

Meeting: AUDIT COMMITTEE

Agenda Item:

Date: 10 June 2008

4

ANNUAL AUDIT & INSPECTION LETTER

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1. PURPOSE

- 1.1 To advise Members on the annual Audit Commission's Audit and Inspection Letter 2006/07 (attached at Appendix A).

2. RECOMMENDATION

- 2.1 That the Audit Commission's Audit and Inspection Letter 2006/07 be noted.
- 2.2 That the Strategic Director (Resources) addresses the actions contained within the letter.

3. BACKGROUND

3.1 ANNUAL AUDIT AND INSPECTION LETTER 2006/07

- 3.1.1 Under the Code of Local Government Audit Practice each year the Audit Commission is required to issue an Audit and Inspection Annual Letter to the Council commenting on its financial, legal and management arrangements.
- 3.1.2 The Audit and Inspection Letter must be prepared as soon as practical after the end of the financial year. It should be distributed to all Members, published and made available to members of the public.
- 3.1.3 The Council's accounts for 2006/07 were approved by the Statement of Accounts Committee on 28th June 2007.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Annual Audit and Inspection Letter 2006/07

- 4.1.1 The District Auditor, Debbie Hanson and her Audit Manager, Penny Irwin met with the Executive Councillor (Resources), the Chief Executive and the Strategic Director

(Resources) on 17th March 2008. The meeting enabled a constructive exchange of views to take place between the District Auditor and the Council's representatives concerning the Audit and Inspection Letter, which was agreed to be positive. However, the Audit Commission have asked the Council to focus on improving our approach to Financial Reporting and strengthen the resources within Internal Audit over the coming year.

4.1.2 Confirmation was also received at this meeting that the Audit Commission will be rotating our external audit work to a private sector accountancy firm (Grant Thornton). The Chief Executive and Strategic Director (Resources) have already met their lead auditors to begin the transition phase.

4.1.3 The full letter is attached in Appendix A. The main findings and comments were as follows;

Key Messages

The main messages for the Council included in this report are as follows.

- a. Stevenage Borough Council is improving services in many priority areas with overall performance, as measured by a sample of performance indicators, above the district council average. Sixty-one per cent of indicators have improved over the last year, which is similar to the previous year and demonstrates the Council's sustained drive to improve services.
- b. The Council provides strong community leadership and a commitment to partnership working to deliver community outcomes. Community consultation is a strength. There is a positive relationship between costs and the range, level and quality of services provided by the Council. Information on equity is actively used to promote access to services for all elements of the community and value for money.
- c. The Council has the capacity to deliver its plans. Effective processes for financial and performance management are in place at both strategic and operational level. The Council's plans enable focus on the delivery of priorities and are effectively linked to ensure resources are allocated in accordance with key objectives.
- d. The Council's overall score for use of resources fell from three (performing well) to two (performing adequately). This was the result of a change in scoring rules which give extra weight to the quality of the Council's accounts and supporting working papers.
- e. We again assessed the quality of the Council's 2006/07 accounts and working papers as below the minimum standard. During 2006/07, the Council faced staffing and workload challenges which affected its ability to produce good quality accounts. A number of amendments had to be made to the accounts in order for an unqualified audit opinion to be issued. We have reported weaknesses in arrangements for capital accounting in previous years. Action is being taken to strengthen arrangements for the 2007/08 accounts. It is as yet too early to assess the effectiveness of these arrangements.
- f. The Council's medium term financial strategy forecasts available reserves being used up by 2009/10. After this date, a substantial level of savings will need to be found in order to balance the budget and build up reserves.
- g. There have been a number of changes to the Internal Audit section in the last

year and the section has been unable to deliver its 2007/08 audit plan. As a consequence, the Council may not have sufficient Internal Audit assurance during 2007/08.

- h. Stevenage Homes Ltd, which was set up by the Council in 2006 to manage its housing stock, was assessed by our inspection last year as providing poor services but with promising prospects of improvement. In order to access funding to improve the housing stock it will need to be assessed as providing good services at the next inspection.

Actions needed by the Council

Members need to monitor the action taken to:

- i. improve the quality of the accounts, working papers and capital accounting to ensure that the accounts are compiled in accordance with the new accounting requirements in future years;
- ii. develop the medium term financial strategy and achieve the necessary savings in order to set a balanced budget in future years and build up reserves;
- iii. strengthen the management and effectiveness of Internal Audit to ensure timely delivery of the agreed Internal Audit programme in future years; and enable SHL to meet the 'two-star' standard at the next inspection.

5. IMPLICATIONS

5.1 Financial Implications

There are no direct financial implications arising from this report.

5.2 Legal Implications

None identified at this time.

BACKGROUND DOCUMENTS

None.

APPENDICES

Appendix A - Annual Audit and Inspection Letter 2006/07