

Annual Governance Report

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# Annual Governance Report

**Stevenage Borough Council**

**Audit 2006/07**

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## Purpose of this document

- 1 In accordance with the Audit Commission's Code of Audit Practice (the Code), this report provides a summary of the work we have carried out during our 2006/07 audit of accounts, the conclusions we have reached and the recommendations we have made to discharge our statutory audit responsibilities to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.
- 2 In preparing our report, the Code requires us to comply with the requirements of International Standards on Auditing (United Kingdom & Ireland) – ISA (UK&I) - 260 'Communication of Audit Matters to Those Charged With Governance', by reporting to you matters relating to the audit of the financial statements. Other auditing standards require us to communicate with you in other specific circumstances including:
  - where we suspect or detect fraud;
  - where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and
  - non-compliance with legislative or regulatory requirements and related authorities.
- 3 We are also required to communicate to you the Audit Commission's requirements in respect of independence and objectivity, and these are set out at Appendix 2.
- 4 This report has been prepared for presentation to the Audit Committee on 27 September 2007. Members are invited to:
  - consider the matters raised in the report before the financial statements are approved;
  - approve the representation letter on behalf of the Council and those charged with governance before we issue our opinion; and
  - consider amending the financial statements for unadjusted misstatements, significant qualitative aspects of financial reporting and any recommendations for improvement in the action plan.
- 5 Our work during the year was performed in line with the plan that we presented to you in May 2006. We have issued separate reports during the year having completed specific aspects of our programme, which are listed in Appendix 3.

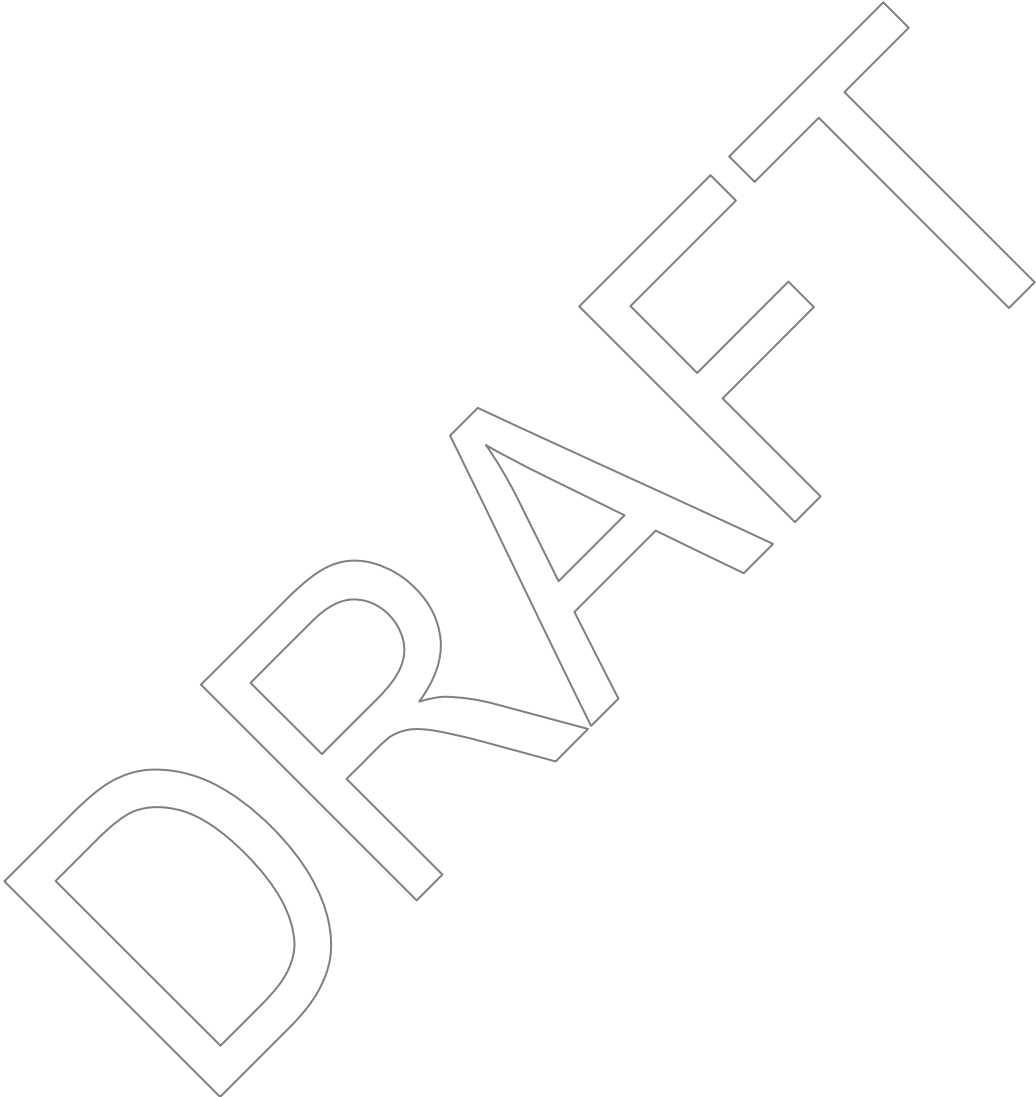
## Key messages

### Accounts and Statement on Internal Control

- 6 Our work on the accounts is now nearing completion, although there is still some audit work to be completed. In particular I need to complete my final review. In addition, the financial statements have been revised to reflect a number of errors identified by audit and we need to confirm that these changes have been made correctly.
- 7 We propose issuing an unqualified audit opinion on 28 September 2007. A draft report is attached at Appendix 4. Should any further matters arise in concluding the outstanding work that need to be reported, we will raise them with the Chair of the Audit Committee.
- 8 In our previous Annual Audit Letter and Annual Governance Report to the Audit Committee we have reported that although there were improvements in the working papers provided in 2005/06, there remained a number of omissions and errors and areas where supporting working papers were not made available at the start of the audit. We also highlighted weaknesses in the capital accounting arrangements, which led to material amendments to the accounts, together with concerns about the completeness and accuracy of the fixed asset register.
- 9 We have noted similar issues during the 2006/07 audit and these are set out in more detail in this report.
- 10 The Council has faced a number of challenges during the year which have impacted on the production and audit of the 2006/07 accounts. As well as addressing changes in accounting requirements which have affected all authorities, the Council has experienced the loss of a key experienced finance staff member. The Council has also managed the process of setting up Stevenage Homes Limited (SHL), which was a significant undertaking as it involved integration of SHL operations into the Council's systems and processes and brought considerable additional work for the finance staff. It also brought about the requirement to prepare group accounts which has been a further challenge and one which the Council has managed well.
- 11 However arrangements for producing the accounts and working papers need to be improved and particular attention needs to be given to capital accounting as further changes will be introduced in 2007/08, which will present a significant challenge. We understand that the Council has already engaged a capital specialist to review the capital accounting issues identified in this report to ensure that systems and processes are improved for the 2007/08 accounts.
- 12 We have made some recommendations in this report to assist with the improvement process and these are set out in the action plan in Appendix 1.
- 13 In our view, the Statement on Internal Control (SIC) has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit.

**Use of resources**

- 14 Our work on the Council’s arrangements to secure economy, efficiency and effectiveness in its use of resources is now complete. We propose issuing an unqualified conclusion on the use of resources on 28 September 2007 (a draft report is attached at Appendix 4).



## Audit status

- 15 At the date of issue of this report our detailed audit of the accounts is nearing completion, and I need to complete my final review. There are some areas of the audit that remain to be completed.
- 16 Local authority accounting is prescriptive about what can be classified as capital expenditure. Our testing of capital expenditure indicated that some items had been included which did not meet these requirements. We have selected a larger sample of capitalised expenditure which has been tested by Council staff. This testing also indicates that some expenditure which should have been charged to revenue has been capitalised. We are currently evaluating the results of this testing to determine the likely error. We do not believe there to be a material impact on the accounts but the presence of revenue items in capital expenditure does indicate that procedures for coding expenditure as capital should be reviewed.
- 17 A number of adjustments have been made to the accounts as a result of audit work. We have now received the revised version of the accounts, which we expect to incorporate all the adjustments identified. We now need to conclude our audit work, which includes checking all amendments made to the revised accounts.
- 18 The Council has taken a positive and constructive approach to our audit and we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

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## Accounts and Statement on Internal Control

- 19 Our work on the financial statements is substantially complete although as already noted, there is still some outstanding work to complete.
- 20 Auditors are required to obtain written confirmation of certain representations from management and those charged with governance before an audit report is issued, such as acknowledgement of responsibility for the fair presentation of the financial statements in accordance with the applicable financial reporting framework and responsibility for the design and implementation of internal control to prevent and detect error.
- 21 The auditor should also obtain written representations from management on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- 22 The final draft of the letter of representation has been attached as Appendix 5.

### Unadjusted misstatements

- 23 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. A summary of the two unadjusted misstatements is attached at Appendix 6 for the information of members.
- 24 We invite you to consider whether the financial statements should be amended for the unadjusted misstatements identified at Appendix 6. Should you choose not to amend the financial statements, in accordance with ISA (UK&I) 260 we request that you extend the representation letter to explain why. We ask that the letter specifically details the misstatements and/or qualitative aspects of reporting to which it relates.

#### **Recommendations**

*R1 Consider amending the draft financial statements for the unadjusted misstatements identified in Appendix 6. Amend the draft letter of representation (included in Appendix 5) accordingly.*

### Adjustments to the financial statements

- 25 We are also required to bring to your attention significant misstatements that have already been corrected by management where we consider them relevant to your wider governance responsibilities. These are four such adjustments which are recorded in full at Appendix 7, and a summary is shown below for your attention.



- The housing stock valuation was understated by £11.2 million due to the use of an incorrect vacant possession factor;
  - The gain on the disposal of fixed assets was understated by £4 million as proceeds from the London Road depot had not been taken into account;
  - Council dwellings sold in the year had not been revalued to their market value in order to calculate the gain or loss on disposal; the disposal value was understated by £2 million; and
  - The 2005/06 comparatives in the housing revenue account (HRA) had not been re-stated correctly to remove £17.5 million of capital charges.
- 26** None of these adjustments have an impact on the Council's reported outturn for the year, but do impact on the balance sheet, HRA and related notes.
- 27** We draw your attention to these as they are all in the area of capital accounting. We have set out further observations on capital accounting in the internal control section of this report.

## Accounting practices

- 28** We are also required to report to you our view on the qualitative aspects of the Council's accounting practices and financial reporting and have set out below our observations on key issues affecting the Council.

### Compliance with the accounting code of practice for local authorities

- 29** Like all local authorities, the Council is required to comply with the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice (the SORP).
- 30** Our work has revealed a number of instances where the accounts do not comply with the requirements of the SORP. Examples include:
- Long term investments had not been disclosed separately on the balance sheet but had been included under long term debtors;
  - The major repairs reserve was not included in the balance sheet.
  - The statement of recognised gains and losses (which is a new statement in 2006/07) included a number of entries that were not required;
  - Fixed assets had not been split into the correct categories of intangible assets, operational and non-operational assets in the balance sheet and the fixed asset note;
  - Accounting policies were set out in limited detail and did not include all the required policies for local authorities; and
  - Disclosures in respect of leases did not include all the required details.
- 31** Amendments to the accounts have been made in respect of the majority of the items noted.

- 32 In our working paper requirements checklist (see below) we requested the Council to complete the SORP disclosure checklist to confirm that the accounts were compliant. This was not completed and cross referenced to the accounts to ensure full compliance with all the requirements, although the Council did follow the SORP requirements for the overall format and presentation of the restated accounts.

### Quality of working papers

- 33 In our last Annual Audit Letter we reported that there had been improvements in working papers, but there remained a number of omissions and errors and areas where supporting working papers were not made available at the start of the audit.
- 34 This year we have experienced difficulty in obtaining adequate working papers to support entries in the accounts. We provided a list of the required working papers in March 2007. However, when the audit commenced in July a number of working papers were not available and were produced while the audit progressed. This has delayed progress on the audit as we have had to request documentation on an ongoing basis and then wait for it to be produced. The quality of the working papers has been variable and has often given rise to further queries. It was also not clear to what extent individual working papers or the trail through from the accounts to working papers was reviewed by a senior officer.
- 35 Examples of specific issues include:
- Analytical review comparing the outturn figures in the accounts to the prior year and to budgets with explanations for variances was not provided until late in the audit.
  - Not all systems reconciliations were provided.
  - Related party transactions records were incomplete.
  - The audit trail provided to agree the accounts to the general ledger was complicated and difficult to follow. Officers needed to provide further working papers to complete this task. It took us considerable time to complete the agreement of the accounts to the ledger.
  - Working papers for the capital accounts, the collection fund, debtors and creditors were incomplete and difficult to follow.
  - Working papers in support of new areas of the accounts such as the Statement of Recognised Gains and Losses and the Statement of Movements on General Fund Balance and the restatement of the 2005/06 comparative figures were found to contain errors. These areas of the accounts had to be amended.

- 36 We experienced particular difficulties in obtaining working papers where the entries in the accounts had been prepared by SHL staff. These working papers (for example in support of the Housing Revenue Account and the housing stock valuation) were not available from the Council and we were referred to SHL staff for all such items. This increased considerably the time taken to carry out the audit of the housing elements of the accounts. As the housing figures are included in the Council's accounts we would expect the Council to maintain the required working papers in support of these entries and to liaise with SHL staff to obtain any further information required for audit.
- 37 The Council has already undertaken to improve arrangements for obtaining working papers and responses to audit queries, and expects the situation to improve as the new arrangements bed in.
- 38 These issues have impacted on the quality of the accounts, on the progress of the audit work and in officer time needed to resolve audit queries. Response to audit queries has also been slower than we would expect, which has made it difficult for us to conclude our work in order to give an opinion by 30 September.

### **Recommendations**

*R2 Address the following issues for the 2007/08 accounts:*

- Review the format of the accounts to ensure compliance with the Statement of Recommended Practice on Local Authority Accounting (SORP), taking into account the further changes in the format of the accounts to be introduced in 2007/08;
- Produce working papers as set out in our working paper requirements checklist to support the accounts during the accounts preparation process and make these available at the commencement of the audit;
- Subject the accounts and working papers to a quality assurance and review process prior to certification of the accounts;
- Improve liaison arrangements with SHL and ensure that the Council's working papers and review process include all those prepared by SHL staff; and
- Respond to audit queries promptly.

### **Housing benefit overpayments**

- 39 Where the Council overpays housing benefit to a claimant, it should attempt to recover this. This leads to the creation of a debtor. Such debtors should be included in the accounts. Officers were initially unable to demonstrate that any such debtors were included.

- 40 Following further work by the Council, we have been provided with information from the housing benefits system that indicates an overpayments figure of £699,000. It has subsequently been possible to locate housing benefit overpayment debtors of £284,000 within the accounts. However it remains unclear whether the £699,000 represents the full amount of debtors which should be included in the accounts. As we are unable to conclude on this matter no adjustment has been sought for the potential difference.
- 41 As housing benefit overpayments are difficult to collect, we would expect that any additional debtors created would be matched by an equal bad debt provision. This would mean there is no net impact on the Income and Expenditure Account or balance sheet. Hence we do not believe the accounts to be materially misstated. However this issue should be resolved for the 2007/08 accounts.

### **Recommendations**

*R3 Account fully for housing benefit overpayment transactions in the 2007/08 accounts. This should include accounting for the movements in year to recognise new debts arising and the repayments. Provide evidence from the housing benefits and debtors systems to support the year-end debtor balances.*

### **Cash flow statement**

- 42 Our review of the cash flow statement included in the original draft accounts found that we were unable to agree many of the figures. In addition, the Council had reconciled the net cash flow to the movement in the general fund balance for the year (£2.5 million), rather than to the deficit for the year on the Income and Expenditure Account (£14 million). The cash flow statement also contained a balancing figure of £8 million.
- 43 Further revisions have been made and the main issues of concern have been resolved. The cash flow statement will need to be amended to reflect the final changes made to the accounts and we then expect to be able to complete our work on it. In future years the cash flow statement should be supported by sufficient working papers to show the source of all the figures.

### **Creditors**

- 44 Our testing of sundry creditors (£5.1 million in the original accounts) revealed some amounts accrued that were not valid creditors. We selected a larger sample of creditors which were tested by Council staff and we then evaluated the results. This further testing of a sample of 20 creditors with a value of £972,000 indicated that 7 items were over-accrued with a value of £126,000 and 3 were under-accrued with a value of £41,000. Hence the net over-accrual in the sample was £85,000, an error rate of 8.7%. Applying this to the sundry creditor population of £5.1 million indicates that creditors and expenditure could potentially be overstated by around £444,000.

- 45 The results of the testing indicate that there is unlikely to be a material misstatement in creditors. We have not sought any amendment to the accounts as the extrapolation is based on a relatively small sample and therefore uncertain. Accruals are by their nature estimates of the amount believed to be due at the time the accounts are prepared and hence some degree of over or under accrual is to be expected. However the level of over and under accrual found in our testing indicates that procedures for making accruals should be tightened in order to ensure that they are only made for expenditure related to the financial year but not yet paid for and that amounts accrued are the best estimate of the amount due.

### **Pension fund**

- 46 The Council is required to account for its share of the actuarial surplus/deficit on the pension fund. The figures are provided by the pension fund actuary. These figures are based on actuarial estimates as at 31 December 2006. As at 31 March 2007, the fund had outperformed their estimates (1.1% increase on total asset value, equal to £768,000). However, this is a timing issue and has no 'bottom-line' impact on the accounts. Hence no adjustment to the accounts has been sought.

## **Systems of internal control**

- 47 As part of our audit, we consider the systems of accounting and financial control and report to you any significant weaknesses identified.

### **Capital accounting**

- 48 We have reported in the past that there are weaknesses in the Council's capital accounting arrangements. Our work on the capital entries within the accounts has continued to identify limitations in the Council's arrangements for capital accounting. The adjustments section of this report includes some items that have arisen from the work on capital. Further examples of problems we have encountered include:

- Impairments totalling £6.3 million had been made to fixed assets. This figure did not agree to the asset register and was found to be calculated incorrectly. It was amended to £5.1 million.
- Depreciation on disposals of vehicles, plant and machinery of £1.8 million had been accounted for incorrectly. It had been netted off depreciation charged in the year and included in the capital financing account. It should have been set against the sales proceeds as part of the gain or loss on disposal calculation and included in the fixed asset restatement reserve. This adjustment has been made in the accounts.

- The statement of recognised gains and losses (STRGL) is a new statement for 2006/07 and is meant to reconcile to the movement in net worth as shown in the balance sheet between 2005/06 and 2006/07. One of the major reconciling items included in this statement is the surplus arising on revaluation. The draft accounts showed this figure to be £17.1 million but the Council was unable to explain how this figure had been derived or reconciled to the revaluation shown in the fixed asset note to the accounts of £15 million. The revaluation figures have been changed subsequently and we expect the revaluation figure to agree in the final version of the STRGL.
- 49** Our review of the accounts for consistency in capital figures between the various statements and notes in the accounts highlighted a number of discrepancies. The most significant of these have been referred to already in this report.
- 50** The remainder, which are immaterial, have not been pursued further, but they need to be addressed for the 2007/08 accounts. These include discrepancies within the amount recorded for capital expenditure in the year in the accounts and asset register:
- Capital expenditure treated as additions to fixed assets as recorded in the disclosure of fixed assets in note 13 to the accounts totals £20,207,000. However the analysis of capital expenditure, also in note 13, totals £21,073,000; a difference of £866,000. This most likely relates to expenditure which can be classified as capital but which does not result in an addition to fixed assets. However the Council has not been able to explain fully how this additional capital expenditure has been treated in the accounts.
  - Similarly the capital expenditure recorded in the general ledger is £21,073,000. However the additions recorded in the asset register together with the additions in respect of housing stock (which is not included in the asset register) total £20,130,000; a difference of £943,000. Again the Council has not been able to provide a satisfactory explanation of this difference or how the remainder of the expenditure has been treated.
- 51** We reported last year that we had concerns about the completeness, accuracy and robustness of the Council's asset register. The Council has no regular process to update the asset register or to reconcile it with other property records held elsewhere within the Council.
- 52** Our work this year has noted a number of instances where the asset register and other asset records have been found to be incorrect. Examples include:
- Our testing of disposals in the asset register showed that two assets had been written out as disposals but they had not actually been disposed of; whereas two assets disposed of in 2005/06 had not been fully written out in that year and were therefore shown as a disposals in 2006/07.
  - An incorrect valuation highlighted in the 2005/06 audit had not been amended in the asset register in 2006/07.

- Asset names had not been updated in the asset register making it hard to reconcile with the valuation programme for the year. The valuation programme itself had not been updated to remove assets that the Council no longer owned.
  - The list of housing stock supplied to external valuers for valuation as at April 2006 included 39 properties that had been sold or transferred the previous year. These properties and their valuation subsequently had to be removed to reach the correct valuation. Housing stock is not recorded on the asset register.
- 53** These issues require attention prior to the preparation of the 2007/08 accounts as capital accounting requirements are being introduced which will require the creation of a new revaluation reserve. These requirements will place further demands on capital accounting staff and systems. We understand that the Council will employ a specialist consultant to assist with reviewing capital accounting arrangements prior to the introduction of the new capital accounting requirements.

### **Recommendations**

#### *R4 For the 2007/08 accounts:*

- review arrangements for updating the asset register and commence a process of regular reconciliation with other property records;
- ensure asset records are capable of providing the required information for the 2007/08 financial statements;
- carry out a consistency check on the accounts and notes to ensure that all capital figures agree or can be reconciled both to other entries within the accounts and to the asset register.

### **Housing benefit reconciliations**

- 54** As part of the closedown preparations for producing the accounts reconciliations between the housing benefit system and the accounts should be carried out to support housing benefit expenditure included in the accounts. These require updating once the housing benefit grant claim has been produced in order to ensure that the figures are not significantly different.
- 55** Partial reconciliations were carried out as part of the preparation of the 2006/07 accounts for rent allowances, rent rebates and council tax benefits. However these were not complete reconciliations between the housing benefits system, other financial systems and the main accounting system, as there were a number of unsupported reconciling differences. Full reconciliation to the housing benefits grant claim has also not been carried out.

- 56 We are satisfied that the differences between housing benefits expenditure as recorded in the Council's claim, systems and accounts are not material. However the Council needs to ensure that full reconciliation is completed in support of the 2006/07 housing benefit claim.
- 57 In addition, no reconciliation has been carried out of the expected government subsidy income from the housing benefit grant claim to ensure that the accounts contain the correct figure. Our estimate is that the subsidy income and the related debtor account may be understated by approximately £350,000. We are awaiting a full reconciliation of the expenditure included on the claim and the related income with the figures included in the accounts. Such a reconciliation should be carried out as a matter of course in preparing the accounts and then updated once the housing benefit grant claim has been prepared.

**Recommendations**

*R5 Complete full reconciliations for rent allowances, rent rebates and council tax benefits in support of the 2006/07 housing benefit grant claim.*

*R6 As part of the 2007/08 accounts production:*

- Carry out full reconciliations for rent allowances, council tax benefits and rent rebates between the housing benefits system, housing rents and council tax systems, the general ledger and the expected expenditure on the housing benefit grant claim. Update these reconciliations once the grant claim is produced.
- Reconcile the debtor (or creditor balance) for the housing benefit grant claim to the expected claim income. Update this reconciliation once the grant claim is produced.

- 58 We have not provided a comprehensive statement of all weaknesses which may exist in internal control or of all improvements which may be made, but have addressed only those matters which have come to our attention as a result of the audit procedures we have performed.
- 59 We have also reviewed whether the SIC has been prepared in accordance with proper practice specified by CIPFA and is consistent with the findings from our audit. There are no matters arising.



## Use of resources

### Work performed

- 60** The Code requires us to reach a conclusion on whether we are satisfied that the Council has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources – the value for money conclusion. In meeting this responsibility, we review evidence that is relevant to the Council's corporate performance management and financial management arrangements across a range of criteria specified by the Audit Commission. Our work to support our conclusion comprised the following elements:
- use of resources assessment;
  - data quality work; and
  - the best value performance plan.
- 61** Details of our conclusion for each of the criteria specified by the Audit Commission, our 2006 use of resources assessment and our proposed value for money conclusion for 2006/07 are set out in Appendix 8. We have concluded that the Council has adequate arrangements in place.
- 62** On the basis of our last use of resources assessment (which covered the period to January 2007) and the work we have undertaken to date, we propose issuing an unqualified value for money conclusion (a draft report is attached at Appendix 4).
- 63** Although overall we expect to issue an unqualified value for money conclusion, we wish to draw your attention to the weaknesses identified with the asset register which affects the asset management value for money criterion (criterion 11, Appendix 8). These weaknesses are set out in the capital accounting section of this report. In view of the overall strength of the Council's asset management arrangements we have assessed arrangements to be adequate overall. However, these weaknesses need to be addressed in order not to undermine asset management more generally. Recommendation 4 in the action plan in Appendix 1 refers.

### Use of resources assessment

- 64** We are currently undertaking our work on the 2007 use of resources assessment (which updates our last assessment to 31 March 2007). We will report our findings to the relevant officers and the Audit Committee in a separate report and in the annual audit and inspection letter in March 2008.

## Data quality work

- 65 We are currently undertaking our data quality review. Our in-depth work on a sample of performance indicators has just started. However, on the basis of the work undertaken on management arrangements this year, we have concluded that the Council's arrangements for data quality are at least adequate for value for money conclusion purposes.
- 66 We will report to officers in more detail the outcome of our assessment of the arrangements in place for ensuring the quality of data in a separate report once all the work, including the review of performance indicators, is complete.

## Best value performance plan

- 67 Our work in respect of the Council's 2006/07 Best Value Performance Plan (BVPP) was reported in the 2006 Annual Audit and Inspection Letter. No recommendations were made to the Audit Commission or the Secretary of State.

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## Audit fee update

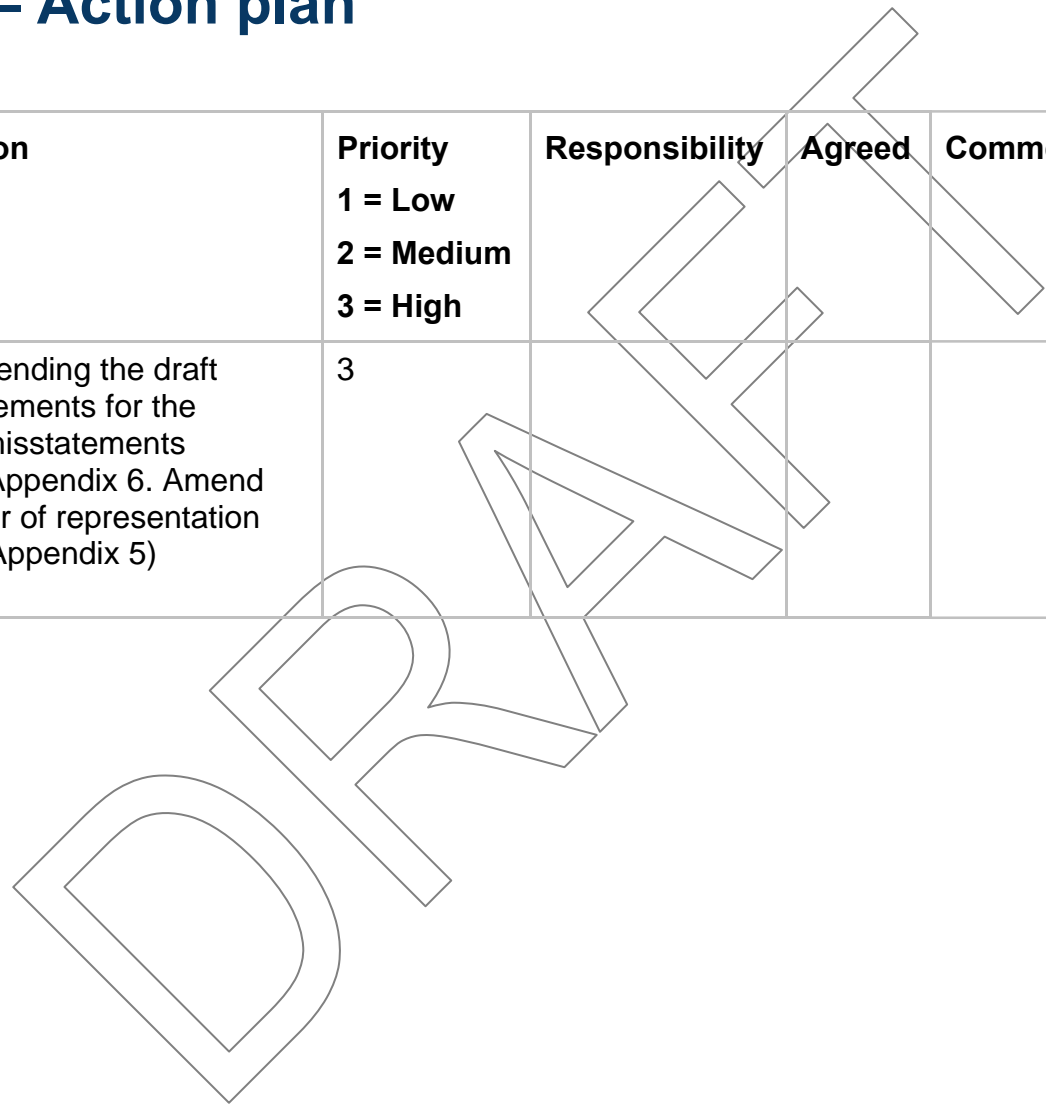
- 68 We reported our fee proposals as part of the Audit Plan for 2006/07. The table below reports the projected outturn fee against that plan:

	Plan 2006/07	Actual 2006/07
Financial statements and Statement on Internal Control	86,448	To be determined
Use of Resources	39,662	39,662
Total Audit Fees	126,110	To be determined
Grants certification work (estimated fee)	60,000	70,000
Other work: Whole of Government Accounts	not included in planned fee	2,800

- 69 The fee will increase from the fee agreed in May 2006. We currently expect to charge an additional fee for the 2006/07 accounts audit. This will be determined once the audit is completed.
- 70 The SORP changes affecting the 2006/07 accounts were not fully anticipated when the fee was originally set. In addition, we will need to charge a further fee as a consequence of the issues identified during the audit as reflected in this report and the time taken to resolve them.
- 71 The grant certification fee is estimated since the majority of work in this area will be undertaken between October and December 2007 and is billed as the work is carried out. We have updated our estimated fee based on the results of the 2005/06 certification work. In particular the certification of the housing benefits and council tax benefit claim for 2005/06 proved problematic and led to an increased fee. We have increased our estimate for 2006/07 as it is likely that our testing will identify similar issues.
- 72 At the time of issuing the original 2006/07 Plan, we did not include a fee for the audit of the Whole of Government Accounts (WGA) data return as the Audit Commission was still discussing the scope of the likely audit work with the NAO and other stakeholders. We have now determined that the fee for this work will be £2,800 and this will be billed shortly.
- 73 The outturn on inspection fees will be reported in the Annual Audit and Inspection Letter.

## Appendix 1 – Action plan

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
8	R1 Consider amending the draft financial statements for the unadjusted misstatements identified in Appendix 6. Amend the draft letter of representation (included in Appendix 5) accordingly.	3				



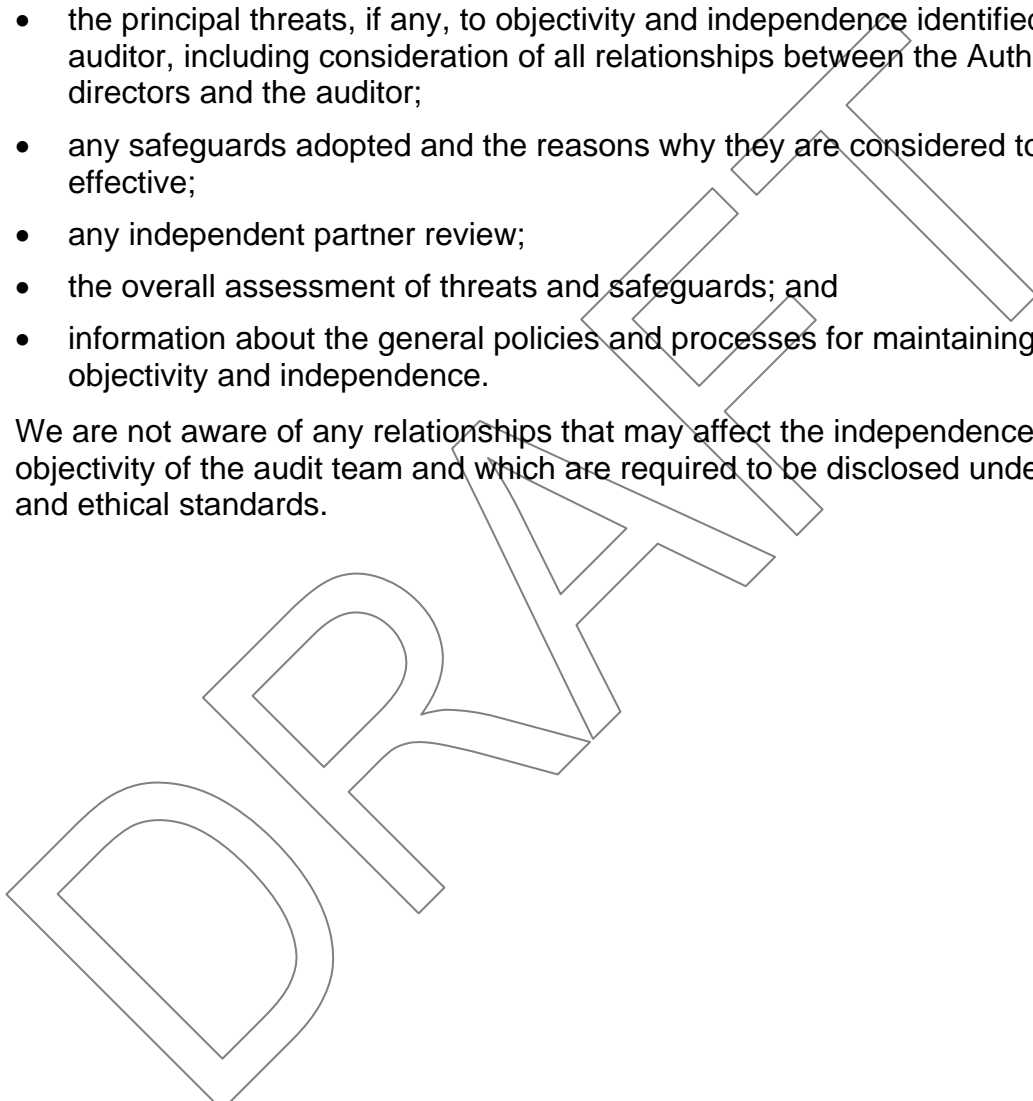
Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
11	<p>R2 Address the following issues for the 2007/08 accounts:</p> <ul style="list-style-type: none"> <li>• Review the format of the accounts to ensure compliance with the Statement of Recommended Practice on Local Authority Accounting (SORP), taking into account the further changes in the format of the accounts to be introduced in 2007/08;</li> <li>• Produce working papers as set out in our working paper requirements checklist to support the accounts preparation process and make these available at the commencement of the audit;</li> <li>• Subject the accounts and working papers to a quality assurance and review process prior to certification of the accounts;</li> <li>• Improve liaison arrangements with SHL and ensure that the Council's working papers and review process include all those prepared by SHL staff; and</li> <li>• Respond to audit queries promptly.</li> </ul>	3				

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
12	R3 Account fully for housing benefit overpayment transactions in the 2007/08 accounts. This should include accounting for the movements in year to recognise new debts arising and the repayments. Provide evidence from the housing benefits and debtors systems to support the year-end debtor balances.	3				
15	R4 For the 2007/08 accounts: <ul style="list-style-type: none"> <li>• review arrangements for updating the asset register and commence a process of regular reconciliation with other property records;</li> <li>• ensure asset records are capable of providing the required information for the 2007/08 financial statements;</li> <li>• carry out a consistency check on the accounts and notes to ensure that all capital figures agree or can be reconciled both to other entries within the accounts and to the asset register.</li> </ul>	3				

Page	Recommendation	Priority 1 = Low 2 = Medium 3 = High	Responsibility	Agreed	Comments	Anticipated Implementation Date
16	R5 Complete full reconciliations for rent allowances, rent rebates and council tax benefits in support of the 2006/07 housing benefit grant claim.	3				
16	<p>R6 As part of the 2007/08 accounts production:</p> <ul style="list-style-type: none"> <li>• Carry out full reconciliations for rent allowances, council tax benefits and rent rebates between the housing benefits system, housing rents and council tax systems, the general ledger and the expected expenditure on the housing benefit grant claim. Update these reconciliations once the grant claim is produced.</li> <li>• Reconcile the debtor (or creditor balance) for the housing benefit grant claim to the expected claim income. Update this reconciliation once the grant claim is produced.</li> </ul>	3				

## Appendix 2 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 We are required to communicate the following matters to those charged with governance:
  - the principal threats, if any, to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
  - any safeguards adopted and the reasons why they are considered to be effective;
  - any independent partner review;
  - the overall assessment of threats and safeguards; and
  - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the audit team and which are required to be disclosed under auditing and ethical standards.





## Appendix 3 – Audit reports issued

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit and inspection plan	March 2006	May 2006	Audit Committee
BVPP report	December 2006	December 2006	The Council
Data quality report (2005/06 arrangements)	October 2006	January 2007	Management
Use of resources 2006	March 2007	March 2007	Management
Annual audit letter	March 2007	March 2007	The Council
Annual governance report	September 2007	September 2007	Audit Committee
Internal Audit management arrangements	May 2007	May 2007 (draft only- not yet finalised)	Management
Opinion on financial statements	September 2007	Not yet issued	The Council
Value for money conclusion	September 2007	Not yet issued	The Council
Interim audit memorandum	May 2007	Not yet issued (to be combined with the final accounts memorandum)	Management
Final accounts memorandum	October 2007	Not yet issued	Management

## Appendix 4 – Proposed auditor’s report

### Independent auditor’s report to the Members of Stevenage Borough Council

#### Opinion on the financial statements

I have audited the financial statements of Stevenage Borough Council and its Group for the year ended 31 March 2007 under the Audit Commission Act 1998, which comprise the Explanatory Foreword, Income and Expenditure Account, Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Collection Fund, the Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Stevenage Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### Respective responsibilities of the Chief Financial Officer and the auditor

The Chief Financial Officer’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the financial position of the Council in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006.

I review whether the Statement on Internal Control reflects compliance with CIPFA’s guidance ‘The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003’ issued in April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Council and its Group as at 31 March 2007 and its income and expenditure for the year then ended.

Debbie Hanson

District Auditor

Date

Audit Commission  
1st Floor, Sheffield House,  
Lytton Way, off Gates Way,  
Stevenage, Herts SG1 3HG

## **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **The Council’s responsibilities**

The Council 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 regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Council is required to prepare and publish a best value performance plan summarising the Council’s assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

### **The auditor’s responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Council’s best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Stevenage Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

### **Best Value Performance Plan**

I issued my statutory report on the audit of the Council's best value performance plan for the financial year 2006/07 on 13 December 2006. I did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

### **Certificate**

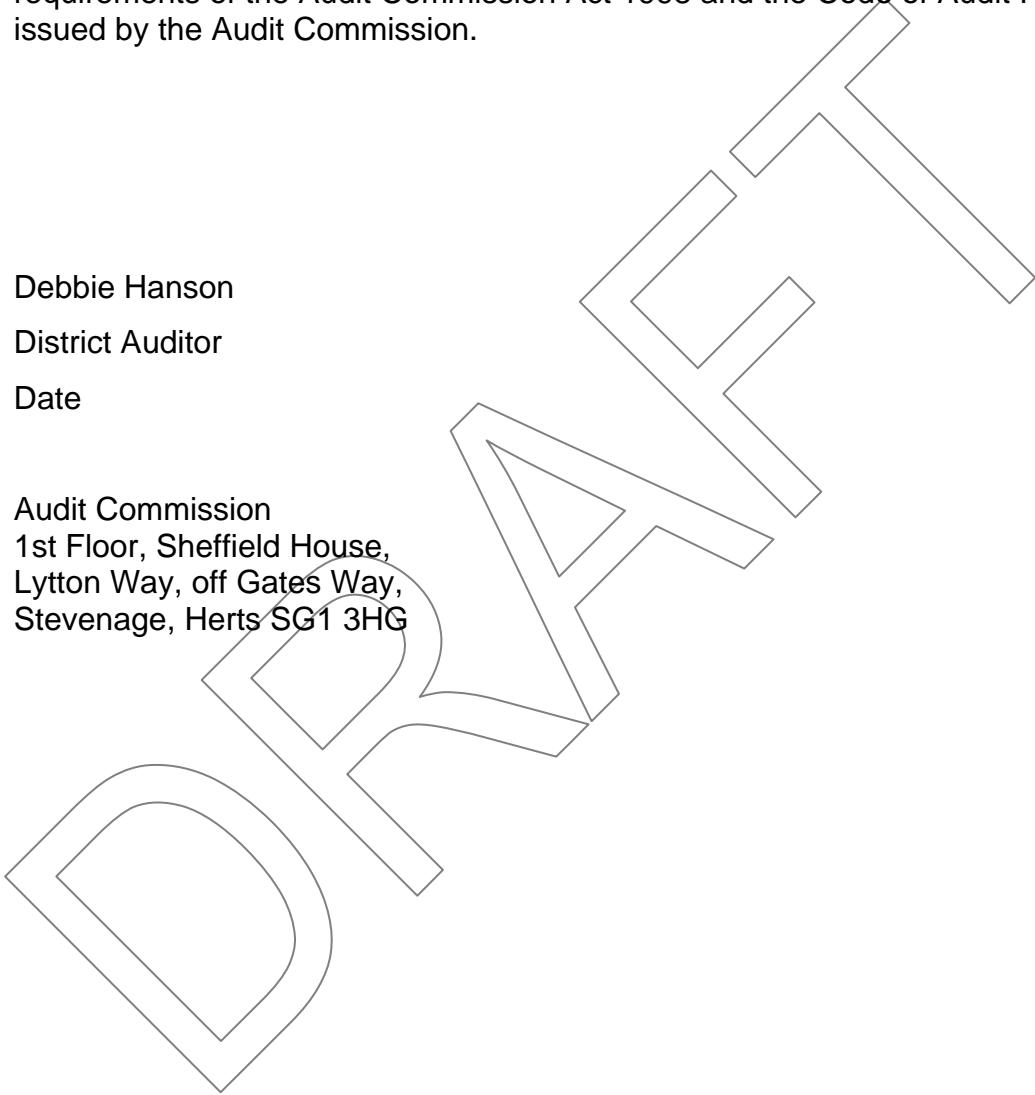
I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Debbie Hanson

District Auditor

Date

Audit Commission  
1st Floor, Sheffield House,  
Lytton Way, off Gates Way,  
Stevenage, Herts SG1 3HG



## Appendix 5 – Management representation letter

Debbie Hanson  
The Audit Commission  
1st & 2nd Floor, Sheffield House  
Lytton Way  
Stevenage  
Herts  
SG1 3HG

Dear Debbie

### **Stevenage Borough Council - Audit for the year ended 31 March 2007**

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of the Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2007.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

We confirm that we believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows:

*reason 1 etc;*

**This section to be completed by the Council**

### **Specific representations:**

#### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council, Executive and Committee meetings, have been made available to you.

### **Provisions**

No material liabilities or contingencies that would be required to be accrued or disclosed by FRS12 “Accounting for Provisions, Contingent Liabilities and Contingent Assets” have been identified.

### **Future plans**

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### **Related party transactions**

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### **Contingent liabilities**

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Law, regulations and codes of practice**

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

### **Irregularities**

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

**Post balance sheet events**

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

**Long term investments**

We confirm that the Council has the ability and the intention to continue to hold the investments classified in the balance sheet as long term for periods in excess of one year.

**Group entities**

We confirm that there are no other material group entities requiring the preparation of group accounts other than those included in the financial statements and that all joint arrangements have been properly and accurately reflected in the financial statements.

Signed on behalf of Stevenage Borough Council

.....  
Name  
Post

.....  
Name  
Post

.....  
Name  
Post



## Appendix 6 – Summary of unadjusted misstatements

- 1 We are required to report to you all unadjusted misstatements that we have identified during the course of our audit, other than those that are clearly trivial. The items below are brought to your attention to enable you to consider whether the financial statements should be amended for them. If you choose not to amend the financial statements in respect of these items, you should extend the representation letter to explain why.

Unadjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p><b>Investment valuation</b></p> <p>The Council's investment with Invesco is included in the accounts at market value. The SORP requires investments to be included in the accounts at cost.</p>	<p>The market value of the investments is £15,693,000. The cost value is £15,350,000. The investment value should be reduced by £343,000 and the corresponding double entry is with the I&amp;E account where the capital growth has been recognised.</p>	343			343
<p><b>Investment accrual</b></p> <p>Linked to the above the Council has not accrued for the income generated on the Invesco investment. Although this is not returned to the Council but is added to the value of the fund, it does represent income the Council</p>	<p>The accrued investment income is £366,000. This should be recognised in the accounts as income and as a debtor.</p>		366	366	

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		Income and Expenditure Account		Balance Sheet	
is entitled to and effectively replaces the income recognised from the capital growth.					
<b>Net Effect</b>		<b>343</b>	<b>366</b>	<b>366</b>	<b>343</b>

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## Appendix 7 – Summary of adjusted misstatements

- 1 The following misstatements were identified during the course of our audit and the financial statements have been adjusted by management. We bring them to your attention to assist you in fulfilling your governance responsibilities.

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p><b>Housing stock- change of vacant possession factor</b></p> <p>The vacant possession factors are provided by government according to government region. The Council was using the rate for the South East England region rather than the Eastern region. The factor used by the Council has therefore changed from 45% to 46%. This results in an overall increase of the housing stock value from £510 million to £521 million.</p>	<p>The value of the Council's housing stock has been increased by £11,217,000. The increased revaluation figure is reflected in the fixed asset restatement account.</p>			11,217	11,217
<p><b>Gain or loss on asset disposal</b></p>	<p>The gain on disposal of assets has been recalculated as £3,323,000. This is an increase of £3,995,000. Income in</p>	3,995	3,995		

Adjusted misstatements	Nature of Adjustment	Income and Expenditure Account		Balance Sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
One of the changes in accounting requirements this year is to show a gain or loss on the disposal of fixed assets in the I&E account. This had originally been calculated as a loss on disposal of £672,000. The Council had not fully matched disposals with capital receipts and had not accounted for the proceeds of £3,995,000 on the London Road depot.	the I&E account has been increased by £3,995,000 and the corresponding entry is in the Statement of Movement on the General Fund Balance.				
<b>Gain or loss on disposal of council housing</b> No gain or loss had been recorded on the disposal of council houses in the year. This is correct but the value of the disposals had not been increased to the net realisable value (ie the capital receipts)	The value of disposals as shown in the fixed asset note 13 has been increased from £3,872,000 to £5,899,000 to equal the sale proceeds. The revaluation total within note 13 has been increased by the same amount. There is no impact on the overall value of the council housing. Corresponding entries are also included in the fixed asset restatement account.			2,027	2,027
<b>Net Effect</b>		<b>3,995</b>	<b>3,995</b>	<b>13,244</b>	<b>13,244</b>

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<b>Change made to 2005/06 comparative figures</b>					
<p><b>HRA capital charges</b></p> <p>One of the main changes made in the SORP this year is the removal of notional capital charges from the accounts. The prior year figures were required to be restated to remove such charges but this had not been fully actioned in respect of the HRA</p>	<p>Capital charges totalled £17,536,000 in the HRA in 2005/06. As these were notional they were included in the HRA comparatives and then removed so that there was no impact on the overall deficit for that year. The correcting adjustment is therefore all within the HRA comparatives.</p>	17,536	17,536		

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## Appendix 8 – Value for money conclusion

- 2 The Audit Commission has published, in accordance with the Code of Audit Practice, 12 criteria on which auditors are required to reach a conclusion on the adequacy of an audited body’s arrangements for economy, efficiency and effectiveness in its use of resources.
- 3 The Code criteria are linked to the use of resources assessment (UoR) key lines of enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment that the Council has adequate arrangements in place for the purposes of the Code criteria. The Code criteria and the linked KLoEs are show in the table below. The table also shows the UoR score from our last assessment (UoR 2006), reported in March 2007. Our work on the 2007 assessment is currently in progress.

Code Criteria	Description	Associated UoR KLoE	UoR 2006 Score	VFM Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	LG DQ KLoEs	N/A	Adequate

<b>Code Criteria</b>	<b>Description</b>	<b>Associated UoR KLoE</b>	<b>UoR 2006 Score</b>	<b>VFM Conclusion</b>
5	The body has put in place arrangements to maintain a sound system of internal control.	4.2	2	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	3	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	3	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	3	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	3	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	3	Adequate