grants remain as deferred as at year end and which have been reclassified to appropriate CIES balance during the year.</p> <p>Management Response</p> <p>Guildford agree that new codes need to be set up to keep grants in the balance sheet separate and this will also allow Guildford to meet the requirement of the CIPFA code in respect of the grants note.</p>
	<p>Investments – lack of monitoring</p> <p>During our audit, we found the investment reconciliation does not agree with the financial statements. We found investment classification of long term investment, short term investment, investment at amortised cost and at fair value through profit and loss account were incorrect.</p>	<p>As part of treasury reporting, investments should be kept up to date with details such as date of investments, maturity, interest rate, and assessment of presentation.</p> <p>Management response</p> <p>Guildford will be reviewing processes and controls in this area to ensure these errors are avoided in the future</p>

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Related parties – missing declaration forms and outdated Council website</p> <p>We noted that the Council's website is not updated with the latest related parties of councillors as per the declarations they provided.</p> <p>Also, the council does not maintain a check for the signed declarations from all the councillors and employees/staff.</p>	<p>The Council should ensure there is a process in place that ensures declarations are requested and when returns are not provided that there is a follow up.</p> <p>Management response</p> <p>Noted and we will look at internal processes to encourage all members to complete a declaration.</p>

B. Follow up of prior year recommendations

We identified the following issues in the audit of Guildford Borough Council's 2019/20 financial statements, which resulted in 16 recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and noted 15 of these are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>PPE Other land and Buildings - Guildford Lido valuation (PRIORITY: MEDIUM)</p> <p>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.</p> <p>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.</p> <p>Recommendations</p> <p>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.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>To be considered in 2021/22.</p>
x	<p>Investment Properties – Haydon Place (PRIORITY: MEDIUM)</p> <p>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.</p> <p>Recommendations</p> <p>Management must seek a revaluation of its Haydon Place property based on its underlying nature (and valuation) as an investment property.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>Valuer was contacted.</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>HRA Dwellings disposed but not removed from asset register (PRIORITY: MEDIUM)</p> <p>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.</p> <p>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.</p> <p>Recommendations</p> <p>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.</p>	<p>Management response (2019/20)</p> <p>Finance will liaise with housing at the end of the financial year to double check the share properties tie in with the asset register.</p> <p>Management response (2020/21)</p> <p>Ongoing.</p>
x	<p>Debtors / creditors journals posted after accounts closure (PRIORITY: MEDIUM)</p> <p>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.</p> <p>Recommendations</p> <p>Finance should ensure all required postings are made prior to the submission of the draft accounts. For 21/22 audit, management confirmed that this has been implemented however we noted still a few codes that don't tie through to the trial balance.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>Agreed.</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>Employee starters contracts (PRIORITY: LOW)</p> <p>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.</p> <p>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.</p> <p>Recommendations</p> <p>Management should reiterate the need for employees to sign contracts within a set time period after starting.</p>	<p>Management response (2019/20)</p> <p>The starter process is being reviewed as part of the transformation programme and the implementation of the new ERP.</p> <p>Management response (2020/21)</p> <p>Ongoing.</p>
Partially	<p>Grants document retention (PRIORITY: MEDIUM)</p> <p>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.</p> <p>Recommendations</p> <p>Management should ensure document retention arrangements around grant income are strengthened. In 2020/21 audit, this has been partially addressed as some of the working papers to support grant do not provide sufficient details to complete the substantive testing. Separate issue raised in 2020/21 in relation to grants tracker recommended.</p>	<p>Management response (2019/20)</p> <p>Accountants are obtaining copies of agreements as and when grants are received so we have the information to hand when we close the accounts.</p> <p>Management response (2020/21)</p> <p>We have a directory where all documentation and remittances are now saved. This is checked when preparing the account to ensure all information is there and will be loaded onto the portal having been fully referenced for the audit.</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Group Accounts – preparation arrangements (PRIORITY: MEDIUM)</p> <p>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.</p> <p>Recommendations</p> <p>There is need for the Council to put in place measures to ensure that the group accounts and consolidation process can be prepared promptly with appropriate review in place.</p> <p>This has been implemented in 2020/21.</p>	<p>Management response (2019/20)</p> <p>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.</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>Related party declarations not received (PRIORITY: MEDIUM)</p> <p>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.</p> <p>Recommendations</p> <p>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.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>We chase, and send them information as to their duties re the need for them to respond. Only councillors were missing.</p>
x	<p>Finance team capacity (PRIORITY: MEDIUM)</p> <p>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).</p> <p>Recommendations</p> <p>We recommend that management's capacity for financial statement closedown and response to audit queries is strengthened in 2020/21.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>From Jan 23 a dedicated year end accountant was employed to pick up the audits and close 22/23 accounts. This has worked well and has created the extra capacity it was designed to create.</p>
x	<p>Accounts payable document retention (PRIORITY: LOW)</p> <p>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.</p> <p>Recommendations</p> <p>Management should ensure document retention arrangements where service expenditure is administered in a non-finance system (e.g. Orchard) are strengthened.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>These changes have not been implemented due to an impending system change that has not happened as soon as we thought it might.</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>Treasury management working papers (PRIORITY: MEDIUM)</p> <p>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.</p> <p>Recommendations</p> <p>We recommend that management's capacity for financial statement closedown and response to audit queries is strengthened in 2020/21.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>Yearend accountant and a more experienced treasury accountant were employed for 22/23 year end.</p>
x	<p>Fully depreciated assets (PRIORITY: LOW)</p> <p>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.</p> <p>Recommendations</p> <p>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.</p>	<p>Management response (2019/20)</p> <p>Finance will work with the Asset team to review these assets in the asset register.</p> <p>Management response (2020/21)</p> <p>Due to collaboration this has not yet progressed. It will be picked up for 23/24 SoA</p>
x	<p>Fully amortised assets (PRIORITY: LOW)</p> <p>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.</p> <p>Recommendations</p> <p>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.</p>	<p>Management response (2019/20)</p> <p>Finance will review the assets on the asset register</p> <p>Management response (2020/21)</p> <p>Due to collaboration this has not yet progressed. It will be picked up for 23/24 SoA</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>Unrecorded liabilities (PRIORITY: MEDIUM)</p> <p>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).</p> <p>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 Council's ability to effect normal processes we recommend that the root causes of the unprocessed invoices are identified and addressed.</p> <p>Recommendations</p> <p>Enhance arrangement for year-end cut off to ensure unrecorded liabilities are captured.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>The team review the invoices paid in the new year to make sure invoices paid in the new year in the first few weeks are accounted for in the correct year. PO's are also now in the system which allows managers and the accountants to check expenditure accrued for.</p>
x	<p>Value for Money (PRIORITY: MEDIUM)</p> <p>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.</p> <p>Recommendations</p> <p>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.</p>	<p>Management response (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>This is ongoing.</p>

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p>Issue 8 (2018/19) (PRIORITY: LOW)</p> <p>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.</p> <p>Recommendation</p> <p>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.</p>	<p>Management response (2018/19)</p> <p>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.</p> <p>Management update (2019/20)</p> <p>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.</p> <p>Management response (2020/21)</p> <p>Dedicated close down accountant employed from Jan 23 to assist the audits and 22/23 closing.</p>

C. 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 ended 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>Debtors – input error on amount posted</p> <p>One of our samples of £9,042,152 grant accruals for 2020/21 relating to council tax collection, was overstated by approx. £9m as the figure should have been £68,229. This is due to a data entry error where 3 zeros were missed out when inputting the estimated net collectible debt. This has caused debtors and reserves to be overstated by £9,042,152.</p>	Dr Government grants - 9,042	Cr Short term debtors - (9,042)	-
<p>Debtors – adjustment in Weir cost</p> <p>Weir costs were to be paid for by National Trust. Upon investigation, the Council confirmed that in 2021/22 an agreement was reached for the National Trust to pay 50% (£366K). The balance of the costs of the Weir fell to the Council and were included in the 2021/22 capital programme. Therefore the 20-21 debtor figure was misstated by £785k-£366k = £419k.</p>	-	Dr Reserves - 419 Cr Short term debtors - (419)	-
<p>Investment in GHoldings</p> <p>The Guilford Borough Council Holdings Limited (GHoldings) balance in the draft accounts was £8.4 million but the balance confirmed via other sources was £7.4 million. This investment is 100% subsidiary and is therefore outside the scope of IFRS 9. Management agreed to adjust the balance of investment in GHoldings. Financial instruments disclosure was also adjusted to exclude this investment. The difference was due to error in the split of loan to the subsidiary and the amount of investment.</p>	-	Dr Investment - 985 Cr Long term debtors - (985)	-

C. Audit Adjustments

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>Investment – incorrect classification of brokerage account</p> <p>The investment balance of £1 million was redeemed in December 2020 and the balance was transferred in the Guilford brokerage account which is callable anytime. As per code, callable money should be classified as cash and cash equivalent as opposed to being a short term investment as per draft accounts. We have examined the report from Northern Trust confirming this investment for £1,142,500 which includes interest as at 31 March 2021.</p>	-	Dr Cash equivalents – 1,143 Cr Investment - (1,143)	-
<p>Investment – error in presentation of investment in Southern Home Ownership</p> <p>We found an error in the classification of an investment (Southern Home Ownership) to the value of £6m and maturing in March 2023. The Council is classifying investments on the basis of total duration (start date of investment to maturity date of investment), however the CIPFA code of conduct defines long term investment as those with more than a year's duration from the year end date.</p>	N/A – presentation only	N/A – presentation only	N/A – presentation only
<p>Provisions – error on in year movement</p> <p>We have recalculated the movement in provisions using relating to the Collection Fund. The opening and closing balances in the note were correct but movements during the year we incorrect.</p>	N/A – presentation only	N/A – presentation only	N/A – presentation only
<p>Investment properties – error in fair value gain of asset transferred out</p> <p>Assets 50228/P10, P11 and P12 Middleton Industrial estates 12,13,14-15 were transferred out of Investment property to assets under construction (AUC) as management intends to redevelop them further however the fair value gain of £320k before transfer was adjusted against assets under construction instead of Investment properties (IP).</p>	-	Dr IP – 320 Cr AUC – (320)	-

C. Audit Adjustments

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>Investment properties – misclassification of Middleton Estate redevelopment</p> <p>The Middleton Estate 11 is under redevelopment since 2019/20. The Council incorrectly classified this property as an 'Asset under construction' when it should be a Investment Property.</p> <p>The Council's valuer had correctly valued the asset as an Investment Property in its report to the Council. The correct has been made in year and an adjustment of the prior year accounts is not required because the difference is not material and only impact a disclosure note.</p> <p>The 2020/21 draft accounts included a further £3.2m incorrectly recorded within PPE rather than Investment Property. Overall, an adjustment of £6.98m was required from PPE to Investment Property.</p>	-	Dr IP – 6,890 Cr PPE – (6,980)	-
<p>Infrastructure assets – reclassified to AUC</p> <p>In 2019/20, the Council capitalised £8.2m for the Internal Estate Road in Slyfield. An additional £342k was also capitalised in 2020/21 for the same project. The Council confirms the road is still in progress as at April 2023 and when completed, will be transferred to SCC with agreed adoption cost of £895k payable in approximately 12 years.</p> <p>A prior period adjustment was agreed with the Council to reclassify the £8.2m previously recorded as infrastructure assets into assets under construction. The additional costs capitalised in 2020/21 were also made. These assets have not been depreciated as at 31 March 2021 and therefore no further adjustments affecting the CIES are required.</p>	-	Presentation only affecting breakdown of PPE note. Prior period adjustment of £8.2m made to correct balance of infrastructure assets and AUC.	-
<p>PPE – double recording on FAR</p> <p>We noted a difference in relation to one asset which had two line items in the Fixed Asset Register. The draft financial statements did not include one of these line items to the value of £573k.</p>	Cr Revaluation gain – (573)	Dr PPE – 573	-
Overall impact	£8,469	(£8,469)	£-

C. Audit Adjustments

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	Auditor recommendations	Adjusted?
Related parties note	We found a number of differences relating to the prior year disclosure of related parties. These disclosures were not consistent with the value taken from the prior year audited accounts and thus were updated. Management response Agreed to amend.	✓
Notes to Housing Revenue Account	We found a number of differences in disclosures made in the notes to the HRA that were either not consistent with other disclosures in the accounts. These were all presentational and did not impact on the HRA statements. Management response Agreed to amend.	✓
Remuneration – errors in councillors allowances and employee bandings	The 'Special responsibility allowance' balance was incorrectly disclosed and were not consistent with HR records or the Council's website. The number of employees in band £70,000 - £74,999 needs to be changed from 9 to 8 and in band £80,000 - £84,999 from 4 to 3. Management response Agreed to amend.	✓
Financial instruments	There were a number of disclosure issues in this note where figures did not reconcile to other areas of the financial statements. The most significant of these differences related to non-financial short term creditors which required adjusting from £42.4m to £30.3m. Management response Agreed to amend.	✓
Capital disclosures	We found a number of differences relating to the prior year disclosure of capital disclosures. These disclosures were not consistent with the value taken from the prior year audited accounts and thus were updated. Management response Agreed to amend.	

C. Audit Adjustments

Disclosure omission	Auditor recommendations	Adjusted?
Capital Expenditure and capital Financing	<p>There were differences in a number of balances within this note where the draft figure did not reconcile to underlying supporting evidence.</p> <p>Management response Agreed to amend.</p>	✓
Grants income	<p>The balance of Covid-19 grant included in the draft financial statements was incorrect (£17.24m updated to £14.56m. The other grant balance included in the draft financial statements was £10.08m but supporting evidence confirmed it should be £1,52m.</p> <p>Further disclosures were also required to show the rolling balance of grants received in advance in relation to both principal and agent Covid-19 grants.</p> <p>Management response Agreed to amend.</p>	✓
Operating leases	<p>The disclosure relating to the future lease payments receivable under non-cancellable leases in future years under operating lease note, incorrectly calculated. An error in the formula was noted.</p> <p>Management response Agreed to amend.</p>	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 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
<p>The Council should assess the probability of the sale of noncurrent assets expected to occur after the balance sheet date. The Code provides criteria for an asset to be classified as assets held for sale (AHFS).</p> <p>In 2020/21 we noted that the Council sold fixed assets under right to buy arrangements with total consideration of £406,506. This amount should have been reclassified as assets held for sale and measured at fair value. The management opted not to adjust and therefore the amount of £406,506 was reported as uncorrected adjustment.</p>	-	Dr AHFS - 406 Cr PPE - (406)	-	Not material.
<p>On our operating service expenditure (OPEX) testing, we have noted 3 fails while on samples which resulted in projected error of £397,500 understatement in the expenditure.</p>	Dr OPEX - 398	Cr Payable - (398)	-	Not material.
Overall impact	£398	£398		

D. 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	80,300	TBC

The Council will receive a grant to support additional fees for 2020/21 relating to new accounting standards and the change to the VFM audit. The Council's share of the £15m pot identified by MHCLG (now DLUHC) for 2020/21 is £22,837.

In addition, we note in August 2021 the PSAA approved the distribution of surplus funds relating to 2020/21 to opted-in bodies. The Council's share is £8,740.

Our final fee for 2020/21 is to be confirmed once the audit has completed. We will discuss the fee with management and it will require approval from the PSAA. Due to the significant work required to complete our audit this proposed fee will be significant.



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