



The Audit Findings for Stevenage Borough Council

Year ended 31 March 2013

25 September 2013

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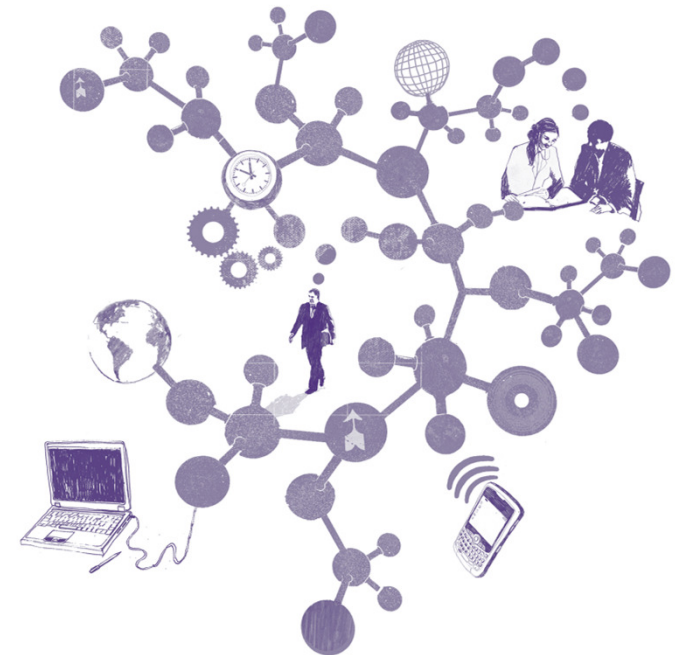
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Stevenage Borough Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA 260).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 18 March 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of housing and council tax benefits testing
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position. However, we have also proposed a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- Due to a change in presentation the opening balance for the value and accumulated depreciation of Council Dwellings in Note 15 have both reduced by £25,783k compared to the audited 2011/12 accounts. While the previous methodology was accepted practice, the change was made to provide a consistent treatment across all asset groups. This change was to have consistency in presentation. This has no overall effect on the Balance Sheet and we accept the validity of the revised accounting treatment.
- There have been a number of re-allocations of amounts disclosed within the Movement in Reserves Statement and in Note 7 on statutory adjustments. These have had no overall effect on the Council's reserve balances or other financial statement balances.

- The Council has adopted the Sector view in accounting for the Local Authority Mortgage Scheme. We have agreed the accounting entries the Council has made but consider that the scheme represents a financial guarantee and therefore that disclosure of the fair value of this guarantee is also required. The fair value is unlikely to be materially different from the amount disclosed in the accounts at present although it could vary significantly in the future. The Council has confirmed that it will continue to review future guidance and reassess the potential impact on the financial statements in future periods.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to IT access:

- IT access rights of terminated employees, and
- Remote IT access.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Assistant Director of Finance and the finance team.

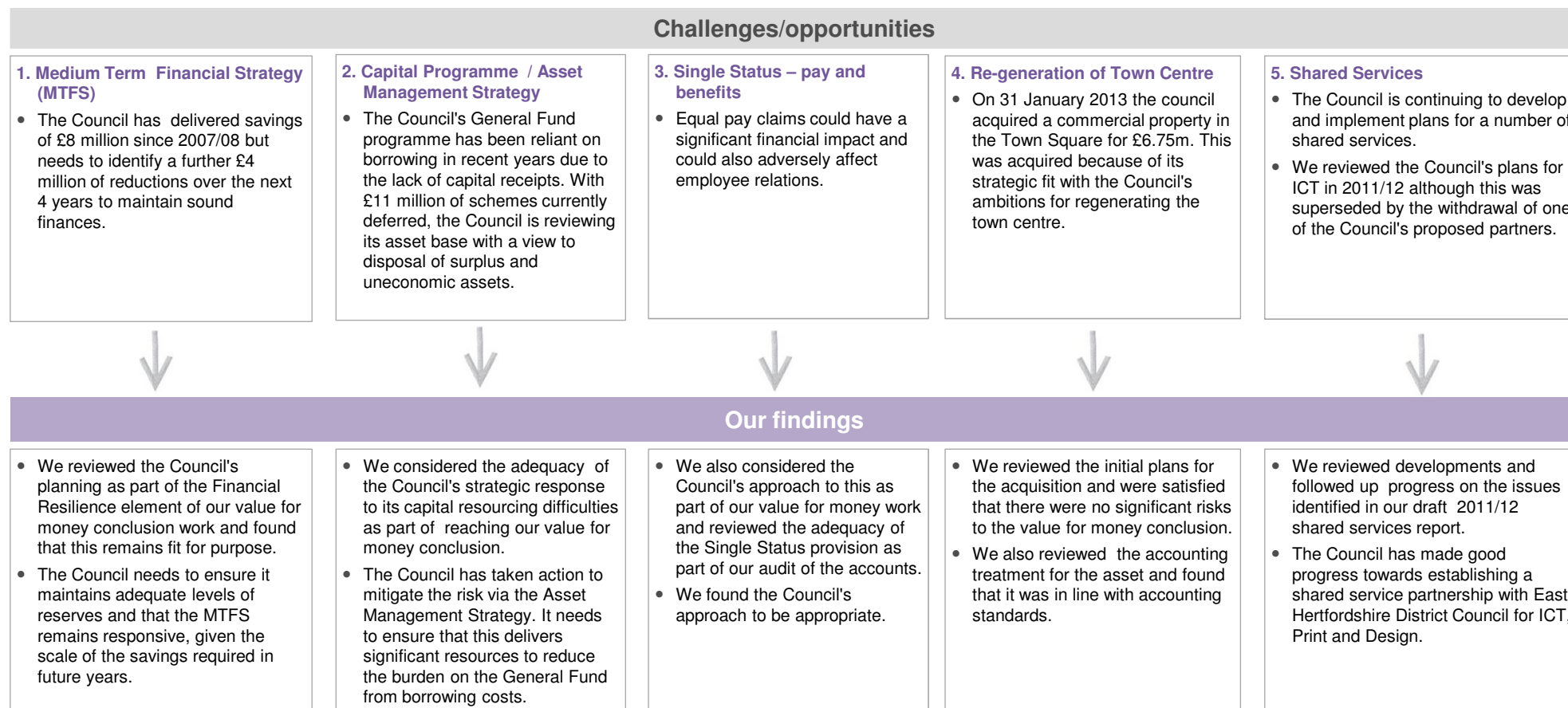
Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Understanding your business

In our Audit Plan we set out a summary of the challenges and opportunities the Council is facing. A summary of our findings in relation to these is set out below.



Developments relevant to your business and the audit

In our Audit Plan we also considered the impact of key developments in the sector and have taken account of national audit requirements as set out in the Code of Audit Practice and associated guidance. Our findings are summarised below.

Developments and other requirements

<p>1. Financial reporting</p> <ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Recognition of grant conditions and income • Self financing Housing Revenue Account (HRA) 	<p>2. Legislation</p> <ul style="list-style-type: none"> • Local Government Finance settlement 2012/13 • Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> • Planning for the impact of 2013/14 changes to the Local Government pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> • The Council is required to submit a Whole of Government Accounts (WGA) pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required
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Our findings

<p>We are satisfied that:</p> <ul style="list-style-type: none"> • the Council has complied with the requirements of the CIPFA Code of Practice • grant income is recognised in line with accounting standards • the Council has accounted for HRA activities correctly. 	<ul style="list-style-type: none"> • We have discussed the impact of the legislative changes with the Council through our regular meetings with senior management, and are satisfied that the Council has addressed these areas appropriately. 	<ul style="list-style-type: none"> • The Council has appropriate arrangements in place for the production of the AGS • Our review of the AGS and the explanatory foreword found that they are consistent with our knowledge of the Council's activities. 	<ul style="list-style-type: none"> • We discussed how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management • The Council's finance function has monitored developments and arrangements are in place to update the MTFs for any significant financial implications. 	<ul style="list-style-type: none"> • We reviewed the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan, as part of our VFM work • The Council has continued to deliver against its plans, with increases in both the General Fund and HRA usable reserves at the year end. 	<ul style="list-style-type: none"> • We are on course to complete our work on the WGA in accordance with requirements and have no issues to report here • We plan to certify the Council's grant claims and returns in accordance with Audit Commission requirements. Subject to resolution of housing benefit queries, we have sufficient assurance from our initial testing to support the audit opinion.
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Section 2: Audit findings

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Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 26 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you dated 18 March 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review for unusual and/or significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review for unusual and/or significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. Our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period.	<ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding reviewed large and unusual accruals and tested a sample of these tested a sample of items of expenditure to gain assurance that expenditure occurred and has been correctly classified and allocated tested a sample of journals to gain assurance that there were adequate controls in place over inputting and processing, and that these operated effectively through the financial year. 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding tested a sample of payroll payments made during the year to gain assurance that employees were remunerated at the correct rates during 2012/13. 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding undertaken a walkthrough of the key controls to assess whether those controls are designed effectively completed certification modules set by the DWP which include performance of an analytical review and testing of Housing Benefits expenditure included in the Council's draft Housing Benefits grant claim. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Housing rent	Revenue transactions not recorded or debtors not valid	<ul style="list-style-type: none"> • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding • tested a sample of items of rental revenue to gain assurance that income has been recorded correctly • reviewed other large and unusual items and tested a sample of these. 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment (PPE)	PPE activity not valid	<ul style="list-style-type: none"> • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding • reviewed in-year additions and disposals to gain assurance that they have been correctly accounted for in the financial statements • performed existence testing on a sample of assets to verify their existence and the completeness of the Council's fixed asset register. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We note, however, that due to the change in presentation set out in Note 15, the opening balance for the value and accumulated depreciation of Council Dwellings within that Note have both reduced by £25,783k compared to the audited 2011/12 accounts. This has no overall effect on the Balance Sheet and we accept the validity of the revised accounting treatment, which is now consistent with that for General Fund assets.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The recognition policy for major sources of revenues is set out within the accounting policies. The Council has disclosed the policy for recognising revenue from the sale of goods and the provision of services. 	<ul style="list-style-type: none"> After agreed changes to Note 1.2, the policy is appropriate under the accounting framework. 	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key judgements within the Statement of Accounts include: <ul style="list-style-type: none"> the impact of future funding levels on the assets of the Council leases Treatment of CCTV partnership Estimated figures such as provisions, pensions liability and depreciation of non-current assets. 	<ul style="list-style-type: none"> The Council has considered the most significant judgements and estimates within the disclosures supporting the financial statements. Appropriate policies are in place for the key areas subject to judgement and estimation. 	 Green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> We identified and agreed a number of minor amendments to improve the presentation of the policies. The Council has adopted the Sector view in accounting for the Local Authority Mortgage Scheme. We consider that the scheme represents a financial guarantee and therefore that disclosure of the fair value of this guarantee is required. The fair value is unlikely to be materially different from the amount disclosed in the accounts at present, but could vary significantly in the future. The Council has confirmed that it will continue to review future guidance and reassess the potential impact on the financial statements in future periods. 	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been reflected in the final financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	5,827	Movement in Reserves – General Fund Balance: Other Comprehensive Expenditure	Allocated to incorrect part of Statement - should be under Unusable Reserves. No overall impact as 'Adjustments between accounting basis & funding basis under regulations' in same column is correspondingly amended.
2 Disclosure	(5,827)	Movement in Reserves – Unusable Reserves: Other Comprehensive Expenditure	As above, Other Comprehensive Expenditure and Income should be allocated against Unusable Reserves.
3 Disclosure	615	Reversal of depreciation and impairment of non-current assets – Note 7	Correction to make entry consistent with charge of £14,932k disclosed in Note 10 (Capital Adjustment Account). No overall impact as correction of this is part of the amendment referred to in item 1 above.
4 Disclosure	1,443	Reversal of revaluation losses – Note 7	Correction to make entry consistent with charge of £5,948k disclosed in Note 10 (Capital Adjustment Account). No overall impact as correction of this is part of the amendment referred to in item 1 above.
5 Disclosure	(7,883)	Reversal of items relating to retirement benefits – Notes 7 and 38	Amount should be charged direct to the Pension Reserve, not charged to the GF balance and then reversed out. No overall impact – this is part of the amendment referred to in item 1 above.
6 Disclosure	(9,959)	Charges for depreciation and impairment / Adjustments involving the Major Repairs Reserve – Note 7	Depreciation charge for the HRA included under Major Repairs Reserve column in Capital Adjustment Account section of Note, instead of being included under HRA and then adjusted out in Major Repairs Reserve section of Note.
7 Disclosure	14,019	HRA Payment for Self-financing	This item was misclassified in Note HRA9 - there was no self-financing payment in 2012/13, the 2011/12 payment was a 'one-off'. Now correctly classified as capital expenditure on HRA assets. No overall impact on the HRA balance.

Misclassifications & disclosure changes (continued)



Adjustment type	Value £'000	Account balance	Impact on the financial statements
8 Classification	8,486	Cultural Services (Net Expenditure)	Previously combined in the Comprehensive Income and Expenditure Statement with Environmental and Planning Services, now separated as required by the Service Reporting Code of Practice (SERCOP). Also separately disclosed are Gross Expenditure of £8,639k and Gross Income of £153k.
9 Classification	8,826	Environmental and Regulatory Services (Net Expenditure)	As above. Also separately disclosed are Gross Expenditure of £13,065k and Gross Income of £4,239k.
10 Classification	1,421	Planning Services (Net Expenditure)	As above. Also separately disclosed are Gross Expenditure of £1,818k and Gross Income of £397k.
11 Classification	(4) (946)	Grants Receipts in Adv – Revenue Grants Receipts in Adv – Capital	Developer contributions for which conditions have not yet been met – reclassified from Short Term Creditors to a separate heading in the Balance Sheet, as required by the Code of Practice on Local Authority Accounting. Note 23 (Creditors and Receipts in Advance) also amended.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. 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.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Amber	IT access rights of terminated employees <ul style="list-style-type: none"> • Although a leaver form is available to request removal of access to the system, this is not performed on a timely basis. There is no formal process or automated control whereby the HR function informs IT or system owners when a member of staff is leaving the organisation. A process is not in place to ensure that system administrators and system managers for the network and application systems are made aware of leavers. • If the user accounts of leavers are not promptly disabled a leaver could access the network and business systems when they are no longer in the employment of the organisation, or give those permissions to another employee. 	<ul style="list-style-type: none"> • A procedure should be designed and implemented to ensure there is timely communication between HR and IT to ensure all leaver access is removed from council systems in a timely manner. Access to application system(s) and network accounts should be disabled for employees leaving no later than their last day of employment. This process should include collection of any mobile devices and laptops.
2.	 Amber	Remote IT access <ul style="list-style-type: none"> • Remote access to the council's network and IT systems for employees is possible without a formal request, authorisation by a manager or a business case. The absence of the above controls results in an increased risk of the network and financial applications being accessed by unauthorised individuals. 	<ul style="list-style-type: none"> • Remote access to council IT resources should be based on a formal request outlining the business case and need for this type of access.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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Value for Money

Value for Money conclusion

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 are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a follow-up of our detailed review in 2011/12, which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

We have updated our assessment of the key risks identified by our 2011/12 review, and have concluded that the Council's arrangements remain fit for purpose. However, the Council needs to:

- continue to maintain adequate levels of reserves and ensure that the Medium Term Financial Strategy remains responsive, given the scale of savings required in future years; and
- progress the Asset Management Review to enable the release of resources to reduce the burden on the General Fund.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. In doing this, we carried out a detailed risk assessment of the Council's arrangements based on the key risk indicators set out in Audit Commission guidance, building in our knowledge gained from previous assessments. We did not identify any matters that require drawing to your attention.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.









To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>Medium Term Financial Strategy (MTFS)</p> <p>The Council has identified a need for £1 million of savings over each of the next 4 years through to 2017/18, and has also projected that the General Fund balance will fall below its minimum risk-assessed level of £2.5 million in 2017/18.</p>	<p>We have refreshed our understanding of the Council's financial planning, control and governance arrangements and have found that these continue to be fit for purpose.</p> <p>The Council has achieved sufficient savings in 2012/13 to deliver underspends on both the General Fund and Housing Revenue Account budgets, resulting in an overall increase in revenue reserves (£0.5 million General Fund, £3.9m Housing Revenue Account).</p> <p>This builds on a successful track record in recent years providing assurance on the capacity of the Council to manage its future challenges. However, reductions in the General Fund balance are planned over the next four years to balance the annual budget. The Council has recognised the need to take a longer term, more radical approach to identifying savings via the adoption of its new Priority Based Budgeting framework.</p>	<p>There remains significant detail to be added to the Council's plans for achieving its target of £1 million savings per annum over the next four years. The Council should strive to avoid allowing its General Fund balance to fall below the minimum risk-assessed level it has established.</p> <p>Recommendation:</p> <p>Ensure that detailed plans are developed to cover the significant savings required in the MTFS in future years, to ensure an adequate level of reserves is maintained.</p>
<p>Asset Management Review</p> <p>The Council has minimal capital receipts with which to support its General Fund capital programme and is primarily reliant on borrowing. The Strategic Director Resources (Chief Financial Officer) has stated that it is not viable to continue to borrow indefinitely to fund the General Fund capital programme.</p>	<p>The Council has identified the risks resulting from a lack of capital resources and is taking action to mitigate these, principally through the Asset Management Strategy which is intended to identify all surplus and uneconomic assets and develop a longer term approach to resourcing the General Fund capital programme.</p>	<p>Until the Asset Management Strategy delivers significant results, this area will continue to present a risk to the value for money conclusion. As yet, the resource impact is not critical for the Council's financial position, but the necessary mitigating actions are not yet fully in place.</p> <p>Recommendation:</p> <p>Continue to progress the Asset Management Strategy to enable the release of resources to reduce the burden on the General Fund.</p>

Financial Resilience review - update

We have updated the findings from our 2011/12 review of the Council's arrangements for securing financial resilience. As for 2011/12, we have rated the majority of the arrangements in place as **Green** (meets or exceeds expectations) and concluded that overall the Council's arrangements remain fit for purpose.

The table below presents an update for the areas we rated as **Amber** (potential risks and/or weaknesses) in 2011/12.

Area of focus	Rating 2011/12	Key issues 2011/12	Update 2012/13	Rating 2012/13	Recommendation
Reserve Balances (Capital)	 Amber	The useable capital receipts reserve was at a minimal level of £5k as at 31 March 2012, with only £415k of the total capital programme of £18m (General Fund and HRA) being funded by receipts. The Council was developing its Asset Management Review (as referred to above) in response to this.	Useable capital receipts available for the General Fund programme remain minimal. As noted earlier, the Council is primarily reliant on borrowing at present but this is not considered sustainable. The development of the Asset Management Strategy has continued and a recent (confidential) report to the Executive proposed a three year disposal programme aimed at realising significant resources.	 Amber	Continue to progress the Asset Management Strategy to enable the release of resources to reduce the burden on the General Fund.
Liquidity	 Amber	There was a fairly significant drop in the Council's working capital ratio (capacity to cover immediate liabilities) from 1.81:1 in 2010/11, to a ratio of 1.14:1 in 2011/12.	The Council's working capital ratio has continued to reduce, and is now 1.10:1. However, high working capital ratios are not always desirable, and we now consider that the Council's current ratio indicates an efficient approach to investing available cash.	 Green	None.
Focus of the MTFS (Capital)	 Amber	The shortfall in capital resources was continuing to be compounded by diminishing levels of capital receipts. The General Fund programme strategy could only be brought back into balance by deferring or deleting schemes within the programme based on a prioritisation of need.	This remains the case. The current Capital Strategy projects a funding deficit on the General Fund programme of £8m by 2017/18, which will need to be covered by unapproved borrowing unless alternative resources are identified via the Asset Management Review.	 Amber	Continue to progress the Asset Management Strategy to enable the release of resources to reduce the burden on the General Fund.
Savings Plans	 Amber	Savings options were becoming increasingly difficult to implement as the more straight forward cost cutting options were being exhausted.	The need for significant savings remains a key potential risk area. As noted earlier, the Council has identified a need for £1m of savings in each of the next four years to maintain adequate financial balance.	 Amber	Ensure that detailed plans are developed to cover the significant savings required in the MTFS in future years, to ensure an adequate level of reserves is maintained.

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

2012/13	Per Audit plan £	Actual fees £	2011/12 fees £
Audit	84,438	84,438	140,730
Grant certification (estimated)	19,300	19,300	33,479
Total audit fees	103,738	103,738	174,209

Fees for other services

Service	Fees £
None	Nil

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	A procedure should be designed and implemented to ensure there is timely communication between HR and IT to ensure all leaver access is removed from council systems in a timely manner. Access to application system(s) and network accounts should be disabled for employees leaving no later than their last day of employment. This process should include collection of any mobile devices and laptops.	Medium	We fully support the recommendation and have commenced a dialogue with HR to establish such a procedure.	January 2014 ICT Service, Security & Standards Manager
2	Remote access to council IT resources should be based on a formal request outlining the business case and need for this type of access.	Medium	We fully support the recommendation and plan to introduce a procedure as set out above as part of our technology refresh this summer.	January 2014 ICT Service, Security & Standards Manager
3	Ensure that detailed plans are developed to cover the significant savings required in the MTFS in future years, to ensure an adequate level of reserves is maintained.	High	The MTFS is regularly updated and reported to Members (July, November, January). The MTFS assumptions were challenged by the Leaders Services Priority Group (LSPG) on the 6 September 2013. Balances are reported as part of the quarterly monitoring process and are compared to minimum and MTFS balances.	Updated during the year and reported during the budget cycle as described in the Management response.
4	Continue to progress the Asset Management Strategy to enable the release of resources to reduce the burden on the General Fund.	High	The Asset Review segment of the Asset Management Strategy will be reported to Members in November 2013.	November 2013

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STEVENAGE BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Stevenage Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Stevenage Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Stevenage Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;

- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Stevenage Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Stevenage Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Philip R Westerman
Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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[Date]



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