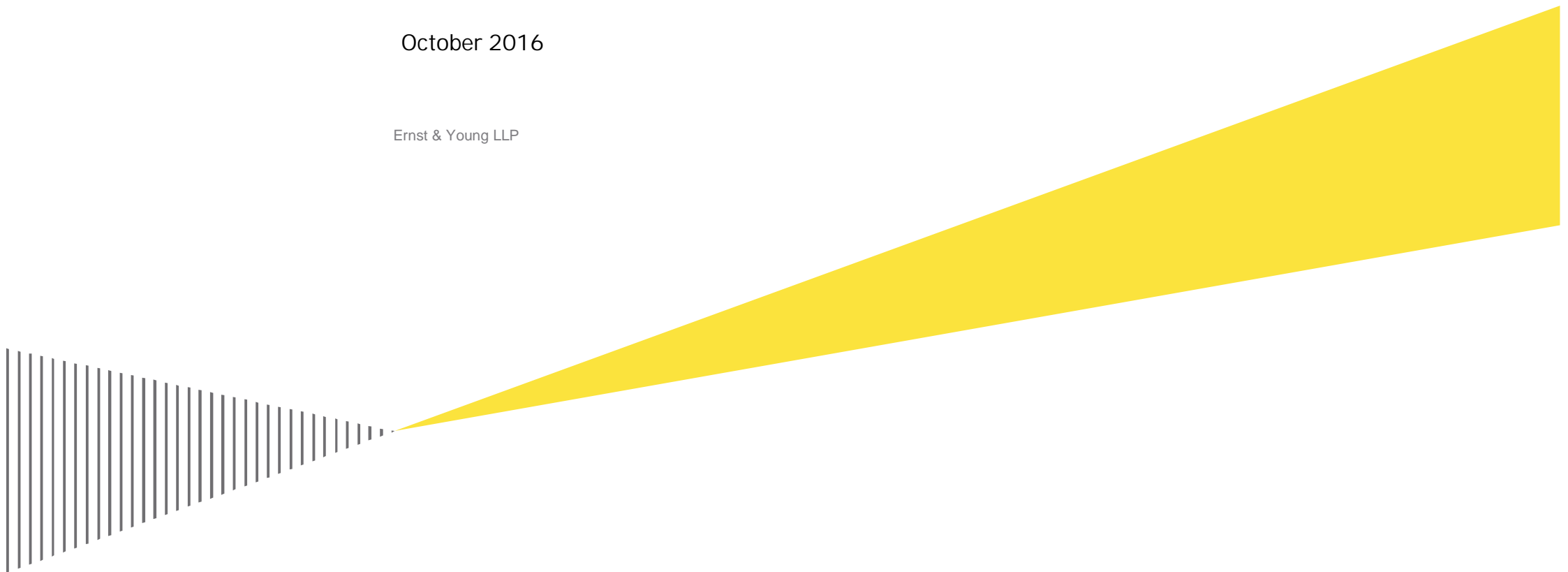


Stevenage Borough Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an Annual Audit Letter to Stevenage Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

| Area of Work | Conclusion |
|---|--|
| Opinion on the Council's: | |
| ▶ Financial statements | Unqualified – the financial statements give a true and fair view of the financial position of the Council at 31 March 2016 and of its expenditure and income for the year then ended |
| ▶ Consistency of other information published with the financial statements | Other information published with the financial statements was consistent with the Statement of Accounts 2015/16 |
| Concluding on the Council's arrangements for securing economy, efficiency and effectiveness | We concluded that you have put in place proper arrangements to secure value for money in your use of resources |

| Area of Work | Conclusion |
|---|--|
| Reports by exception: | |
| ▶ Consistency of Annual Governance Statement | The Annual Governance Statement was consistent with our understanding of the Council |
| ▶ Public interest report | We had no matters to report in the public interest |
| ▶ Written recommendations to the Council, which should be copied to the Secretary of State | We had no matters to report |
| ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 | We had no matters to report |

| Area of Work | Conclusion |
|--|---|
| Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA). | The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack. |

As a result of the above we have also:

| Area of Work | Conclusion |
|---|--|
| Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit. | Our Audit Results Report was issued on 19 September 2016 |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice. | Our certificate was issued on 29 September 2016 |

In January 2017, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris
Executive Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the findings from our audit work in our 2015/16 Audit Results Report to the 28 September 2016 meeting of the Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this Letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 29 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The background is a blurred office scene. In the foreground, there are several clear glass tumblers filled with water on a wooden desk. Behind them, a laptop screen displays a financial chart. To the left, there are some papers, including one with a circular diagram and another with a grid of small squares. A pen and a calculator are also visible on the desk.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 25 July 2016.

Our detailed findings were reported to the 25 July 2016 meeting of the Audit Committee.

The key issues identified as part of our audit were as follows:

| Significant Risk | Conclusion |
|--|---|
| <p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p> | <p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p> <p>We reviewed capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised and did not identify inappropriate capitalisation.</p> |
| <p>Property asset valuation and accounting</p> <p>The Council undertakes an annual exercise to revalue</p> | <p>We completed our planned audit procedures and found that:</p> <ul style="list-style-type: none">• We were able to place reliance on the work undertaken by management's |

property assets. The valuation of these assets represents a significant accounting estimate given that the value of property was over £687 million at 31 March 2016. The accounting entries arising from changes in value are complex and have a significant impact on the Council's financial statements. We therefore consider that property asset valuation and accounting are a significant risk to the financial statements, and we undertake specific testing to address these risks.

valuation experts.

- The valuations were appropriately reflected with the statement of accounts and reflected the reporting framework that applies to local authorities.

A close-up, shallow depth-of-field photograph of a stack of old, worn metal coins. The coins are stacked haphazardly, with some showing their edges and others their faces. The metal has a yellowish-brown patina, suggesting age. The edges of the coins are visible, showing some embossed text like 'L M C' and 'Y F'. A bright yellow rectangular box is overlaid on the left side of the image, containing the text 'Value for Money' in a black, sans-serif font.

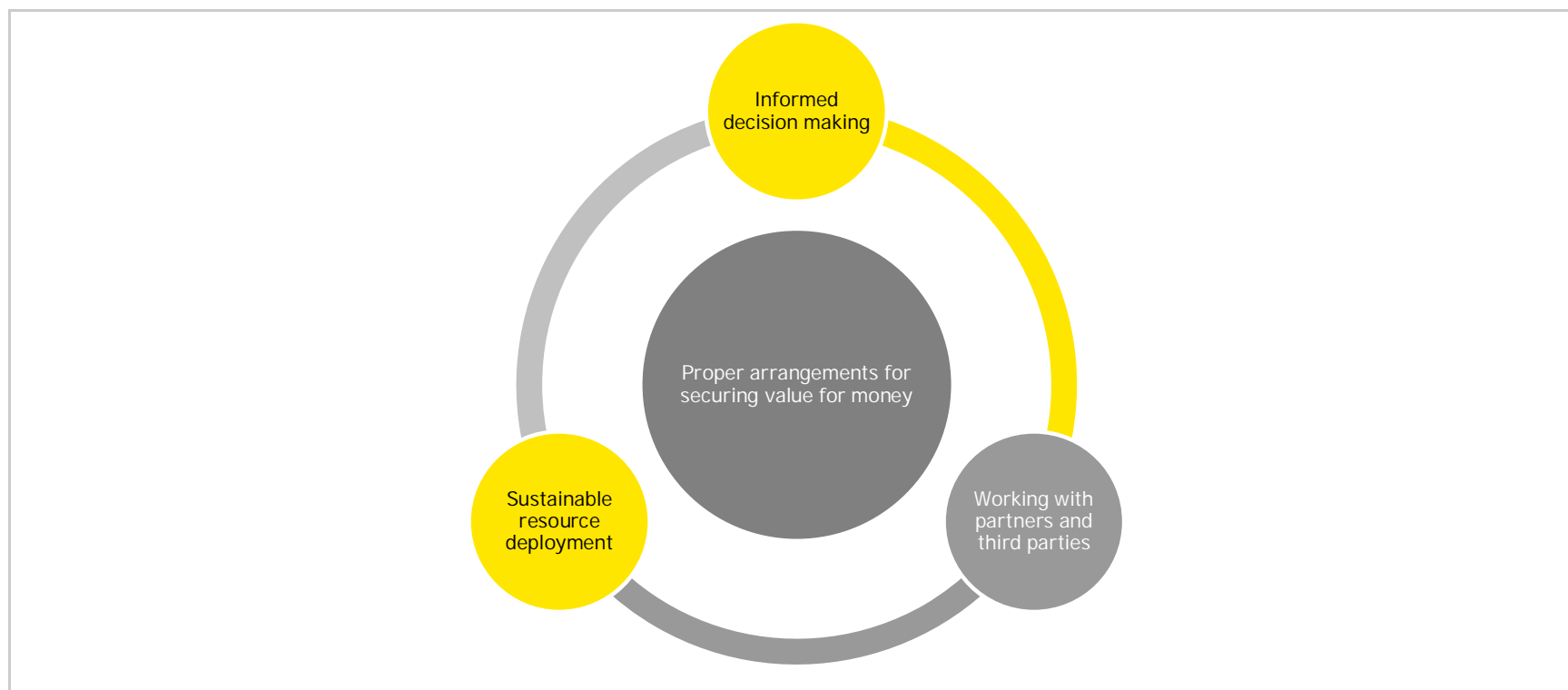
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 29 September 2016.

We identified one significant risk in relation to our value for money conclusion. This was in relation to the Council's arrangements for sustainable resource deployment and reflects the fact that at the time of our audit planning the Council's Medium Term Financial Strategy had unidentified savings of £335,000 in 2016/17 and £600,000 in both 2017/18 and 2018/19. We also noted the implications for the Council's housing revenue account of the 1% reduction in social rents proposed in the Government's Welfare Reform and Work Bill. We performed the procedures outlined in our Audit Plan to address this risk and our work did not identify any significant matters in relation to the Council's arrangements. We therefore concluded that the Council had adequate arrangements in place.

As part of our work we considered the following areas and made the following observations.

Key findings

Medium term financial plan and key assumptions

The Council's Medium Term Financial Strategy (MTFS), which was adopted in September 2015 and last refreshed in September 2016, identifies a cumulative budget gap over the 4 years to 2019/20 of £2.5 million. The Council has identified where the necessary savings for 2016/17 and 2017/18 will be achieved. Of these approximately £1.1m has yet to be identified for the later years of the strategy covering the period 2018/19 to 2019/20. However the Council has a track record achieving savings in the past and at the budget setting meeting for 2016/17 it was reported that the overall the general fund budget has reduced from £15 million in 2007/08 to £9.1 million in 2016/17.

As recognised in the 2016/17 budget setting report, there continues to be uncertainty regarding the future of New Homes Bonus. The Council has been prudent in only utilising £200k of the Bonus within its base budget.

The Council is in the process of revising the HRA business plan including revisiting the priorities for the HRA. The updated plan is due to go to the Executive in November 2016. This is a key step to ensuring that the HRA's financial position, particularly its capital financing, is soundly based.

As noted below, the Council has levels of reserves well above the minimum. These resources provide the Council with capacity to plan initiatives to address the savings required over the medium term, including responding to changes to the New Homes Bonus.

Levels of reserves

The Council has built up its general reserve to £7.9 million (above the minimum balance of £2.8 million). In addition it held earmarked reserves of £4.2 million at 31 March 2016. These resources provide the Council with capacity to plan initiatives to address the savings required over the medium term. Capital resources for the general fund remain a high priority and the Assistant Director (Finance) has recommended that the Capital Reserve, £1.1 million at 31 March 2016, needs to increase as there is significant need for investment in general fund. We have concluded that the Council has adequate levels of reserves.

Budget setting and monitoring processes

The Council has a well established process for setting and monitoring its budget. As at 31 March 2016 there was an underspend against the budget of £0.4 million on the general fund and £1 million on the housing revenue account (HRA). The Council set a balanced budget for 2016/17,

with no unmet budget gap to be addressed.

Decision making processes and partnership working

The Council has appropriate governance, performance and risk management processes in place. There is evidence of the Council working with partners in key areas including Finesse (leisure) and working with other authorities in Hertfordshire including collaborating on service provision for example on revenues and benefits and support services (information technology).



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Standards Committee on 7 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

A close-up, shallow depth-of-field photograph of a person's hands holding binoculars. The person's face is blurred in the background, focusing attention on the binoculars and the text overlay. A bright yellow rectangular box is positioned on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your Future

| Area | Issue | Impact |
|-----------------------------|--|--|
| EU referendum | <p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p> | <p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> <p>We are committed to supporting our clients through this period, and help identify the opportunities that will also arise. We will engage with you on the concerns and questions you may have, provide our insight at key points along the path, and provide any papers and analysis of the impact of the referendum on the Government and Public Sector market.</p> |
| Future Town, Future Council | <p>The Council is in the process of consulting on its corporate plan for 2016-2020, 'Future Town, Future Council'. The ambitions set out include:</p> <ul style="list-style-type: none"> Increasing the number of social and affordable homes Creating a vibrant town centre Increasing the accessibility of Council services and improving the customer experience Working with communities to improve neighbourhoods Providing high quality housing for tenants and leaseholders. | <p>Underpinning 'Future Town, Future Council' is a number of ambitious plans including the regeneration of the town and neighbourhood centres. In the current financial climate there are pressures on both the general fund and housing revenue account in terms of ensuring sufficient resources to cover capital investment identified as required and the Council is seeking to bring in additional resources in terms of growth area funding. Stevenage First Board has been established with Hertfordshire County Council and the Local Enterprise Partnership to co-ordinate and drive the regeneration of central Stevenage. £16 million has been allocated to kick start the regeneration process.</p> <p>Delivering 'Future Town, Future Council' will be a challenging task for the Council in terms of the investment in financial and other resources. As part of our value for money conclusion work we will consider the arrangements in place for financial planning, contract management and procurement.</p> |

EY | Assurance | Tax | Transactions | Advisory

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ED None

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