

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**Stevenage Borough Council**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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# Contents

<b>Key messages</b>	<b>4</b>
Action needed by the Council	5
<b>Purpose, responsibilities and scope</b>	<b>6</b>
<b>How is Stevenage Borough Council performing?</b>	<b>7</b>
The improvement since last year - our Direction of Travel report	7
Service inspections	11
<b>The audit of the accounts and value for money</b>	<b>12</b>
<b>Looking ahead</b>	<b>17</b>
<b>Closing remarks</b>	<b>18</b>
Availability of this letter	19

## Key messages

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

- 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.

## **Action needed by the Council**

### **2 Members need to monitor the action taken to:**

- improve the quality of the accounts, working papers and capital accounting to ensure that the accounts are complied in accordance with the new accounting requirements in future years;
- 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;
- 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.

## Purpose, responsibilities and scope

- 3 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 4 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 5 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). In addition, the Council is planning to publish it on its website.
- 6 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Council's accounts;
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
  - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 7 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 8 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

## How is Stevenage Borough Council performing?

- 9 The Council was assessed as Good in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. Stevenage Borough Council has not been reassessed. The following chart is the latest position across all district councils.

**Figure 1 Overall performance of district councils in CPA**



Source: Audit Commission

## The improvement since last year - our Direction of Travel report

### What evidence is there of the Council improving outcomes?

- 10 Performance in priority services has improved from the previous year. The overall rate of improvement continues to be above average, with 61 per cent of performance indicators (PIs) improving in the last year (compared to the average range for district councils of 57 to 59 per cent). The Council is also above the average in terms of PIs in best quartile, achieving 38 per cent compared to the district average of 33 per cent. The number of PIs in the top two quartiles has also increased to 63 per cent (from 55 per cent). Improvements in services and outcomes are in line with corporate ambitions and priorities and include the following.
- 'Making the town safer': the Council achieved six Parkmark awards for their car parks in recognition of low crime, public safety and sound technical management.

## 8 Annual Audit and Inspection Letter | How is Stevenage Borough Council performing?

- 'Regeneration of Stevenage and good housing for all': Community housing void turnaround times have been reduced to 42 days in 2006/07 (from 65 days in 2005/06). Improvements in garage management have resulted in significant reductions in waiting list numbers (from 850 to 430) and voids (from 1,361 to 600). Rental income has increased from £2.071 million to £2.361 million and is likely to further increase through new letting initiatives. In addition, 69 garage sites have been refurbished; one site has been sold for 29 affordable homes, with another 23 sites identified for possible future housing.
  - 'Transforming Council services': the time taken to process new benefit claims improved dramatically from 55 days in 2005/06 to 33 days in 2006/07; this was achieved despite ongoing problems with the revenue and benefits IT system.
- 11** The Council provides strong community leadership and a commitment to partnership working to deliver community outcomes. Community consultation is a strength. During 2007 the Council has worked with partners as part of the criminal damage reduction project, resulting in incidents of criminal damage reducing by 16.7 per cent. The project has been cited by Government Office as a best practice example for local authorities. The Council has agreed a further three year partnership with Groundwork Trust and developed a detailed programme of improvement projects, including the Peartree Park Regeneration Project. This has resulted, to date, in a new play area, skate ramps, a multi use play area and lighting. Extensive consultation was carried out prior to implementation and a local community steering group was set up to help manage the initiative. In support of local businesses, the Council commenced construction of an extension to the Business and Technology Centre and secured funding for 30,000 square feet of improved office accommodation. The Council, through local and regional partnerships, is improving service delivery and impacting on Council objectives and priorities.
- 12** Results from the BVPI Survey (2007) show that 60 per cent of people feel satisfied with how the Council communicates with them; the highest of all councils in Hertfordshire. Stevenage contributed to Hertfordshire County Council being awarded Beacon status for emergency planning. The Council, through local and regional partnerships, is improving service delivery and making an impact on Council objectives and priorities.



- 13 The Council is improving both access and the quality of service for its citizens. The Council is currently assessed as Level 2 of the Equality Standard for Local Government and is working towards achieving Level 3 by March 2009. Social inclusion is considered in a wide range of existing Council strategies, for example the Affordable Housing Strategy. The Council has undertaken research to identify the various groups within their community and understand the disparity in levels of deprivation between individual wards within the Borough. The Council has agreed a programme of equalities impact assessments (involving travellers and the social inclusion forum to ensure robustness), produced a framework for a participation strategy and reviewed service plans to ensure they include generic statements for equality and diversity issues. Consultation on the proposed new Vision and Priorities for the latest Community Strategy has recently taken place. The results of this will be used to prioritise actions for the final strategy. Suitability and access to buildings for disabled and sensory impaired customers has been enhanced by investment in a range of improvements including 'BrowseAloud', an online facility that reads web pages out loud for people with reading difficulties. Together with its partners, the Council is working to ensure all elements of the community are afforded the same level and access to services.
- 14 The Council is improving value for money. The Council's recent use of resources assessment, scored the Council's arrangements for achieving value for money as level three (performing well), demonstrating an improvement from the previous score of two. Overall costs for key services are marginally higher than peers providing similar levels of service. Council tax remains average and areas of higher spending are in line with stated priorities, for example culture and street cleansing. The Council has clear information on costs and how these compare to others and to the quality of services achieved, both currently and over time. Councillors and managers routinely use this information to review and challenge value for money throughout services and corporately. A fundamental review of the capital programme has been undertaken, and has resulted in over £1.2 million of capital resources being released back into the capital strategy and refocused on key priorities. The Council evaluates the outcomes from its capital programme in accordance with objectives and most projects are completed on time and within budget. The Council's backward looking 2006/07 efficiency statement demonstrates total cumulative efficiencies of £1.7 million, of which £1.6 million is cashable. This means that the Council has exceeded its target a year early. The Council works with neighbours on joint procurement and regularly uses national consortia agreements where economies of scale deliver improved value for money. Procurement across the Council has accounted for £251,607 (15 per cent) of the new efficiency gains claimed in the 2006/07 annual efficiency statement. By improving its management of value for money the Council is able to make better use of its financial resources.

### **How much progress is being made to implement improvement plans to sustain future improvement?**

- 15 The Council has a number of robust plans for improving. The capacity building programme supports the organisation in ensuring it has the skills and capacity to deliver against its priorities. The projects within the programme are now virtually complete. Some of the achievements include: implementation of the e-democracy system which went live in November 2007, completion of the initial integration of databases for the Antares HR system, installation of the new HR system (HR Connect), and completion of business continuity plans.
- 16 The Community Strategy sets out a vision for Stevenage and, working with their partners, the Council has developed priorities in the new Community Strategy which reflect the LAA themes. A town-wide 'Quality of Life Survey' was carried out from which a set of baseline measures have been established to enable the Council to assess whether they are making a difference and achieving outcomes for the town. It is as yet too early for any outcomes to be assessed or comparisons made.
- 17 The Council consults widely on its aims and objectives. It has reviewed its Corporate Business Strategy (CBS), taking into account the views stakeholders and national and regional priorities in order to set draft ambitions and priorities. The new CBS will be in place from April 2008 and will be the main strategic planning document, setting out the Council's approach to meeting the needs of the community.
- 18 There are clear plans to improve neighbourhoods. The Council has also produced a Neighbourhood Framework that sets out how it will improve neighbourhood working in 2008/09. The framework sets out how the Council will deliver local priorities using neighbourhood action plans, increase community involvement, tackle inequalities at a neighbourhood level and improve cohesion.
- 19 The Council has the capacity to deliver its plans. Outcomes of major projects and programmes and the CPA improvement plan are monitored through the Programme Management Board and linked to ambitions and priorities in the CBS. The Council has effective processes for financial and performance management, at both strategic and operational level. Scrutiny and challenge are also effective. A robust business case methodology which draws explicit links to key corporate objectives is applied for all new growth items, major projects or policy development initiatives. Strategic Management Board continues to monitor resource allocation through budget process to ensure expenditure is directed at priority areas.

- 20** Partnerships are generally working well but the Council recognises the value of regular review and improvement to ensure effectiveness and efficiency. The Council plans to review governance arrangements in partnerships and introduce a consistent risk management approach. A core team of Heads of Service is set up to deliver against this framework. This will include a review of the quality of the Council's partnerships to ensure a rigorous approach to partnership working is maintained. A review process was applied to the Stevenage Partnership in 2006/07 to improve its effectiveness and a range of improvements to the governance arrangements were successfully implemented. Changes to membership, new protocols, roles and responsibilities, better performance reporting arrangements and a forward plan of work have all helped to improve the focus of the Partnership to enable it to deliver on the priorities in the new Community Strategy.
- 21** The Council has developed and enhanced robust performance monitoring arrangements for key performance indicators, national, local and VFM, through the Performance Priorities and Improvement Group (PPIG). The PPIG ensures that performance monitoring focuses on priorities and outcomes, and enables councillors and officers to understand the reasons for variations in performance against targets and take corrective action where necessary. Programme management is led at a director level and ensures that all projects are properly agreed, resourced, managed and implemented.

## Service inspections

- 22** In October 2006, the Council established an arms length management organisation (ALMO), Stevenage Homes Ltd, to manage its housing landlord services, with the aim of helping to obtain funding for investment in Council housing in order to meet the decent homes standard by 2010. The Council and Stevenage Homes Ltd will need to be assessed as providing a 'good' 'two-star' service (on a scale of zero to three stars) if they are to be successful in securing the required additional funding. An inspection of the new arrangements for landlord services took place in January 2007 and was formally reported in September 2007.
- 23** The Council and SHL were assessed as providing poor (zero star) housing services. This was due to inadequate customer focus, weaknesses across a range of services and a failure to ensure that value for money was achieved. However the prospects for improvement were promising. At the time of inspection, SHL was still in the process of putting new systems and procedures in place. The skills and tools available were improving and new technology was contributing to efficiency and better customer access to services.
- 24** A further inspection to assess whether SHL has reached the two-star standard is due to take place in February 2009.

## The audit of the accounts and value for money

25 As your appointed auditor I have reported separately to the Audit Committee on the issues arising from our 2006/07 audit and have issued:

- my audit report, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate on 29 September 2007; and
- my report on the best value performance plan confirming that the Plan has been audited.

### Use of resources

26 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.

- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
- Financial management (including how the financial management is integrated with strategy to support council priorities).
- Financial standing (including the strength of the Council's financial position).
- Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well the Council balances the costs and quality of its services).

27 Arrangements are scored on a scale of one to four. We have assessed the Council's arrangements for use of resources in these five areas for the 2007 assessment (which covers the whole 2006/07 financial year) as set out in the table below. The previous 2006 assessment is also shown in the table below and this was carried out for the period up to December 2006.

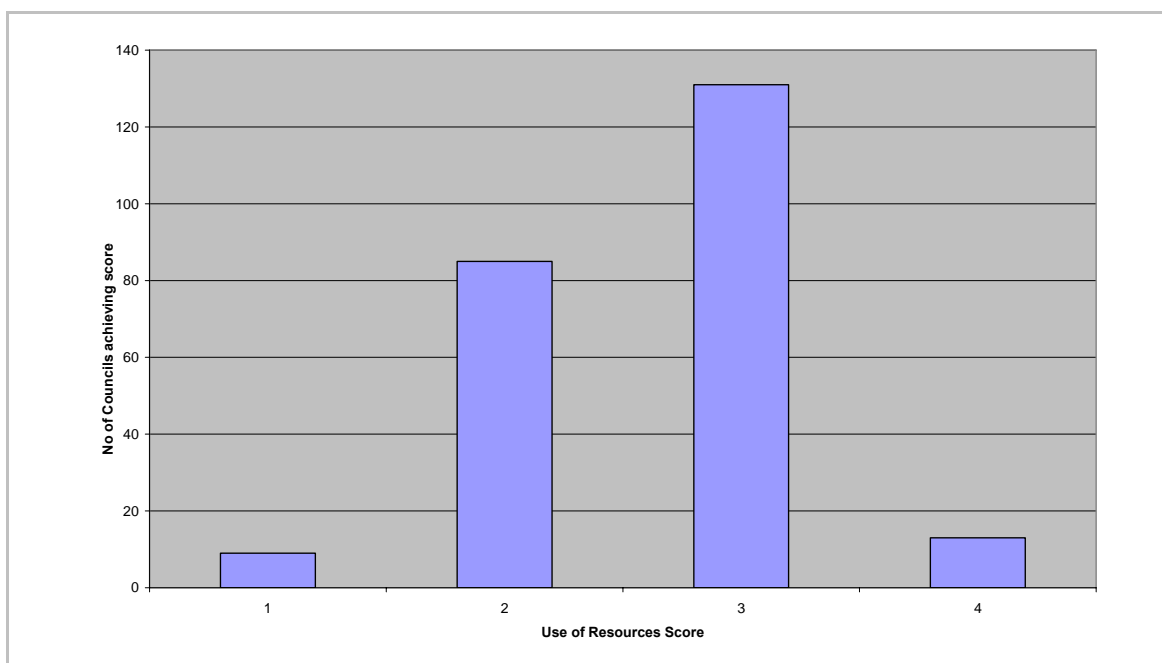
**Table 1**

<b>Element</b>	<b>2007 assessment (2006/07 financial year)</b>	<b>2006 assessment (up to December 2006)</b>
Financial reporting	1	2
Financial management	3	3
Financial standing	3	3
Internal control	3	3
Value for money	3	2
<b>Overall assessment of the Audit Commission</b>	<b>2 out of 4</b>	<b>3 out of 4</b>

*(Note: 1 = lowest, 4 = highest)*

- 28 The graph below summarises the overall scores which have been achieved by District Councils in the 2007 assessment and shows that over half of district councils now achieve overall scores of 3 or above.

**Figure 2 Analysis of District Council use of resources 2007 scores**



Source: Audit Commission

- 29 The Council is performing well across the majority of the areas assessed under use of resources and has demonstrated improvement in the short period since the last assessment. The criteria used to assess the performance of the Council were harder in our 2007 assessment. Therefore the Council has performed well to maintain or improve most scores. In particular, the score for value for money has increased and is now assessed as level three (performing well). Although the Council has relatively high costs it can demonstrate that high spend is directed towards priority services, which perform well in terms of quality and user satisfaction.
- 30 As a result of the increased importance attached to the element of the financial reporting score relating to the quality of the accounts, the Council's overall score for financial reporting has reduced from three to two. This is the key area for the Council to take action on for the 2008 assessment.

### **The accounts**

- 31 The results of our audit of the Council's accounts were reported to the Audit Committee in September 2007. The Council faced a number of challenges in 2006/07 which impacted on the production and audit of the accounts. These included changes in accounting requirements which affected all authorities, the loss of a key experienced finance staff member and the setting up of SHL. This was particularly significant as it involved integration of SHL operations into the Council's systems and processes and resulted in considerable additional work for the finance staff. This included the requirement to prepare group accounts, which the Council managed well.
- 32 Against this background we found that:
- the draft 2006/07 accounts contained four material errors and a number of other less significant errors;
  - there were omissions and errors in the working papers supporting the accounts;
  - the audit was prolonged by delays in responding to our queries; and
  - there were a number of instances of non-compliance with the local authority accounting code of practice.
- 33 Many of the problems encountered were in the area of capital accounting and we identified a number of instances of incorrect accounting, unreconciled figures and errors and omissions in the Council's asset register and other asset records. We have reported in previous years that capital accounting is an area of weakness and were disappointed to note that it continued to cause problems in 2006/07.
- 34 There will be further changes to the capital accounting regime in 2007/08 and it is intended that local authorities will need to follow International Financial Reporting Standards in 2010/11. The Council needs to prepare for these significant accounting developments and ensure that appropriate resources are made available to implement them successfully. The Council is aware of these issues and is taking steps to strengthen its accounting arrangements. It is as yet too early to assess the effectiveness of these arrangements.

## Financial management

- 35** The Council's financial position is currently healthy and it scores well on financial management in use of resources. However, the Council's recent budgets include expenditure in excess of income and reserves are being used to fund the additional spending. The medium term financial strategy projects that the Council will exhaust its balances by 2009/10 and will need to take action to achieve a balanced budget and build up reserves.
- 36** The table below shows how the Council's general fund balance is reducing.

**Table 2      General fund balance**

<b>Year</b>	<b>Actual/expected general fund balance £m</b>
March 2006 (actual)	9.9
March 2007 (actual)	7.4
March 2008 (projected)	4.7
March 2009 (projected)	2.7

- 37** Action has been taken in recent months to review the Council's service priorities and identify the scope for potential savings. As a result savings of £1.5 million have been budgeted for 2008/09. Despite this the Council will still need to take a further £2 million from its reserves to support the 2008/09 budget and, as shown in the table above, this is expected to reduce available reserves to £2.7 million by April 2009. Further savings will need to be identified and achieved to close the budget gap.

## Data quality

- 38** Our data quality review looked at the arrangements for producing the accurate and timely performance information needed to manage the Council's activities. We found that the Council had acted on our previous year recommendations for improvement, and assessed that it continues to perform well in this area.

## Internal Audit

- 39** We undertake a review of Internal Audit every three years to determine whether it complies with the required professional standards. Internal Audit's work should provide assurance that the Council has appropriate procedures and processes in place to run its affairs and that these are working properly. It also helps improve the efficiency of the audit process if we are able to place reliance on the work done by Internal Audit.

- 40 We carried out this review in May 2007 and concluded that in general Internal Audit met the required standards for the 2006/07 year. During 2007/08 there have been significant changes in the management and delivery of the Internal Audit Service. Internal Audit capacity is insufficient to complete the agreed programme of work for 2007/08. Action has been taken to re-prioritise the work programme and to recruit a full time manager. We will revisit our assessment of Internal Audit later in 2008 so that we can reach a view on whether an adequate Internal Audit service was maintained in 2007/08.

### **Housing benefit grant claim**

- 41 Our work on the Council's housing benefit grant claim has continued to identify a number of problem areas which we have reported to the Department of Work and Pensions. These include incomplete reconciliation of the housing benefits system to other key systems, misclassification of overpayments and the absence of timely rent officer referrals. Some of the issues identified are the result of weaknesses within the Pericles housing benefit system used by the Council. The Council may wish to consider undertaking some pre-audit testing of its 2007/08 return to gain assurance that the errors identified in previous years have been resolved.

### **Health inequalities**

- 42 During 2007/08, we have been carrying out a project examining the approach to tackling health inequalities across the east of England, including Hertfordshire. This has involved a survey, interviews and workshops with a wide range of agencies engaged in tackling health inequalities. The work is reaching its conclusion, and indications are that partners have begun working together to tackle this challenging, cross-cutting agenda. We anticipate issuing our report in Spring 2008.



## Looking ahead

- 43 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 44 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 45 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

## Closing remarks

- 46 This letter will be discussed and agreed with the Chief Executive, the Strategic Director of Resources and the Executive Member for Resources. A copy of the letter will be presented to the Executive and to the Audit Committee in June 2008. Copies are provided to all Council members.
- 47 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

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**Table 3      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	May 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Landlord services inspection report	September 2007
BVPP report	December 2007
Use of resources 2007	January 2008
Internal Audit management arrangements	February 2008
Data quality	February 2008
Final accounts memorandum	February 2008 (draft)
Annual audit and inspection letter	March 2008

- 48 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

## Availability of this letter

- 49 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Debbie Hanson**  
**Relationship Manager**

March 2008