

Richard Bates  
Joint Executive Head of Finance and s151 Officer  
Guildford Borough Council

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**Grant Thornton UK LLP**  
30 Finsbury Square  
London  
EC2P 2YU  
T +44 (0)20 7383 5100  
F +44 (0)20 7184 4301

Dear Richard

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 required to report their commentary on the Council's arrangements under specified criteria. 2020/21 is the first year that we are reporting our findings in this way. The three criteria are:

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

The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2020/21 and 2021/22. Our work is now complete in relation to the first two criteria – financial sustainability and governance. Further work is required in relation to the improving economy, efficiency and effectiveness criteria.

So as not to delay in sharing key findings we have included the key recommendations identified in our work to date in Appendix 2. Once our work across all three criteria we will report our findings in our joint Auditors Annual Report.

The range of recommendations we can raise are explained in Appendix 1.

Yours sincerely

*Paul Cuttle*

Paul Cuttle, Key Audit Partner  
For Grant Thornton UK LLP, Local Auditor

## Appendix 1

Type of recommendation	Background	Raised in 2020/21 or 2021/22
Statutory	Written recommendations to the [type of body] under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	Whilst we have not made any statutory recommendations we note the Council's implementation of a financial recovery plan and proposal for a revised MTFP for approval in October 2023. We will determine whether it is appropriate for us to use our powers to make written recommendations once there is greater clarity on the progress of developing a financial recovery plan that will demonstrate how the Council can deliver a balanced general fund budget post 2023/24, develop financial capacity and produce good quality updated 2021/22 draft financial statements with supporting working papers.
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes, see Appendix 2.
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council but are not a result of identifying significant weaknesses in the [type of body]'s arrangements.	Yes, to be shared at a later date.

## Appendix 2

### Financial sustainability Key Recommendation 1

The Council has already taken steps to implement a financial recovery plan. As part of this plan, the Council must ensure it sets clear milestones for how it will:

- Identify new recurrent saving plans and ensure there is regular reporting on delivery progress. These saving plans need to be owned across the Council by officers and lead members to ensure clear ownership and accountability for delivery.
- Review existing service provisions and consider whether its viable to continue delivering any discretionary services currently provided.
- Increase its level of reserves assuming these will be mostly exhausted balancing the 2023/24 budget.
- Identify how it can divest assets and reduce the cost of capital currently projected.

The Council's Chief Finance Officer (Section 151 Officer) has a statutory duty to consider issuing a Section 114(3) Notice, where in his view, the current or future expenditure of the authority incurred (including expenditure it proposes to incur) in a budget year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure. The initial assessment is that whilst a balanced budget can be delivered for 2023/24 the newly identified funding gap will require new saving plans. The Council has therefore not issued a Section 114(3) Notice but this will need to be kept under review.

<b>Audit year</b>	2020/21 and 2021/22
<b>Why/impact</b>	Failure to address the current issues with financial sustainability could lead to central government intervention and an inability to effectively delivery key services.
<b>Auditor judgement</b>	We have assessed financial sustainability as a significant weakness. There is a risk the Council does not have the necessary resources to support the current projected deficit after 2023/24.
<b>Summary findings</b>	A £10.2million accounting error was discovered in the treatment of a Covid related grant due to be repaid to government resulting in an overstatement of the 1 April 2022 reserves balance. There was also a £9.6million Covid-related accounting adjustment not considered in the reported reserve balance and the 2022-23 outturn deficit £7million funded from reserves, resulting in a net £16million reduction from the reported £32million available to address the £18.3m MTFP deficit over a three-year period.

**Financial  
sustainability Key  
Recommendation 2**

For the Council's financial recovery plan to be a success, a key element of the plan must include actions relating to resourcing of the finance team that will ensure:

- There is sufficient resources and specialist skills to support the day to day running of the finance team.
- Non finance staff are not be completing key financial actions like performing reconciliations.

<b>Audit year</b>	2020/21 and 2021/22
<b>Why/impact</b>	The lack of finance team capacity has contributed to the Council's inability to produce accurate financial statements or audit evidence to support reported balances.
<b>Auditor judgement</b>	We have assessed financial sustainability as a significant weakness. The lack of capacity and experience has impacted the Council's financial position.
<b>Summary findings</b>	<p>As evidenced by the difficulties in producing draft financial statements and working paper to support entries in the accounts plus the Council's review of the post implementation of the new General Ledger and wider Future Guildford project that found that:</p> <ul style="list-style-type: none"><li>• There are gaps in experience particularly in relation management accounts or commercial finance.</li><li>• Key technical financial controls relating to bank and income-related reconciliations were being performed by non-finance staff with no specialist finance oversight.</li><li>• There were deficiencies relating to treasury management and balance sheet management resulting in reconciliations not being routinely performed that has meant financial write-downs have been required.</li></ul>

**Governance Key  
Recommendation 1**

The Council needs to complete the following actions:

- The finance team re-issue the 2021/22 and 2022/23 draft financial statements to take into accounts amendments arising from the audit of the 2020/21 financial statements.
- The entries in the updated financial statements are supported by good quality working papers which are available from the start of the audit.

<b>Audit year</b>	2020/21 and 2021/22
<b>Why/impact</b>	The Council's inability to produce accurate financial statements or audit evidence to support reported balances in the 2020/21 has resulted in the audit being significantly delayed. There are implications on future years, as linked to Key Recommendation 4, there is a risk that underlying issues regarding financial information used to inform current decision making is inaccurate.
<b>Auditor judgement</b>	We have assessed governance as a significant weakness. There are pervasive weaknesses in final accounts processes leading to material errors in the presentation of the 2020/21 draft accounts.
<b>Summary findings</b>	Since the implementation of new general ledger system the Council struggled to produce draft accounts, missing the statutory deadline for submission of draft statements, and then, in a number of areas, struggled to produce good quality working papers to support entries in the accounts. This meant there was significantly more work required and time taken to complete the audit. The draft accounts also required a significant number of adjustments that included the error referenced in Key Recommendation 1.

**Governance Key Recommendation 2**

As part of updating the 2021/22 and 2022/23 draft financial statements the Council needs to undertake a review to ensure revised balances are fully supported and reconcile to the General Ledger. Opening balances have materially changed since the draft accounts were prepared and many of the control weaknesses identified in the 2020/21 Audit Findings Report are applicable to 2021/22 and 2022/23.

<b>Audit year</b>	2021/22
<b>Why/impact</b>	The lack of finance team capacity has contributed to the Council's inability to produce accurate financial statements or audit evidence to support reported balances.
<b>Auditor judgement</b>	We have assessed governance as a significant weakness. It remains unclear whether issues with underlying financial information for 2021/22 onwards is accurate. Current decision making, including the Council's financial recovery plan, could be based on incorrect financial information.
<b>Summary findings</b>	<p>The Council's draft 2020/21 included material errors that impacted all of the primary statements. As per Key Recommendation 3, the draft financial statements for 2021/22 and 2022/23 require updating as opening balances are based on incorrect information taken from the draft 2020/21 accounts.</p> <p>Whilst working papers were provided to support revised balances in the 2020/21 financial statements it is unclear whether issues relating to the implementation of the new General Ledger have been resolved for 2021/22 and 2022/23. The Council acknowledges key reconciliations will have been completed by non finance staff during these year. Additionally, our 2020/21 Audit Findings Report identified 20 control findings and whilst actions going forward have been agreed with management many of these weaknesses will have applied during 2021/22 and 2022/23.</p>