

Stevenage Borough Council

Annual Audit Letter for the year ended 31 March
2018

August 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the top right corner of the page.

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Focused on your
future



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary

We are required to issue an annual audit letter to Stevenage Borough Council following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's: Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its then ended
▶ Consistency of other information published with the financial	Other information published with the financial statements was consistent with the Annual Accounts.

Concluding on the Council's arrangements for securing economy, effectiveness We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of Government Accounts return (WGA).	We had no matters to report.

 Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council findings resulting from our audit.	Our Audit Results Report was issued on 13 July 2018
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We issued our certificate on 27 th July 2018.

In December 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Neil Harris
Executive Director
For and on behalf of Ernst & Young LLP



02

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the Audit Committee representing those charged with governance. This was presented at the meeting held on 26th July 2018. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 26 March 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 financial statements and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27th July 2018.

Our detailed findings were reported to the Audit Committee. The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Risk of Management Override</p> <p>This is the risk that the financial statements as a whole are not free of material misstatements</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud manipulate accounting records directly or indirectly and prepare fraudulent financial statements otherwise appear to be operating effectively. We identify and respond to this fraud risk on every</p> <p>In response to the risk, we:</p> <ul style="list-style-type: none"> • Enquired of management about risks of fraud and the controls in place to address those risks; • Considered the oversight given by those charged with governance of management's processes • Considered the effectiveness of management's controls designed to address the risk of fraud; • Tested the appropriateness of journal entries recorded in the general ledger and other financial statements; • Reviewed accounting estimates for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; • Reviewed and tested revenue and expenditure cut-off at the period end date; • Tested a sample of capital expenditure to verify that revenue costs have not been • Tested a sample of revenue expenditure funded from capital under statute to ensure only used • Verified that adjustments between the accounting basis and funding basis in the movement in made in accordance with the Code. 	<p>We obtained the responses we requested from management and those charged enquiries and used these to inform our understanding of fraud risks. We noted that entity level control framework that we would expect to see, especially arrangements risk management, were in place.</p> <p>Our walkthrough testing included considering what controls are in place to address concluded that these are in large part year end processes including management financial statements. We confirmed that these controls were in place, although our on controls.</p> <p>We did not identify inappropriate use of journal entries.</p> <p>Our work on the testing of accounting estimates has been completed, and we our work on these estimates in detail for PPE and pensions. There is a difference of Council's valuer and our own specialist on the value of the swimming pool in indications of management override as such. Our work on the business rates that this was appropriately supported.</p> <p>We did not identify any other transactions during our audit which appeared Authority's normal course of business.</p> <p>We did not identify any material cut-off issues at the period end date.</p> <p>Our testing of capital and revenue expenditure funded from capital under statute appropriately treated.</p> <p>The adjustments between the accounting basis and funding basis in the movement correctly made in accordance with the Code.</p> <p>Overall, our audit work has not identified any material issues, inappropriate transactions which indicate that there has been any misreporting of the Authority's that management has overridden control.</p>



Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
<p>Property, Plant and Equipment and Investment Property Valuations</p> <p>Property, Plant and Equipment represent a material balance in the Council's accounts. Valuation changes, the impact of impairment reviews and depreciation charges can also be material values.</p>	<p>We found when checking the position for a sample of assets that they were either within the expected range for the estimate or were not materially outside of the range. There was one asset, the swimming pool in Stevenage town centre, where the value whilst having increased from £3.1mn at 31 March 2017 to £3.7mn at 31 March 2018 was still under the range that the EY specialist considered would be appropriate for this asset (£5.2mn to £6.2mn). The Council's valuer has reduced the valuation to reflect the fact that whilst the pool is the Council's asset it is managed by a third party until 2023 which means that the Council does not directly receive income from the asset. The EY specialist considers that given the asset is not held as an investment property but rather for operational/utility purposes that this consideration is not relevant. Members and officers were of the view that the accounts should not be amended in respect of this asset.</p>
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice (the Code) and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council.</p> <p>The Council's pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £50.05mn.</p>	<p>The Council amended the draft statement of accounts to reflect an up to date estimate from the actuary of the Council's share of the Hertfordshire Pension Fund assets as at 31st March 2018. The statement of accounts was prepared based on IAS19 data and assumptions taken as at December 2017, with a forecast of the 31 March 2018 position. The Hertfordshire Pension Fund accounts included an up to date estimate of the fund asset value as at 31st March 2018, and this was £67mn higher reflecting improvements in market conditions. The actuary for the fund re-ran the reports for the local authorities in the Fund and this showed a reduction in the liability for Stevenage Borough Council of £2.592mn. Although the change in estimate of the fair value of the fund was within a reasonable range, as this difference was above our audit materiality, the Council therefore agreed to adjust its financial statements and disclosures to reflect revised values supplied by the actuary which resulted in a reduction in the pension liability from £52.644mn to £50,052mn, a reduction of £2.592mn.</p>



Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £2.135mn (2016/17: £2.104mn), which is 2% of gross expenditure reported in the accounts. We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee on 26 th July 2018 that we would report to the Committee all audit differences in excess of £0.106m (2016/17:



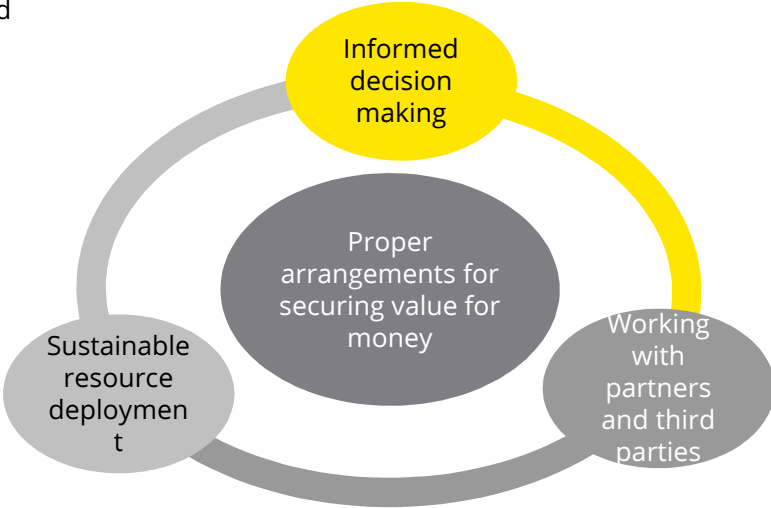
04

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.



We identified one significant risk and two other risks around these arrangements. The tables below present our findings in response to the risk in our Audit Planning Report.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We therefore issued an unqualified value for money conclusion on 27th July 2018.

Significant Risk	Conclusion
<p>Achievement of Savings Needed over the Medium Term</p> <p>The Council faces significant financial challenges over the next three to four years, with a forecast savings of £2.5 mn required by 2021/22. In addition there are further savings required of approximately £0.2 mn a year for the housing revenue account.</p> <p>Given the scale of the savings needed, there is a risk that saving plans to bridge this gap are not robust and/or achievable. This was identified as a significant risk at our 2016/17 audit.</p>	<p>We concluded that arrangements are appropriate overall given:</p> <p>The Council's level of reserves at £5.5mn which is above the minimum level identified by the Chief Financial Officer of £2.5mn.</p> <p>The identification of schemes to deliver the bulk of the savings required. Those for 2018/19 were well developed at the time of our review.</p> <p>The track record of delivering against budget</p> <p>The assumptions used in the medium term financial plan are what we would expect</p> <p>There is however very little scenario planning/sensitivity reporting, other than the consideration of the impact of different council tax increases. The Council has had to scale back its increase in fees and charges for 2018/19. A similar scaling back, if required, for later years of the strategy would still leave the Council with its minimum level of reserves however the Council may have to reconsider its strategy in this area.</p>

Other matters to report

SG1

The Council has ambitious plans for the regeneration of the town centre. The first scheme being carried out as part of this (SG1) involves redevelopment focused on the Town Square and surrounding area including provision of a new civic and surrounding area including provision of a new civic hub. A competitive dialogue process has been followed in order to appoint a developer partner. Significant resources including senior officer time are invested in the project. We needed to be assured that suitable arrangements had been put in place for the scheme.

The review suggests that the Council has followed proper processes to date although this is a long term project with major funding from third parties and one that we will need to continue to review as the governance arrangements emerge. Currently the capital programme recognises the projects that will be LEP funded but there are likely to be further projects linked to SG1 which SBC will wish to fund from its own resources. It has already done public realm works in the town centre ahead of SG1. The capital strategy that went to Members in February 2018 recognises that the Council will need to build up resources for works that will be linked to SG1.

Investment Property Strategy

The Council has approved a strategy for 2017/18 to 2019/20 which would see £15 mn being invested in property, with this being funded from prudential borrowing. The objective is to obtain income of £0.2 mn a year to the general fund (£0.1 mn in 2017/18) and a target rate of return of no less than 6%. The strategy is one of the ways in which the Council is aiming to reduce its budget gap and we reviewed the arrangements for the monitoring of the achievement of the strategy.

The strategy got off to a slow start in 2017/18 with the acquisition of one property (Essex House) which is due to deliver a net revenue stream of £44k per year. This meant the Council did not meet its target for this revenue stream in 2017/18 and the Chief Financial Officer has flagged the delivery of this saving option as a risk area on the risk register.



05

Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.



Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 financial statements from members of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

Control Themes and Observations

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



06

Focused on your future



The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below however we noted that the Council's assessment is that these are unlikely to have a material impact.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and</p> <ul style="list-style-type: none"> • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Practice for Local Authorities has now been issued, providing guidance on 9. In advance of the Guidance Notes being issued, CIPFA have issued some information providing detail on the impact on local authority accounting of key outstanding issue is whether any accounting statutory overrides will be any impact.</p>	<p>Although the Code has now been issued, providing guidance on standard, along with other provisional information issued by to adopting IFRS 9, until the Guidance Notes are issued and any are confirmed there remains some uncertainty.</p>
IFRS 15 Revenue Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> • Leases; • Financial instruments; • Insurance contracts; and • For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of customer contracts and the linking of income to the meeting of those</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has becoming clear what the impact on local authority accounting will be. As the revenue streams of Local Authorities fall outside the scope of IFRS 15, the standard is likely to be limited.</p>	<p>It is our view, that IFRS 15 will not have a material impact on this entity financial statements. The vast majority of the Council's taxation or grant based.</p>



Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



07

Audit Fees

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018. Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 13 July 2018 Annual Results Report.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	TBC	64,004	64,004	73,513
Total Non-audit work - Grants	TBC	10,911	10,911	10,344

We have undertaken additional work in relation to the Value for Money Conclusion significant risk. We are discussing with the Chief Financial Officer our final fee. Where we propose any variation, we will discuss this with the Audit Committee and it is also subject to PSAA approval.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

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