

Stevenage Borough Council

Annual Audit Letter 2010/11

November 2011



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1. Executive summary

Purpose of this letter

This Annual Audit Letter ('Letter') summarises the key issues arising from the work that we have carried out at Stevenage Borough Council ('the Council') during our 2010/11 audit. The Letter is designed to communicate our key messages to the Council and external stakeholders, including members of the public. The letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

What this Letter covers

This Letter covers our 2010/11 audit, including key messages and conclusions from our work in:

- auditing the 2010/11 year end accounts (Section 2)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness to ensure Value for Money is achieved. (Section 3)
- certification of grant claims and returns to various government departments and other agencies (Section 4)

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our main audit conclusions for the year

The 2010/11 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Context

In the current financial climate, the Coalition Government's continuing priority is to reduce the deficit whilst ensuring the economic recovery continues. Savings of over £81 billion are planned from Government spending by 2015, including a 26% reduction in grants to local government over the four year period. At the same time, the Government has stated that it's their aim to reduce top-down government and devolve power and give greater financial autonomy to local authorities by a range of measures including:

- further reducing ring-fenced central government grants
- changes to the Housing Revenue Account from April 2012 whereby councils will keep their own rental income but in return will take on a share of the £21 billion national council housing debt as part of a 30 year business plan
- planned changes to the administration of business rates so that any council that expands its business base would see increased business rates that it would be able to keep.

This Letter has been written in the context of the significant change agenda in which the Council is operating. The Council is facing significant challenges, as evidenced within the financial resilience report produced as part of our VfM work. The Council have identified a number of key areas, including reserves, and it was positive to note that during 2010/11 they were able to deliver a net contribution back into balances for the first time in over ten years. However, like all local authorities, it needs to continue to meet the significant savings targets included within the Medium Term Financial Strategy.

Key Messages

Accounts audit

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. We did not identify any significant departures from these requirements.

An unqualified audit opinion was issued on 19 September 2011. Further details can be found in section 2 of this Letter.

Value for Money

An unqualified VfM conclusion was also issued on 19 September 2011 confirming that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011. Further details can be found in section 3 of this Letter.

Grants certification

To date we have certified four claims, of which none have been qualified and one was subject to a minor amendment. Once the work on the remaining claims has been completed we will report in full on our findings.

Key areas for Council action

We highlight the following key areas, where the Council should take action to further improve its arrangements in 2011/12:

- The Council should continue to consider their approach in terms of the fixed asset valuations performed. This should ensure that the procedures in place remain appropriate and that areas of judgement applied are suitable.
- The Council should continue to monitor its Medium Term Financial Strategy (MTFS) during its delivery, in particular in relation to changes to key assumptions, such as the impact of price inflation in the medium term, the outcome of the Government's funding settlement for the final two years of the plan, and consultation on the future funding of council tax benefit.
- The Council has prepared an updated Asset Management Strategy. This is an attempt to make the management of assets more strategically focussed and enable the management of the estate in such a way as to be true to the Council's wider ambitions, whilst being both financially and environmentally sustainable. The success of this project is vital as the Council have recognised that there is a significant gap between what the Council will need to spend on its assets over the next five years and what they are able to afford. Whilst a level of borrowing may be acceptable in the short term, it is not plausible as a long term solution.

The context for these key messages can be found in this Letter. A list of the reports issued during the year can be found at Appendix A. Recommendations have been raised within the reports listed and the Council should ensure that these recommendations are implemented as planned. Appendix B sets out our actual and budgeted fees for 2010/11.

Acknowledgements

This Letter has been agreed with the Deputy Chief Executive & Strategic Director (Resources) and was presented to the Audit Committee on 29 November 2011.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
November 2011

2. Audit of the accounts

Introduction

We issued an unqualified opinion on the Council's 2010/11 accounts on 19 September 2011, ahead of the statutory certification deadline of 30 September 2011. Our opinion confirmed that the accounts give a true and fair view of the Council's financial affairs at 31 March 2011 and of its income and expenditure for the year.

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit Committee at the Council). We presented our Annual Report to those Charged with Governance to a joint meeting of the Audit Committee and the Approval of Statement of Accounts Committee on 19 September and summarise only the key messages in this Letter.

We are pleased to report that the financial statements were accompanied by good working papers. The Council should ensure that this standard is maintained, in particular where critical adjustments and estimates have been applied. In addition, finance staff dealt with our audit queries efficiently and provided timely responses to requests for additional information.

International Financial Reporting Standards

2010/11 was the first year that councils were required to prepare their accounts under International Financial Reporting Standards (IFRS). We undertook a review of the Council's preparedness including consideration of the opening balances and restated balance sheet. No significant errors were identified within the restatement workings.

As part of the work undertaken on the audit of the accounts, we assessed whether there had been any departures from the requirements of the CIPFA Accounting Code which is IFRS compliant. We did not identify any significant departures from these requirements.

Audit of the accounts

Two adjustments were made to the draft accounts following the audit:

- an adjustment of £188k was made to reduce the housing rent debtors and the housing receipts in advance balances relating to prepayments.
- an adjustment was made to the face of the CI&E to reflect the impairment of fixed assets that was charged to the revaluation reserve. This also fed through to the MIRS.

The Council chose not to adjust for one matter identified as part of the audit. The unadjusted difference was approved by those charged with governance at the Audit Committee on 19 September. The difference related to the year end balance for holiday pay of £318k being recorded as a provision. We proposed an adjustment to reclassify this balance within current liabilities as an accrual. The adjustment was not considered to be material in nature.

Financial performance

The Council reported an underspend of £711k on the General Fund working budget.

As at the end of quarter 1 (June 2011), the Council was reporting an overspend adjustment of £82k. The Council understands the reasons for variances against service budgets and produces a detailed report each quarter highlighting the variances. This has highlighted the major variances being around garage income, lower benefit overpayments raised and subsidy changes, higher fuel costs and delays in implementing 11/12 savings. These variances have been set against a reduced level of borrowing costs and higher investment interest.

Our review of Financial Resilience has noted that the Council will need to continue to monitor the MTFS during its delivery, in particular in relation to the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work is still required to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised.

We will continue to keep the Council's financial position under review as part of our 2011-12 audit and the follow-up work we have planned on the Financial Resilience element of our VFM review.

Financial systems

We undertook work on key financial systems sufficient to support our approach to the accounts audit. The work was in three main areas:

- review of key financial controls for the purpose of designing our programme of work for the financial statements audit
- assessment of the work of internal audit to help inform our risk assessment of the adequacy of the Council's financial systems for producing the 2010/11 accounts
- high level review of the general IT control environment.

Our work did not identify any control issues that present a material risk to the accuracy of the financial statements.

Annual Governance Statement and Explanatory Foreword

We examined the Council's arrangements and processes for compiling the Annual Governance Statement (AGS) and read the AGS and Explanatory Foreword to consider whether they were in accordance with our knowledge of the Council. Our review of internal audit also supported our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

We concluded that the AGS and Explanatory Foreword were consistent with our knowledge of the Council. The production of the AGS had previously fallen to the Council's Head of Internal Audit. Going forwards, responsibility for the ownership and production of the AGS should be agreed, this should be the responsibility of a senior officer of the Council.

Certification Arrangements

We received no questions or objections in respect of the financial statements for the year ended 31 March 2011 and were able to issue our audit certificate on the same date as signing the accounts.

Whole of Government Accounts (WGA)

The Council submitted its draft WGA L Pack for audit by the Department for Communities & Local Government (CLG) deadline of 29 July. Minimal adjustments were required to be made to the Pack as a result of our review and we submitted the audited WGA to the CLG by the deadline of 30 September.

4. Value for money

Introduction

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We were required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

In discharging this responsibility, we are required to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements.

Key Conclusions

We issued our annual VFM conclusion on 19 September 2011, at the same time as our accounts opinion, meeting the required deadline of 30 September 2011. We concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Although we have assessed the Council as having proper arrangements in place to meet all the Code criteria, there are some areas where the Council can improve its arrangements. These are detailed below.

Securing Financial Resilience

We completed an assessment of whether the Council has robust systems and processes in place to:

- effectively manage its financial risks and opportunities
- secure a stable financial position
- enable it to continue to operate for the foreseeable future.

We reviewed the Council's arrangements against indicators of effective performance in four key areas:

- key indicators of performance
- strategic financial planning
- financial governance
- financial control.

Our overall conclusion was that the Council had proper arrangements for securing financial resilience, but there were some areas where improvements should be made.

Securing Financial Resilience (Cont.)

Key findings included:

- The Council has seen a significant drop in the level of usable reserves over the past three years. This is primarily due to the reduction in the level of the capital receipts reserve. Discussions with senior officers identified that the management of capital is a key area of focus for the Council. They have recognised that there is a significant gap between what the Council will need to spend on its assets over the next five years and what they are able to afford. Whilst a level of borrowing may be acceptable in the short term, it is not plausible as a long term solution. As a result of these issues, the Council has prepared an updated Asset Management Strategy. This is an attempt to make their management of assets more strategically focussed and enable the management of the estate in such a way as to be true to the Council's wider ambitions whilst being both financially and environmentally sustainable. This is a major project for the Council and it is vital that it is managed correctly with clear plans and timelines in place, in addition to senior officer support and monitoring.
- The Council should continue to monitor its Medium Term Financial Strategy (MTFS) during its delivery, in particular in relation to changes to key assumptions, such as the impact of price inflation in the medium term, the outcome of the Government's funding settlement for the final two years of the plan and consultation on the future funding of council tax benefit.

- It is anticipated that the Shared Internal Audit Service (SIAS) will increase resilience and give a greater economy of scale to allow access to specialist skills. However, for all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of internal audit support.

Securing Economy, Efficiency and Effectiveness

We reviewed whether the Council had prioritised its resources to take into account the tighter budgets it was operating within and whether it achieved cost reductions and improved productivity and efficiencies. Our review considered the Council's performance against a number of key risk indicators. We concluded that there were no significant concerns in this area that impacted on our opinion.

Approach to local VFM work 2011/12

At time of writing there are no changes proposed to the approach to local Value for Money work in 2011/12. We will focus on the two key reporting criteria, namely:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We will determine a local programme of VFM audit work based on our audit risk assessment, informed by the criteria above and our statutory responsibilities and agree this with the Council. Local risks for the Council to consider at this stage include:

- The effectiveness of the new arrangements for delivering internal audit at the Council through the Shared Internal Audit Service (SIAS).
- The adequacy of its Medium Term Financial Plan once further announcements are made by the Government in respect of the funding settlement from 2013 onwards.
- The impact of proposed changes to the funding of Council tax benefits on the Council's finances going forwards.

4. Grants Certification

Introduction

Each year we review and certify a number of grant claims and returns in accordance with the arrangements put in place by the Audit Commission. Following the completion of the 2009/10 certification work we reported that performance had generally improved against the key performance measures but identified that the Council should work to continually reduce the number of claims requiring amendment.

We are currently in the process of certifying the 2010/11 grant claims and returns. Once this work is complete we will report in full on the findings of our work.

Appendices

A. 2010/11 reports issued

Report	Date Issued
Audit Plan	December 2010
Audit Approach Memorandum	June 2011
Grants Certification Plan	June 2011
Report to Those Charged With Governance (ISA 260)	September 2011
Financial Resilience Report	November 2011
Annual Audit Letter	November 2011
Grants Certification Report	Due February 2012

B. Audit and other fees 2010/11

Audit area	Budget 2010/11	Actual 2010/11
Total Code of Practice fee	£148,137	£148,137
Certification of grant claims and returns*	£40,000	TBC

*The quoted fee for grant certification work is an estimate only and will be charged at published hourly rates.



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