

Annual Governance Report

Stevenage Borough Council

Audit 2007/08

19 September 2008

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Summary

Purpose

- 1 This report summarises the findings from our 2007/08 audit, which is substantially complete. It identifies the key issues that you should consider before we issue our opinion and value for money conclusion.
- 2 This report includes only matters of governance interest that have come to our attention in performing our audit. Our audit is not designed to identify all matters that might be relevant to you.
- 3 We have also commented where appropriate on the matters which we raised in last year's report and the progress made in tackling them.

Financial statements

- 4 Our work on the financial statements is substantially complete except in respect of capital, the HRA and the cash flow statement, where our work is still in progress. I also need to complete my final review and we need to confirm that the agreed changes to the financial statements have been made correctly.
- 5 Subject to the clearance of these matters and any issues that may arise from them, we expect to issue an unqualified opinion by 30 September.
- 6 The draft financial statements submitted for audit contained few errors and the quality was much improved from the previous year. During the audit, management have agreed to amend the statements in line with our recommendations, which were aimed at improving their presentation. These did not have any impact on the Council's reported financial position.
- 7 The working papers and overall arrangements supporting the preparation of the financial statements were also much better than last year. While there are some areas of the working papers which could be further improved, we recognise the considerable extra work undertaken by the Finance staff in reaching this position and believe that the Council is now well positioned to build on the arrangements it has put into place this year.
- 8 We have also noted an improvement in the working papers and arrangements for capital accounting and the HRA and have not experienced the same degree of difficulty in the audit of these areas as last year. However, as noted above, work in these areas is not yet complete and this is in part due to the need to obtain further satisfactory working papers and resolve audit queries. This remains a key area for the Council to address.
- 9 In our view the Annual Governance Statement has been prepared in accordance with proper practice as specified by CIPFA and is consistent with the findings from our audit.

Value for Money

10 Our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources is nearing completion. Subject to the need to review progress in the area of asset management, we expect to issue an unqualified conclusion on the use of resources at the same time as the opinion on the financial statements.

Next steps

11 We ask the Audit Committee to:

- consider the matters raised in the report before the financial statements are approved;
- approve the representation letter on behalf of the Council before we issue our opinion, conclusion and certificate; and
- agree the proposed action plan.

12 This is our last year of audit of Stevenage Borough Council. 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 throughout our time as the Council's auditors.

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Financial statements and Annual Governance Statement

- 13** The Council's financial statements and Annual Governance Statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for the financial statements and Annual Governance Statement. It is therefore important that you consider our findings before you adopt the financial statements and the Annual Governance Statement.
- 14** In planning our audit we identified specific risks and areas of judgement that we have focused on during our audit. We report to you the findings of our work in those areas.
- 15** In addition, auditing standards require us to report to you:
- our request for a representation letter which we are asking management and you to sign;
 - our views about the Council's accounting practices and financial reporting;
 - errors in the financial statements;
 - any expected modification to our report;
 - weaknesses in internal control; and
 - certain other matters.

Key areas of judgement and audit risk

- 16** In planning our audit we identified key areas of judgement and audit risk that we have considered as part of our audit. Our findings are set out in Table 1. This table includes risks specifically identified in our original and supplementary audit plans and the key areas of weakness highlighted in last year's annual governance report.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>In 2006/07 the Council was not able to produce working papers of a consistent high quality to support the financial statements and facilitate the audit process. The financial statements contained a number of material errors. We also experienced problems obtaining information from Stevenage Homes Ltd (SHL).</p>	<p>We have seen improvements in the quality of the draft financial statements submitted for audit. We have found fewer errors this year, and, to date, none are material. We found that working papers were much improved and the majority were available at the start of the audit. It has proved easier to obtain information from SHL which is mainly due to Council staff taking on a liaison and quality review role. However working papers supporting the HRA and housing stock are still not comprehensive or of a consistent quality.</p>
<p>We previously assessed that the Council's capital accounting arrangements were weak and previous audits identified a number of instances of incorrect accounting, unreconciled figures and errors and omissions in the Council's asset register and other asset records.</p>	<p>We have noted improvements in this area. In particular we have not found the same degree of inconsistencies between asset records and accounting entries. However this area has remained difficult to audit due to some of the working papers provided initially being incorrect or hard to follow, and the need to resolve audit queries. Some further issues in respect of capital are reported in the internal control section below.</p>
<p>Changes to the Code of Practice on Local Authority Accounting (the SORP) relating to:</p> <ul style="list-style-type: none"> • the introduction of the revaluation reserve and the capital adjustment account: • new accounting requirements in respect of financial instruments. 	<p>The changes in respect of the revaluation reserve and capital adjustment account were handled correctly. The draft financial statements did not include any disclosures in relation to financial instruments. The revised financial statements will include the required disclosures.</p>

Issue or risk	Finding
<p>There was a risk that the Council did not have an effective Internal Audit service during 2007/08, as the Internal Audit plan was not delivered in year due to the changes to the Internal Audit section during the year. These changes were reported to the Audit Committee throughout the year.</p> <p>It was not possible for us to place reliance on Internal Audit work on key financial systems as anticipated in our 2007/08 plan due to the delay in delivery of this work and this impacted on our audit approach. We did not undertake any work or place any reliance on the controls operating in the Council's financial systems. This change in approach led to us increasing our audit fee. Table 6 gives more details on the audit fee.</p>	<p>We revisited our assessment of Internal Audit (conducted last year). We noted that there has been improvement in the quality of Internal Audit work and further compliance against the CIPFA code of practice for Internal Audit. We also noted that a full time Chief Internal Auditor was appointed in May 2008 and that Internal Audit had delivered its 2007/08 work by June 2008. We therefore concluded that Internal Audit remained effective</p> <p>We adopted a substantive audit approach which involved testing in detail transactions and balances included in the Council's financial statements. In our view a controls based audit approach is potentially a more efficient method of auditing and could therefore result in a lower audit fee. This may be an area that the Council will wish to explore with its new auditors. Timely delivery of Internal Audit work will be key to the success of this approach.</p>

Recommendation
<p>R1 Build on progress made in 2007/08 to further improve the quality of working papers, concentrating particularly in the areas of capital and the HRA.</p>
<p>R2 Ensure that Internal Audit continues to deliver an effective service, particularly with regards to the timely delivery of its audit plan.</p>

Draft representation letter

- 17** Before we issue our opinion, auditing standards require us to obtain from you and management, written representations that:
- you acknowledge your collective responsibility for preparing financial statements in accordance with the applicable financial reporting framework;
 - you have approved the financial statements;
 - you acknowledge your responsibility for the design and implementation of internal controls to prevent and detect fraud and error;
 - you have told me the results of your assessment of the risk that the financial statements might be materially misstated because of fraud;
 - you have told me any actual or suspected fraud by management, employees with significant roles in internal control or others (where the fraud could have a material impact on the financial statements);
 - you have told me of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others;
 - you have told me about all known actual or possible non-compliance with laws and regulations whose effects should be considered when preparing financial statements;
 - you have assessed the reasonableness of significant assumptions, including whether they appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Council where relevant to the fair value measurements or disclosures;
 - you are satisfied that all related parties requiring disclosure in the financial statements have been disclosed and that the disclosure is adequate;
 - you are satisfied that the individual or collective impact of errors we have identified, but that you have not corrected, is not material; and
 - cover areas where other sufficient appropriate evidence cannot reasonably be expected to exist, for example the completeness of the disclosure of contingent liabilities.
- 18** We need specific representations from you about your intention to hold long term investments for more than 12 months and to confirm that the Council has no relationships with other entities apart from SHL which would need to be included in the group accounts.
- 19** Appendix 2 contains our request for the letter of representation we seek from you.

Accounting policies and financial reporting

20 We consider the qualitative aspects of your financial reporting. Table 2 contains the issues we want to raise with you.

Table 2 Accounting practice and financial reporting

Issue or risk	Finding
Compliance with the SORP	<p>Last year we reported a number of instances where the financial statements did not comply with the SORP and accounting standards.</p> <p>This year the presentation of the statements was amended and this greatly improved the level of compliance. The main areas of non-compliance noted this year were the omission of disclosures on financial instruments (as noted in table 1) and the changes made to the comparative figures (see below).</p>
Prior year adjustments	<p>The financial statements included a number of prior year adjustments (changes made to the 2006/07 comparative figures). Some of these are required by the SORP as they are required changes in accounting policies. Other adjustments were made to correct errors found in the 2006/07 statements with the aim of improving comparability of the prior year figures with the current year's. In our view these are not material or fundamental errors and as such do not fall within the definition of prior period adjustments under Financial Reporting Standard 3 (FRS 3).</p> <p>We are bringing these to your attention as they do not comply with FRS3 but we do not intend to take any further action as they do not materially impact a reader's understanding of the statements.</p>

Issue or risk	Finding
Housing benefit overpayments	<p>Last year we reported that we had been unable to confirm that housing benefit overpayment debtors had been correctly included in the financial statements. The situation is similar this year.</p> <p>The 2007/08 statements include debtors of £485,000 which are in respect of overpayments identified to former benefit claimants and where an invoice has been raised to recover the amount overpaid. However, the statements do not include any debts in respect of claimants who are still in receipt of housing benefits. These are held within the housing benefits system and are deducted from the claimants' future entitlement. The housing benefit system does not allow these overpayments to be identified. This has been disclosed in the accounting policies.</p> <p>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 the balance sheet. Hence we do not believe the financial statements to be materially misstated. However this issue should be resolved for the 2008/09 financial statements.</p>



Recommendation
<p>R3 Comply with all relevant aspects of the 2008 SORP in preparing the 2008/09 financial statements, for example by completing the SORP disclosure checklist as part of their preparation.</p>
<p>R4 Account fully for housing benefit overpayment transactions in the 2008/09 financial statements. Provide evidence from the housing benefit system to support overpayments being recovered from ongoing benefit entitlement and consider the need to make a bad debt provision against these.</p>

Errors in the financial statements

- 21 We identified some errors in the financial statements (other than those of a trivial nature) and reported these to management. Adjustments to the accounts have been agreed. There are no significant unadjusted errors that we need to report to you.

The audit report

- 22 We expect to issue an unmodified report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of our draft report.

Material weaknesses in internal control

- 23 We have identified weaknesses in the design or operation of internal controls which might result in a material error in your financial statements which has not been reported to you. These weaknesses are set out in Table 3.

Table 3 Weaknesses in internal control

Issue or risk	Finding
Capital	<p>As we have already indicated work in this area is still in progress. We have noted the following weaknesses to date:</p> <ul style="list-style-type: none">• The Council uses external valuers to value the housing stock and an internal valuer for the remainder of the Council's assets. The valuers are not routinely requested to provide an estimate of the remaining useful lives of each asset for use in calculating the depreciation charge. In addition the valuers are not requested to consider whether there has been any impairment to the condition and/or the value of the assets as part of their valuation process. These issues have been considered by Finance staff but they are areas in which the expertise of a valuer is required.• This situation has arisen because the valuers are not formally instructed to provide this information. We noted that the instructions to the external valuers had not been updated since 2001 and have so far not been able to determine whether any formal valuation instructions have been given to the internal valuer.• We reported last year that the Council needed to improve arrangements for updating the asset register and reconciling it to other property records. We have noted some further instances this year where the asset register has been found to be incomplete (assets disposed of that were not recorded on the asset register) but this has been less of a problem than last year. An exercise has been progressing to bring the corporate property register into line with the finance asset register. The results of this exercise to date show that although there are differences between the two records, there are no significant omissions.

Recommendation

R5 Produce and issue formal valuation instructions to the Council's valuers setting out for example, what assets are to be valued and on what basis and what other information is required, such as an assessment of the remaining useful life and whether there is any evidence of impairment.

R6 Once the asset register reconciliation exercise is completed, ensure the finance fixed asset register and the corporate property register are brought into line so that assets are recorded consistently on both.

24 We have not provided a comprehensive statement of all weaknesses which may exist in internal control, nor of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.

Other matters

25 We have identified the following matters that we require you to consider.

Table 4 Other matters

Issue or risk	Finding
We have been dealing with issues raised by a local elector with regards to a land sale transaction.	We are finishing our work in this area and will not be able to formally conclude the audit until this is completed.

Value for money

- 26 We are required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources- the value for money conclusion. We assess your arrangements against twelve criteria specified by the Commission.
- 27 Our conclusion is informed by our work on Use of Resources, a scored judgement reported to the Audit Commission. This work is ongoing at present.
- 28 We reported last year that there were weaknesses in the asset register which affected the asset management value for money criterion, but in view of the strength of the Council's asset management arrangements generally, arrangements overall were assessed as adequate.
- 29 We need to revisit asset management arrangements to determine what progress has been made in respect of maintaining an up to date asset register (as noted in table 3 above) and whether the other strengths in asset management have been maintained. We will then reach a view on whether the Council had adequate arrangements for the management of its asset base during 2007/08.
- 30 Subject to the satisfactory outcome of this work, we expect to assess the arrangements of the Council as adequate in all twelve areas and to issue an unqualified conclusion. This is included in the draft audit opinion in Appendix 1.

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Formal audit powers

31 We have:

- a power to issue a public interest report. We do so where we believe this is necessary to draw a matter to your attention, or to that of the public;
- a power to apply to court for a declaration that an item in the Council's accounts is contrary to law;
- a power to issue an advisory notice. An advisory notice requires the Council to meet and consider the notice before:
 - making a decision that might give rise to unlawful expenditure; or
 - taking an unlawful course of action that would give rise to a loss; or
 - making unlawful entry in the accounts; and
- a power to seek judicial review of a decision of the Council.

32 We have not and do not propose to exercise these powers.

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Independence

- 33 The Code of Audit Practice and the APB's Ethical Standards with which auditors must comply require that auditors act, and are seen to act, with integrity, objectivity and independence.
- 34 We confirm that we comply with the APB's Ethical Standards, that we are independent and that our objectivity is not compromised.
- 35 We communicate to you:
 - any relationships between us and the Council, its members and senior management that might affect our objectivity and independence and any safeguards put in place;
 - total fees charged to you for audit and non-audit services; and
 - our arrangements to ensure independence and objectivity.

Relationships with the Council

- 36 We have identified the following relationship that might affect objectivity and independence and have put appropriate safeguards in place.

Table 5 Relationships and safeguards

Relationship	Safeguard
One member of staff has declared a potential conflict of interest through our annual declaration process.	We have ensured that this member of staff has not been a member of the audit team working at the Council since the conflict of interest was disclosed.

Audit fees

- 37 We reported our original fee proposals in June 2007 as part of the audit plan for 2007/08. We issued a supplementary audit plan and amended our fee in April 2008 taking into account new risks which had arisen since the original plan was produced. These were primarily the increased risk in respect of the financial statements in response to the outcome of the 2006/07 audit and the change in our audit approach as a result required by the late delivery of Internal Audit work. The original audit fee was £131,610.

38 The table below reports the outturn fee against the supplementary plan revised fee.

Table 6 Audit fees

	Revised plan 2007/08	Expected actual 2007/08
Financial statements and Annual Governance Statement	107,242	107,242
Value for Money	39,637	39,637
Data quality	10,211	10,211
Whole of government accounts	2,460	2,460
Total Audit Fees	159,550	159,550
Challenge work (issues raised by local electors)	3,725	To be determined at the conclusion of our work.

- 39 We expect to contain our audit fee within the total fee already agreed. Audit work for 2007/08 is not yet fully completed and we will only be able to confirm the final fee once all work is finished.
- 40 We have been dealing with issues raised by a local elector and have already charged an additional fee as shown in the table above for the initial work undertaken earlier in the year. As noted in Table 6 above, this work is not yet complete, so we will need to charge a further fee at its conclusion.
- 41 We will formally report the outturn audit, inspection and grant claim fees and challenge work within the annual audit and inspection letter.

Our arrangements to ensure independence and objectivity

- 42 We have comprehensive procedures to ensure independence and objectivity. These are outlined in Table 7.

Table 7 Arrangements to ensure independence and objectivity

Area	Arrangements
Independence policies	<p>Our policies and procedures ensure that professional staff or an immediate family member:</p> <ul style="list-style-type: none"> • do not hold a financial interest in any of our audit clients; • may not work on assignments if they have a financial interest in the client or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the client; and • may not enter into business relationships with UK audit clients or their affiliates. <p>Our procedures also cover the following topics and can be provided to you on request:</p> <ul style="list-style-type: none"> • the general requirement to carry out work independently and objectively; • safeguarding against potential conflicts of interest; • acceptance of additional (non-audit) work; • rotation of key staff; • other links with audited bodies; • secondments; • membership of audited bodies; • employment by audited bodies; • political activity; and • gifts and hospitality.
Code of Conduct	<p>The Code of Conduct forms part of the terms and conditions of all Audit Commission employees. The Code of Conduct states that staff have to comply with ethical guidance issued by their relevant professional bodies.</p>
Confidentiality	<p>All staff are required to sign an annual undertaking of confidentiality as a condition of employment.</p>

Appendix 1 – Draft audit opinion

Independent auditor's report to the Members of Stevenage Borough Council

Opinion on the financial statements

I have audited the Authority and Group accounting statements and related notes of Stevenage Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Strategic Director (Chief Financial Officer) and auditor

The Strategic Director's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

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 Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information

Appendix 1 – Draft audit opinion

I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the Authority and Group accounting statements, and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements. My responsibilities do not extend to any other information.

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 Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority'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 Authority and Group accounting statements and related notes 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 Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- The Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

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

Authority's Responsibilities

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

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the Authority's best value performance plan for the financial year 2007/08 on 17 December 2007. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Mark Hodgson
District Auditor

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

Appendix 2 – Request for a letter of representation

18 September 2008

Mr S Crudgington
Strategic Director
Stevenage Borough Council
Daneshill House
Danestrete
Stevenage
Herts SG1 1NH

Dear Scott

Audit of accounts 2007/08 Request for a letter of representation

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). We have interpreted this guidance as it affects councils and we expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the financial statements;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Audit Committee, as those charged with governance of the Council.

I would expect the letter of representation for Stevenage Borough Council to include the following:

Compliance with the statutory authorities

An acknowledgement of your responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to us.

Uncorrected misstatements

Confirmation that the effects of any uncorrected financial statements misstatements (to be listed in the annual governance report) are not material to the financial statements, either individually or in aggregate and that these misstatements have been discussed with those charged with governance. The reasons for not correcting any such items should be given.

Supporting records

Confirmation that all the accounting records, other records and related information, including minutes of all Council and Committee meetings have been made available to us for the purpose of our audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

Irregularities

Confirmation of responsibility for the design and implementation of internal control systems to prevent and detect fraud or error and that 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.

Confirmation that you have disclosed:

- knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

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

Appendix 2 – Request for a letter of representation

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair values

Confirmation that the significant assumptions within the financial statements, covering investments, provisions, depreciation and accruals assumptions, are reasonable. Specifically in relation to:

- the appropriateness of the measurement method;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Contingent liabilities

Confirmation that 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, other than those already disclosed in the financial statements
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements
- no financial guarantees have been given to third parties.

Related party transactions

Confirmation of the completeness of the information disclosed regarding the identification of related parties and that the Council's registers of interest are complete and up to date in respect of Councillors and senior staff. The Council has ensured that all senior staff are aware of the requirement to declare all interests relevant to the Council, including interests of families, partners and entities controlled by them.

Post balance sheet events

Confirmation that 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 and that 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.

Long term investments

Confirmation 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

Confirmation 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.

Going concern

Confirmation that the financial statements, including the group financial statements, have been prepared on a going concern basis and that this basis is an appropriate one.

Housing benefit overpayments

Confirmation that the omission of housing benefit overpayments as disclosed in accounting policy note 3 does not lead to material misstatement.

The above matters are examples only. There may be other matters which you would wish to include in the management letter of representation. I should be grateful if you could, after discussion with the Chief Executive, Monitoring Officer and other officers as appropriate, provide a signed* management letter of representation for Stevenage Borough Council at the appropriate time.

Yours sincerely

Penny Irwin
Audit Manager

* - Signed by the Chief Finance Officer, Monitoring Officer and Chair of the Audit Committee (as 'those charged with governance' at the Council).

Appendix 3 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Build on progress made in 2007/08 to further improve the quality of working papers, concentrating particularly in the areas of capital and the HRA.	3				
7	R2 Ensure that Internal Audit continues to deliver an effective service, particularly with regards to the timely delivery of its audit plan.	3				
10	R3 Comply with all relevant aspects of the 2008 SORP in preparing the financial statements, for example by completing the SORP disclosure checklist as part of their preparation.	3				
10	R4 Account fully for housing benefit overpayment transactions in the 2008/09 financial statements. Provide evidence from the housing benefit system to support overpayments being recovered from ongoing benefit entitlement and consider the need to make a bad debt provision against these.	3				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R5 Produce and issue formal valuation instructions to the Council's valuers setting out for example, what assets are to be valued and on what basis and what other information is required, such as remaining useful life and whether there is any evidence of impairment.	3				
12	R6 Once the asset register reconciliation exercise is completed, ensure the finance fixed asset register and the corporate property register are brought into line so that assets are recorded consistently on both.	3				

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