

# The Audit Findings for Stevenage Borough Council

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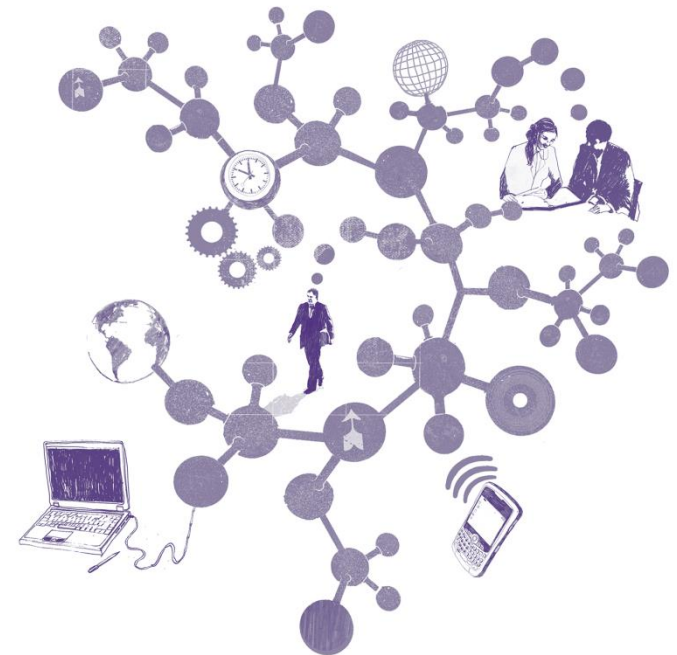
**Year ended 31 March 2014**

24 September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# 1. Executive summary

## **Purpose of this report**

This report highlights the key matters arising from our audit of Stevenage Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It also reports our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## **Introduction**

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 24 March 2014, except for minor changes to individual tests as indicated in the detailed report.

Our audit is substantially complete although we are finalising our work in the following areas:

- council dwelling valuations
- housing benefit sample testing
- payroll sample testing
- obtaining and reviewing the final management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

## **Key issues arising from our audit**

### **Financial statements opinion**

We anticipate providing an unqualified opinion on the financial statements.

We have identified one adjustment affecting the Council's reported financial position (details are recorded in section 2 of this report). The adjustment relates to the valuation of council dwellings, which has increased by £31m to reflect market movements between 1 April 2013 and 31 March 2014. This increase had no effect on the Council's overall net expenditure: the draft financial statements recorded a net increase in Usable Reserves of £8,981k; the audited financial statements show the same increase. We have also identified a small number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- The Council should review its arrangements for valuing its council dwellings to ensure that material movements from the 1<sup>st</sup> April valuations are reflected in the accounts.
- The Council has taken a reasonable approach to determining the provision for non-domestic rate appeals.
- The Government proposes to bring forward the existing deadline dates for submission and approval of the accounts to 31 May and 31 July respectively from 2017-18. This will present a significant challenge for both finance teams and external auditors. In addition, under the Audit Commission re-tendering exercise the Council will have new external auditors from 2015/16. It is therefore essential that the Council gives due priority to maintaining an adequately resourced finance function as it faces up to these challenges.

### **Value for Money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further details of our work on Value for Money are set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We have completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director of Finance.

### **Acknowledgment**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2014**

## 2. Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

### **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 24 March 2014, except for minor changes to individual tests as indicated in the following sections.

### **Audit opinion**

We anticipate that we will provide the Council with an unmodified opinion.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• Review and testing of revenue recognition policies</li> <li>• Testing of material revenue streams</li> <li>• Review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• Review of accounting estimates, judgements and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions]</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have:</p> <ul style="list-style-type: none"> <li>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding</li> <li>tested journal entries on a sample basis to gain assurance that there are adequate controls in place over entry and processing and that these have operated effectively through the financial year</li> <li>reviewed large and unusual items and test a sample of these</li> <li>tested a sample of items of expenditure to gain assurance that expenditure has been correctly classified and for occurrence and allocation.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>We have:</p> <ul style="list-style-type: none"> <li>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding</li> <li>reviewed the pattern of monthly payroll expenditure to identify whether there were unexpected variations indicating additional risk*</li> <li>tested a sample of payroll payments made during the year to gain assurance that employees have been remunerated at the correct rates during 2013/14</li> <li>in addition to a review of the work of the pension fund actuary, we performed substantive tests on the cost of pensions.</li> </ul> <p>* This has replaced the cut-off testing originally planned, on efficiency grounds.</p>	Our audit work has not identified any significant issues in relation to the risk identified.

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Welfare expenditure</b>	Welfare benefit expenditure improperly computed	<p>We have:</p> <ul style="list-style-type: none"> <li>performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding</li> <li>completed modules set by the DWP which include performance of an analytical review and BEN01 certification. This will involve the selection of samples of welfare benefit expenses from across the year, for which the benefit payable will be recalculated to determine whether the amount paid was in accordance with DWP guidelines and welfare legislation.</li> </ul>	<p>We have yet to complete our testing of a sample of housing benefit cases.</p> <p>We have no significant issues to report to date.</p>
<b>Housing Rent Revenue Account</b>	Revenue transactions not recorded	<p>We have:</p> <ul style="list-style-type: none"> <li>tested a sample of items of revenue to gain assurance that revenue has been correctly classified and for occurrence and allocation</li> <li>reviewed large and unusual items and tested a sample of these.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<p>We have performed substantive audit procedures in this area including:</p> <ul style="list-style-type: none"> <li>reviewing in-year additions and disposals to gain assurance that they have been correctly accounted for in the financial statements.</li> <li>performing existence testing on a sample of assets to verify their existence and completeness of the Council's fixed asset register.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>





## Audit findings against other risks continued



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Property, plant &amp; equipment</b></p>	<p>Revaluation measurement not correct</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>reviewed the work performed by internal and external valuation specialists - including ensuring that all valuations undertaken have been completed in accordance with the requirements of the appropriate accounting and professional standards</li> <li>reviewed the Council's fixed asset register to ensure that revised valuations have been correctly accounted for in the financial statements.</li> </ul>	<p>Our audit work identified that market movements in house prices between 1 April 2013 and 31 March 2014 had not been adequately reflected in the value of the council dwellings stock.</p> <p>The Council's external valuers have now carried out a revaluation of council dwellings as at 1 April 2014. This has been used to update the values in the 31 March 2014 balance sheet. (We are satisfied that there would have been no material movement in values between the two dates.)</p>

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and the key estimates and judgements made and included with the Council's financial statements.



Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>The recognition policy for major sources of revenues is set out within the accounting policies. The Council has disclosed the policy for recognising revenue from the sale of goods and the provision of services.</li> </ul>	The policy is appropriate under the accounting framework.	 Green
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>the impact of future funding levels on the assets of the Council</li> <li>accounting for 'Right to Buy' properties</li> <li>treatment of CCTV partnership</li> <li>estimated figures such as provisions, pensions liability and depreciation of non-current assets.</li> </ul> </li> </ul>	The Council has considered the most significant judgements and estimates within the disclosures supporting the financial statements. Appropriate policies are in place for the key areas subject to judgement and estimation.	 Green

## Assessment



-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

# Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates - PPE</b>	<ul style="list-style-type: none"> <li>Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value, but as a minimum every five years.</li> <li>In addition should current valuations of similar class of assets suggest material differences in valuations, the entire class to which the asset belongs would be re-valued.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</li> </ul>	 <b>Green</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of other accounting policies has not highlighted any issues which we wish to bring to your attention.</li> </ul>	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Housing Revenue Account £'000	Balance Sheet: Net Assets £'000	Balance Sheet: Reserves (Usable)	Balance Sheet: Reserves (Unusable) £'000
1 <b>Council dwellings</b> – Revaluation to reflect market movement between 1/4/2013 and 31/3/2013.	-	31,811	-	-
2 <b>Housing Revenue Account</b> – Revaluation (Gains) and Losses of Non-Current Assets	(31,811)	-	-	-
3 <b>Capital Adjustment Account</b> – Revaluation of Property, Plant and Equipment	-	(31,811)	-	-
4 <b>Movement in Reserves Statement</b> – Adjustments between accounting basis and funding basis under regulations	31,811	-	-	-
<b>Overall impact</b>	-	<b>31,811</b>	-	<b>31,811</b>

## Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been reflected in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	18,020	Note 28 – Council tax precept and surplus	<p>This amount should have been included in the 'NNDR retained income' line in Note 28: 2013/14 Reconciliation from Subjective analysis to Deficit on Provision of Services.</p> <p>Correction of this has no impact on the Council's financial position.</p>
2 Disclosure	3,876	Note 33 – Pension disclosures	<p>One items was omitted from the required disclosures</p> <ul style="list-style-type: none"> <li>• Best employer estimate of contributions expected to be paid to the plan in the next accounting period (required by 6.4.3.42 (13) of the Code).</li> </ul> <p>Correction of this has no impact on the Council's financial position.</p>

# Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates for the valuation of council dwellings.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

## 3. Value for Money

### Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

**The Council has proper arrangements in place for securing financial resilience** - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

**The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

### Key findings

#### Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted that the Council continues to demonstrate good financial management. General Fund and Housing Revenue Account balances have increased, and the Council has updated its Medium Term Financial Strategy on the basis of its Priority Based Budgeting (PBB) initiative, which has helped to put its financial plans on a sound footing going forward.

#### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the PBB exercise has been instrumental in securing stakeholder involvement in challenging how the Council prioritises resources and identifies efficiencies. A detailed programme of agreed savings schemes supports the MTFs as a result. However, capital receipts to support the General Fund (GF) capital programme remain minimal. The recent Asset Management Review has not realised significant opportunities to date. The Council has embarked on a refresh of its capital strategy. This needs to ensure that the reliance of the GF capital programme on borrowing is set at a sustainable level in the medium term.

#### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	The Council achieved an underspend of £0.7m on the GF budget and a surplus of £1.5m on the HRA. Audit Commission financial resilience indicators demonstrate generally good financial health.	<b>Green</b>
<b>Strategic financial planning</b>	The Council has updated its Medium Term Financial Strategy on the basis of its Priority Based Budgeting (PBB) initiative, which has helped to put its financial plans on a sound footing going forward.  However, capital receipts to support the General Fund (GF) capital programme remain minimal. The recent Asset Management Review has not realised significant opportunities to date. In response, the Council has developed a new capital strategy and plans to implement an integrated financial planning process that will include a bid process for all prospective schemes. Prudential borrowing is to be limited to those schemes capable of generating a return, with the remainder to be financed from a single revenue reserve for capital.	<b>Amber</b>
<b>Financial governance</b>	The Council has continued to maintain sound financial governance arrangements, and the PBB exercise has secured greater involvement of stakeholders .	<b>Green</b>
<b>Financial control</b>	Budget setting and monitoring continue to be effective, as evidenced by the Council's financial performance in 2013/14.	<b>Green</b>
<b>Prioritising resources</b>	The PBB initiative has enabled the Council to focus more clearly on priorities for spending and to put in place a broad consensus for a detailed programme of savings schemes to support the MTFs going forward.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>		<b>Green</b>



## 4. Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

### Fees

	Per Audit plan £	Actual fees £
Council audit	84,438	85,338*
Grant certification	14,400	TBC**
<b>Total audit fees</b>	<b>98,838</b>	<b>99,738</b>

\* The Audit Commission has increased scale fees by £900 for District Councils to reflect the additional work required on business rates following the introduction of the local retention arrangements.

\*\* The final fee for grant certification will be confirmed in our Annual Audit Letter following completion of the certification work.

### Fees for other services

Service	Fees £
Certification of Decent Homes Backlog return to HCA	2,400

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

## 5. Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

### Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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