Stevenage Borough Council

Audit of Accounts 2008/09

Annual report to those Charged with Governance 2008/09

September 2009

Contents **Page**

Appendices

1 Executive Summary

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected.

1.1 Purpose of report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of Stevenage Borough Council ('the Authority'). The purpose of this report is to highlight the key issues arising from the audit of the Authority's statement of accounts for the year ending 31 March 2009.

The document is used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260, and to report audit findings to "those charged with governance", designated as the Audit Committee.

The Authority is responsible for the preparation of a statement of accounts which records its financial position as at 31 March 2009 and its income and expenditure for the year then ended. We as auditors are responsible for undertaking an audit and reporting whether, in our opinion, the Authority's statement of accounts represents a 'presents fairly' view of the financial position.

Under the Audit Commission's Code of Audit Practice ('the Code') we are also required to reach a formal conclusion on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). The pieces of work that have informed our VFM conclusion, and our detailed findings, are set out in this report.

1.2 Status of audit

We were presented with the draft statement of accounts on 1 July 2009. We have performed our final accounts audit in accordance with the Audit Commission's Code of Audit Practice and applicable auditing standards.

At the time of writing this report the audit of the Hertfordshire County Council Pension Scheme is yet to be completed by the Audit Commission. The findings of their audit may impact upon the Authority's pension liability and disclosures in the accounts. Also, finalisation procedures have to be completed per section 2.2.

The appointed day for electors to ask the auditor questions on the accounts this year is 7 September 2009. We have not been given notice that electors will ask questions on the 2008/09 accounts.

1.3 Overall conclusions

The Authority has prepared accounts that are free from material misstatements which are supported by satisfactory working papers

The key highlights from the audit are:

- In line with expectations, impairments have been applied to the accounts relating to reductions in land and property values. Valuation of properties will be a key issue as the Council converts to International Financial Reporting Standards and it is likely that the Council's asset base may be subject to revised valuation methodologies;
- Classification adjustments were noted to split asset revaluation, asset impairments and asset disposals between cost and depreciation. These adjustments had no effect on the net book value of assets recorded.
- Deferred capital receipts of £304k relating to mortgages have been reclassified from reserves into liabilities as required by the Local Government Statement of Recommended Practice ('SoRP'). This has led to £28k being included within the gain on sale of fixed assets reducing the deficit on the Income and Expenditure account by this amount. There has been no impact on the General Fund balance as the £28k is removed within the note to the Statement of Movement on the General Fund balance.
- The auditors of the pension fund noted that the net assets used by the actuary to calculate the pensions liability was significantly less than that recorded in the Hertfordshire County Council pension fund. This has led to a reduction in the pensions liability and reserve of £1,308k. The Authority was notified of this amendment after the date of approval of the accounts. The auditors of the pension fund are to confirm the value of this adjustment on completion of their audit.
- The bad debt provision included a £94k balance relating to supporting people grants received. The money relating to this balance had been received and the provision was included as the balance is expected to be repaid. An adjustment was proposed to move this balance from the bad debt provision into creditors. This adjustment was not made to the final statements..
- A number of disclosure amendments were identified in respect of financial instruments.

The only impact on the Income and Expenditure account deficit was the £28k relating to the movement in mortgages in the year. This did not have any impact on the General Fund balance.

Statement of accounts opinion

We anticipate providing an unqualified opinion on the Authority's statement of accounts, prior to the statutory deadline of 30 September 2009.

Value for Money conclusion

In providing our opinion on the statement of accounts, we are required to reach a conclusion on the adequacy of the Authority's arrangements for ensuring economy, efficiency and effectiveness in its use of resources ('the Value for Money conclusion').

Our Value for Money conclusion is informed by our work on Use of Resources. In order for us to provide an unqualified conclusion, the Authority needs to achieve a score of at least 2 for each Key Line of Enquiry ('KLOE'). We are pleased to report that the Authority has met the requirements for all the scored KLOE. This is a good achievement given the new Use of Resources assessment in 2008/09 represents a much harder test.

We anticipate providing an unqualified Value for Money conclusion.

Further information on the outcome of our Use of Resources audit is contained in Section Two.

1.4 Way forward

We will continue to work with the Authority to ensure that outstanding finalisation issues are completed in time for the accounts opinion to be formally signed in accordance with the statutory deadline of 30 September 2009.

We are required to provide an audit opinion on the consolidation pack that is to be completed as part of the Whole of Government Accounts. This work is not covered by our opinion on the Authority's accounts. We will complete this work once the accounts audit has been finalised and in time for the 1 October deadline.

1.5 Acknowledgements

We would like to record our appreciation for the positive co-operation and assistance provided to us by the finance department and other staff at the Authority during the course of our audit.

Grant Thornton UK LLP

8 September 2009

2 Detailed findings

2.1 Introduction

This section provides a summary of our findings arising from the audit of the statement of accounts. This includes matters arising from our evaluation of key controls and comment on the Authority's overall financial position.

2.2 Status of the audit

We carried out our audit in accordance with the audit plan presented to the Audit Committee in September 2008. Our audit is substantially complete.

The following finalisation procedures are outstanding:

- review of the final version of the statement of accounts, including the Annual Governance Statement;
- review of assurances provided by the auditors of the Hertfordshire County Council Pension Fund in respect of the pensions liability, associated reserve and disclosures included in the Authority's statement of accounts;
- review of the information provided by Baker Tilly LLP, the auditors of Stevenage Homes Limited, to finalise the consolidation review;
- obtaining and reviewing the Authority's letter of management representation; and
- updating our post balance sheet events review, to the date of signing the accounts.

2.3 Audit opinion

Statement of accounts Opinion

We expect to issue an unqualified audit opinion on the Authority's statement of accounts, subject to the approval of the statement of accounts by the Audit Committee on 22 September 2009 and completion of our finalisation procedures.

A number of issues arose during the course of the audit which, whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out in sections 2.4 to 2.6 below.

Value for Money Conclusion

Our Value for Money conclusion is drawn from our work on UoR. In order for us to provide an unqualified conclusion, the Authority needs to achieve a score of at least 2 for each Key Line of Enquiry ('KLOE'). Our proposed assessment for the Authority is summarised overleaf. Please note that these scores are provisional and subject to national quality assurance processes.

Scoring scale:
1 - Below minimum requirements - inadequate performance
2 - Only at minimum requirements – adequate performance
3 - Consistently above minimum requirements – performing well
4 - Well above minimum requirements – performing strongly

Table 1: Provisional UoR scores

Theme	2009
1 Managing Finances	2
2 Governing the Business	2
3 Managing Other Resources	2

We would like to emphasise that the Authority has performed well to achieve scores of level 2 as this is a new assessment which represents a much harder test. We understand that 2 is the prevailing score nationally for district councils.

Based on the Use of Resources assessment above, we anticipate providing an unqualified value for Money conclusion.

The outcome of our Use of Resources audit will be reported in full in a separate report to be presented to the Audit Committee in December 2009.

2.4 Matters arising from the statement of accounts audit

We are pleased to note that officers have undertaken an impairment review of land and buildings and investment properties. Provision for impairment has been recognised appropriately in the statement of accounts.

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the statement of accounts audit. Our evaluation of the Authority's key financial control systems did not identify any control issues presenting a material risk to the accuracy of the statement of accounts.

We have reviewed the work of Internal Audit and concluded that the scope and conduct of the testing was appropriate for us to rely on in understanding key financial systems of the Authority. We have therefore taken assurance from the work of internal audit to support our responsibilities in documenting and understanding material systems used to prepare the statement of accounts. There were no significant issues that would impact on our planned audit strategy.

We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that would adversely impact our audit of the accounts.

The Authority provided good quality working papers for the audit and responded promptly to audit queries.

2.5 Adjusted misstatements

There were no misstatements identified by the management team during the course of the audit.

Our audit identified the following adjustments which have been processed by management:

- Tangible fixed assets - Revaluation, impairment and disposal balances were reclassified to show the split between cost and depreciation. This did not have any effect on the net book value balance disclosed on the balance sheet.
- Deferred capital receipts of £304k relating to mortgages have been reclassified from reserves into liabilities as required by the SORP. This has led to £28k being included within the gain on sale of fixed assets in the year causing the I&E deficit to decrease by this amount. There has been no impact on the General Fund balance as the £28k is covered within the note to the Statement of Movement on the General Fund balance.
- The auditors of the pension fund noted that the net assets used by the actuary to calculate the pensions liability was significantly less than that recorded in the Hertfordshire County Council pension fund. This has led to a reduction in the pensions liability and reserve of £1,308k. The Authority was notified of this amendment after the date of approval of the accounts. This adjustment is to be finalised once the auditors of the pension fund have completed their audit.

All adjusted misstatements are scheduled at Appendix B. The only impact on the Income and Expenditure account deficit was the £28k relating to the movement in mortgages in the year.

2.6 Unadjusted misstatements

There was one unadjusted error. This related to the Supporting People grant which had been overpaid. The expected repayment of £94k was included within the bad debt provision rather than within creditors.

2.7 Financial performance

The Authority has reported a deficit on the Income and Expenditure account of £25,216,000 (2007/08 £22,649,000). The main reason for the increase in this deficit is the recognition of impairments on the value of land, buildings and investment properties. Land values in particular have fallen due to the economic downturn. There is no impact on General Fund balances as impairments are reversed out through the Capital Adjustment Account.

The Authority over spent against the budget by £133,000 (2007/08 £291,000). Included within this over spend are a number of positive and negative variances against the budget, the most significant of which are included in the table below:

Table 2: Most significant variances against budget

Budget area	Performance against budget
Provision movements	£293k adverse
Redundancy cost	£287k adverse
Disabled grant funding income	£149k favourable
Balance sheet audit income	£314k favourable

The Authority did not have any investments in Icelandic banks at the time of collapse of these banks. Officers continue to closely monitor credit ratings and future prospects of financial institutions that the Authority is authorised to invest in to minimise the risk of losses, whilst securing competitive returns. In 2008/09 the Authority reviewed its treasury management arrangements in response to the Audit Commission report on Icelandic investments. The Audit Commission required us to complete a review of Treasury Management arrangements at the Authority and we are due to report back to the Audit Commission on our findings in October 2009. There are no significant issues which we wish to bring to your attention at this time.

The Authority has reported a deficit on the Housing Revenue Account (HRA) of £13,778,000 (2007/08 £7,607,000). The main reason for the increase in this deficit is the recognition of impairments on the Housing Stock. There is no impact on HRA balances as impairments are reversed out through the Statement of Movement on the HRA Balance.

The Authority under spent against the HRA budget by £378,000. Included within this under spend are a number of positive and negative variances against the budget, the most significant of which are included in the table below:

Table 3: Most significant variances against budget (HRA)

Budget area	Performance against budget
Job evaluation provision	£277k favourable
Support recharges	£331k adverse
Supporting People grant income	£370k favourable

2.8 Annual Governance Statement ('AGS')

We have examined the Authority's arrangements and process for compiling the AGS. In addition, we read the AGS and consider whether the statement is in accordance with our knowledge of the Authority. Our audit has not identified any proposed adjustments.

The Audit Commission has requested that all auditors of local Authorities review the policies and arrangements for members' allowances and expenses. Should we identify any significant issues we will report these to the Audit Committee. The Council has been proactive in reviewing members' allowances and we will look to rely on this work.

2.9 Next Steps

The Audit Committee is required to approve the annual accounts of the Authority for the year ended 2008/09.

Finally, we would like to draw to the attention of those charged with governance further significant changes that will happen to the statement of accounts in future years. The most significant of which is the full implementation of International Financial Reporting Standards ("IFRS") in 2010/11. Although this may seem a long way off, it is important that authorities start planning now, as there will be significant changes to the accounts. Our experience in other sectors shows that audited bodies that are well planned for the transition to IFRS have fewer amendments to their accounts and are less likely to be charged additional audit fees, than those who are not well prepared. We would be happy to share our experiences of working with CIPFA in this area, as well as involving our Financial Reporting Advisory Group who are specialists in planning for IFRS.

A Reporting requirements of ISA 260

The principal purpose of the ISA 260 report is:

- To reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance.
- To share information to assist both the auditor and those charged with governance fulfil their respective responsibilities.
- To provide to those charged with governance constructive observations arising from the audit process.

Matters Reported under ISA 260

Area	Key Messages
Independence	We are able to confirm our independence and objectivity as auditors and draw attention to the following points: • We are independently appointed by the Audit Commission. • The firm has been assessed by the Audit Commission as complying with its required quality standards. • The appointed auditor and client service manager are subject to rotation every 5 years • We comply with the Auditing Practices Board's Ethical Standards. • We have not charged fees for additional services in excess of the main audit fee (£135k excluding VAT).

Area	Key Messages
Audit Approach	Our approach to the audit was set out in our 2008/09 audit plan and our audit strategy document for the year ending 31 March 2009. We have planned our audit in accordance with auditing standards and the Audit Commission's Code of Audit Practice. Other key factors to highlight include: • We consider the materiality of items in the statement of accounts in determining the audit approach and in determining the impact of any errors. • We have been able to place appropriate reliance on the key accounting systems operating at the Authority for final accounts audit purposes. • In 2008/09 we have been able to place reliance on the work of internal audit in respect of understanding and documenting key accounting systems.
Accounting Policies	We consider that the Authority has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies were in accordance with the 2008 Local Government Statement of Recommended Practice. The Audit Committee should confirm that it is satisfied that the accounting policies adopted are the most appropriate, as required by FRS 18. We have considered the Authority's financial plans and consider it appropriate to account on a going concern basis.
Material Risks	We have requested from the Authority a letter of management representations, to state that there are no additional material risks and exposures as at the date of the audit report, which should be reflected in the statement of accounts. We will also perform our own audit procedures to ensure that all significant risks and exposures to the Authority have been recognised in the accounts as at the date of the audit report.

Area	Key Messages
Audit Adjustments	We have discussed with management a number of adjustments to the accounts primarily to improve the fair presentation of the statement of accounts as well as the clarity and presentation of disclosure notes. These adjustments are set out in section 2.5 and summarised in Appendix B.
Unadjusted Errors	We have identified one unadjusted error which is summarised in Appendix C.
Other Matters	No other matters have been noted.

B Adjustments to the statement of accounts

The following table presents all significant adjustments made to the accounts arising from the audit process which have been processed and agreed with the Director of Internal Services.

Adjustment Type

- **Misstatement** - A change to the value of a balance presented in the statement of accounts.
- **Classification** - The movement of a balance from one location in the accounts to another.
- **Disclosure** - A change to the way in which a balance is disclosed or presented in an explanatory note.

Adjustment type	Accounts balance	Impact on statement of accounts
Classification	Tangible fixed assets	Revaluation, impairment and disposal balances were reclassified to show the split between cost and depreciation. This did not have any effect on the net book value balance disclosed on the balance sheet.
Classification	Deferred capital receipts	Deferred capital receipts of £304k relating to mortgages have been reclassified from reserves into liabilities as per SORP requirements. This has led to £28k being included within the gain on sale of fixed assets in the year causing the I&E deficit to decrease by this amount. There has been no impact on the General Fund balance as the £28k is covered within the note to the Statement of Movement on the General Fund balance.

Adjustment type	Accounts balance	Impact on statement of accounts
Misstatement	Pensions liability and reserve	The auditors of the pension fund noted that the net assets used by the actuary to calculate the pensions liability was significantly less than that recorded in the Hertfordshire County Council pension fund. This has led to a reduction in the pensions liability and reserve of £1,308k. The Authority was notified of this amendment after the date of approval of the accounts.
Disclosure	All	A number of disclosure adjustments have been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.

The only impact on the Income and Expenditure account deficit was the £28k relating to the movement in mortgages in the year. These adjustments did not have any impact on the General Fund balance.

C Unadjusted Errors

The following table presents details of errors noted from the audit testing where adjustment has not been made as the affect upon the financial statements is not considered material.

Account Balance	Detail of Error noted
Bad debt provision	The bad debt provision included a £94k balance relating to supporting people grants received. The money relating to this balance had been received and the provision was included as the balance is expected to be repaid. An adjustment was proposed to move this balance from the bad debt provision into creditors. This adjustment was not made to the final statements as the effect is not considered to be material.

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