



AUDIT / STATEMENT OF ACCOUNTS COMMITTEES

28 FEBRUARY 2024

SUPPLEMENTARY AGENDA 2

PART I

3. 2020/21 STATEMENT OF ACCOUNTS AND EXTERNAL AUDIT REPORT

TABLED DOCUMENT – AUDITOR’S ANNUAL REPORT 2020/21

Pages 3 - 40

Supplementary Agenda Published 28 February 2024

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Stevenage Borough Council

**Draft Auditor's Annual Report
Year ended 31 March 2021**

February 2024



Building a better
working world

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated July 2021)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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 Hywel Ball, 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 close-up portrait of a woman's face, focusing on her eyes and nose. The image is partially obscured by a bright yellow rectangular overlay on the left side. The woman has light brown hair and green eyes.

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on Stevenage Council:	
Financial statements	<p>Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).</p> <p>We issued our auditor's report on xx March 2024.</p>
Going concern	We have concluded that the Strategic Director (Chief Financial Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the annual report and other information published with the financial statements	Financial information in the 202/21 Annual Report and published with the financial statements was consistent with the audited accounts.
Area of work	
Conclusion	
Reports by exception:	
Value for money (VFM)	<p>We had no matters to report by exception on the Council's VFM arrangements.</p> <p>We have included our VFM commentary in Section 04.</p>
Consistency of the annual governance statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 19 February 2024 to the Audit Committee which was considered at the meeting on 28 February 2024.
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 2020 Code of Audit Practice.	Our audit certificate was issued on xx March 2024

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2021)". As outlined in the Audit Results Report, we were required to carry out additional audit procedures to address audit risks in relation to the significant and fraud risks and the areas of audit focus identified in our audit plan. In addition, we performed additional procedures in relation to the new value for money code, the impact of Covid-19 and the going concern assessment and disclosures, and the revised auditing standard for estimates and accounting for Covid-19 related grants. As a result, we have proposed an associated additional fee with the Strategic Director (Chief Financial Officer). We include details of the audit fees in Appendix 1.

Executive Summary: Key conclusions from our 2020/21 audit

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

Debbie Hanson
Partner
For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 26 January 2023. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the Annual Report.

Reporting by exception:

- If the Annual Governance Statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its Annual Report and accounts and Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Annual Report and 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.

On xx March 2024, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 28 February 2024 Audit Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk

Misstatements due to fraud or error - management override of controls

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, 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. We identify and respond to this fraud risk on every audit engagement.

Conclusion

We did not identify any:

- material weaknesses in controls or evidence of material management override.
- Instances of inappropriate judgements being applied; or
- other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Misstatements due to fraud or error - Inappropriate classification of revenue spend as capital

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term financial position. A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure.

We did not identify any:

- material instances of incorrect capitalisation of revenue expenditure;
- instances of expenditure incorrectly classified as REFCUS; or
- instances of journal entries incorrectly moving expenditure items of capital codes.

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Financial Statement Audit (continued)

Significant Risk	Conclusion
<p>Incorrect accounting for financing of capital regeneration schemes</p> <p>The Council has a number of highly material capital schemes aimed at the regeneration and revitalisation of Stevenage town centre. In particular for 2020/21 the Council received £9.6m of LEP funding in relation to the new bus interchange in Stevenage town centre.</p> <p>Given the material misstatement identified and subsequently corrected during the 2019/20 audit in relation to LEP financing of capital schemes, there is a risk that the accounting of the funding of the capital regeneration projects is incorrect within the 2020/21 financial statements.</p>	<p>We did not identify:</p> <ul style="list-style-type: none">• Incorrect accounting for financing of capital regeneration schemes.
<p>Valuation of market based property assets (including property, plant and equipment, Council dwellings and investment properties)</p> <p>The Council has highly material property assets valued on a market basis (including other land and buildings, council dwellings and investment properties). The valuation of such assets is a significant accounting estimate that, in the context of an uncertain economic environment as a result of Covid, has a material impact on the financial statements.</p> <p>The Council engages property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements.</p> <ul style="list-style-type: none">• Other land and buildings - £65.5 million• Council dwellings - £701.6 million• Investment properties - £23.7 million <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>	<ul style="list-style-type: none">• We considered the work performed by the external valuers, including the adequacy of the scope of work performed, professional capabilities and the results of their work.• We reviewed the methodology used and assumptions used by the valuer and sample tested key asset information used in the valuations through to supporting evidence.• We engaged our EY Real Estate specialists in testing the value of two property assets.• Asset valuations reviewed by our specialists were found to be supportable and within range. We noted that the car park area for the Cavendish Rd property has not been included in the valuation. The estimated value amounted to £xx Note this section will be updated once this element of our audit is complete

Continued over.

Financial Statement Audit (continued)

Inherent Risk	Conclusion
<p>Valuation of property, plant and equipment assets under depreciated replacement cost model</p> <p>Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For specialist assets valued using depreciated replacement cost (DRC) the valuations are based on build cost data and other market-based evidence.</p> <p>As the Council's DRC asset base is significant (£42.2 million) as of 31 March 2021, and the outputs from the valuer are subject to estimation, there is a higher inherent risk that the valuation of these assets may be under/overstated or the associated accounting entries incorrectly posted.</p>	<ul style="list-style-type: none">• We considered the work performed by the external valuers, including the adequacy of the scope of work performed, professional capabilities and the results of their work.• We reviewed the methodology used and assumptions used by the valuer and sample tested key asset information used in the valuations through to supporting evidence.• We did not identify any misstatements through our work on property valuation measured at DRC.
<p>Queensway lease accounting treatment</p> <p>In preparing the Queensway LLP financial statements significant judgements are taken in relation to the lease accounting treatment. In our 2019/20 audit, a number of amendments were made to the group financial statements due to the incorrect split of lease repayment amounts between principal and interest in the model used.</p> <p>We have therefore identified a risk that errors may also be made in the current year</p>	<p>Our procedures noted an overstatement in the recording of the finance lease liability of £641k which is related to differences in the interest rates applied in the calculation. The Council has adjusted for this difference. The adjustment does not have an impact in the general fund balance.</p>

Continued over.

Financial Statement Audit (continued)

Inherent Risk	Conclusion
<p>Pension liability valuation and disclosures</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021, this totalled £61.58 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We have identified three misstatements affecting the pension liability amount. Two of the three misstatements have been adjusted by management:</p> <ul style="list-style-type: none">• Difference in the opening balance resulting in an overstatement of recorded pension liability of £612k• Difference between the pension liability in the pension fund accounts and IAS 19 actuarial report resulting in an understatement of the pension liability of £1.5 million <p>We also received the Pension Fund Assurance letter from the auditor of Hertfordshire Pension Fund. This highlighted a net difference in the contributions and investment assets submitted with the actuary for IAS 19 net pension liability calculation amounting to £318k resulting to overstatement of pension liability. The difference has not been adjusted on the accounts as the amount is immaterial. In addition, this unadjusted misstatement would not impact the general fund balance.</p> <p>The accounting entries and pension liability related disclosures in the financial statements were appropriate.</p> <p>We engaged our EY Pensions Specialist to recalculate the pension liability based on the assumptions and data in the IAS 19 report to confirm the material accuracy of this balance. This did not identify any material misstatement.</p>
<p>Recognition of grant income associated with Covid-19</p> <p>The Council has received additional funding in the form of grants as a result of the Covid-19. There is the potential for the recognition and treatment of these grants (including business rate related grants) to be incorrectly accounted for or manipulated to improve the reported position.</p>	<p>We did not identify misstatements in relation to accounting for grant income associated with Covid-19.</p>

Continued over.

Financial Statement Audit (continued)

Inherent Risk	Conclusion
<p>Going concern disclosure</p> <p>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive.</p> <p>The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p>	<ul style="list-style-type: none">▪ We did not identify any events or conditions in the course of our audit that may cast significant doubt on the Council's ability to continue as going concern.▪ Management prepared a going concern assessment which they used to form the basis of the disclosure included within the financial statements. They made some updates to this as a result of the audit.▪ We are satisfied that the revised disclosure note appropriately sets out the circumstances surrounding the financial implications prevalent at the date of authorisation of the financial statements.
<p>Infrastructure assets</p> <p>March 2022, an issue was raised with the National Audit Office's Local Government technical network in relation to the accounting for infrastructure assets which are held at depreciated historic cost. Following more detailed consideration, it was identified that although local authorities add expenditure incurred on replacing or enhancing such assets, most do not appear to be considering the Cipfa Code requirement to establish whether this spend is a replacement of an asset, or a recognised component, and therefore are not derecognising the old asset or component. As a consequence, the gross cost and gross accumulated depreciation are continually increasing and the notes to the financial statements may be misstated where the expenditure is a replacement for an asset/component that is not fully depreciated.</p> <p>Cipfa established a task and finish group to address this issue. The Department to Levelling Up, Housing and Communities (DLUHC) and Cipfa have worked on a sector wide approach to resolution of the reporting of infrastructure assets.</p>	<p>The Council has adopted the statutory instrument and CIPFA Code adaptation. The infrastructure assets of the Council have therefore been presented at net book value in the amended statement of accounts.</p> <p>Our testing of depreciation did not identify any significant differences.</p> <p>Additions on infrastructure assets is included in the total asset additions testing population. However, no additions related to infrastructure assets were selected for testing. Total infrastructure asset additions are immaterial.</p>

Continued over.

Financial Statement Audit (continued)

Inherent Risk	Conclusion
<p>Infrastructure assets (continued)</p> <p>Following consultations with FRAB, local councils, ICAEW and external audit firms, a resolution has been agreed which has two elements:</p> <ol style="list-style-type: none">1) Cipfa have issued an adaptation to the Code of Practice on Local Authority Accounting.2) DLUHC have issued a Statutory Instrument (SI) (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022). <p>The Code allows for infrastructure assets to be reported in the notes to the accounts on a net basis. The SI allows for the infrastructure assets opening balance to be brought forward without amendment and determines the carrying amount to be derecognised in respect of replaced components to be nil.</p> <p>The Council has applied both the Code adaptation and SI to the 2019/20 and 2020/21 financial statements.</p> <p>As at 31 March 2021, infrastructure assets amounted to £3.0 million.</p>	
<p>Non-compliance with minimum Decent Homes Standards</p> <p>In 2022, the Housing Regulator received information that raises concerns about the Council's housing health and safety compliance matters.</p> <p>The Council has been working with the regulator since then and the regulator has received a response to the action plan the Council have put in place to address the areas of non-compliance identified.</p> <p>We have considered the impact of the non-compliance in the following areas:</p> <ul style="list-style-type: none">• Valuation of the council's dwellings• Provisions	<p>Based on the procedures performed, the non-compliance does not have significant impact on the valuation of dwellings, as the quality and condition of the housing stock has been considered in the valuation undertaken by the Council's valuer (Savills).</p> <p>In addition, no provision is required as the cost to bring dwellings that do not meet the decent home criteria up to standard are largely capital in nature.</p> <p>This conclusion is consistent with our prior year work.</p>

Financial Statement Audit (continued)

Audit differences

We identified the following misstatements (above our performance materiality threshold of £1.0 million) which management has corrected in the financial statements:

- Asset held for sale - classification of Marshgate car park as asset held for sale amounting to £1.7 million
- Pension liability – difference in the pension liability recorded per books and per IAS 19 actuarial report. The pension liability increased by £1.5 million.

Our audit also identified a number of disclosure misstatements which our team have highlighted to management for amendment. These have been corrected during the course of the audit and relate to disclosure and presentational matters in the accounts.

We also identified the following misstatement which have not been corrected by management:

Projected misstatements:

- Overstatement of parking income, £187k – one sample in our testing of the parking income has been failed as the season parking has not been renewed based on the credit note support. This is the extrapolated value of the error on the population not tested.
- Overstatement of fees and charges, £194k – one sample in our testing of the fees and charges could not be supported. This is the extrapolated value of the error on the total population.

Factual misstatements:

- Overstatement of other services and support recharges expenses, £185k – this is related to the error in the recording of a portion of the rent expense for the period covering 2021/22
- Unrecorded liability on the acquisition of laptops, £188k – this is related to the error in the recording of liability for laptops acquired in 2020/21,
- Difference in the pension fund assets in the IAS 19 Report, £318k – this is related to the difference in the investments as reported in the final pension fund accounts (and reported by the pension fund auditor) compared to the pension fund assets in the IAS 19 Report.
- Difference in the Council Tax income, £141k – difference is related to the reconciliation of the Council Tax income.

Management decided not to adjust for the audit differences above on the grounds of materiality.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Financial Statement Audit (continued)

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £2.0 million which represents 2% of gross expenditure on provision of services. The performance materiality was set at 50% of overall materiality, resulting in a figure of £1.0 million.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all uncorrected misstatements relating to primary statements (comprehensive income and expenditure statement, balance sheet, movements in reserves statement, cash flow statement) greater than £102k.

Section 4

Value for Money

Value for Money (VFM)

We did not identify risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We noted in our Audit Plan presented to the 7 February 2023 Audit Committee meeting, that our VFM risk assessment was not yet complete. We subsequently completed our risk assessment based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, discussions with management and evaluation of associated documentation and knowledge of sector-wide issues that may affect the Council. We did not identify any risks of significant weakness in the Council's VFM arrangements.

We had no matters to report by exception in the audit report.

Reporting

We completed our planned VFM arrangements work in February 2024 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit opinion.

Our VFM commentary highlights relevant issues for the Corporation and the wider public.

VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability
How the Corporation plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Corporation ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Corporation uses information about its costs and performance to improve the way it manages and delivers its services.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported in our Audit Results Report the overall conclusion from the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

For 2020/21, the Council has had the expected arrangements in place to plan and manage its resources to ensure it can continue to deliver services.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Medium Term Financial Strategy (MTFS) is the Council's key General Fund financial planning document and sets out the Council's strategic approach to the management of the General Fund including council tax levels, capital funding and treasury management. This strategy underpins the Council's key priorities for Stevenage as set out in the Future Town, Future Council agenda and other strategic documents of the Council. The key aim of the Strategy is to facilitate the Council achieving the outcomes set out in those documents, by setting out MTFS principles, which generates the need for financial security targets, identifies financial pressures and any additional resources for priorities to ensure the Council has a financially sustainable plan.

Financial sustainability (continued)

Financial pressures affecting the General Fund are identified in the MTFS based on previously identified financial pressures and the strategic risk register. Reviews of these risks are held regularly based on the current economic environment. The risks are assessed based on the likelihood and impact and prudent projections of the financial impact and are embedded in the MTFS. In 2020/21, the MTFS has been updated three times (June 2020, September 2020 and December 2020) to consider the impact of covid, the support provided by the Government, inflation and the action that needs to be taken by the management.

How the body plans to bridge its funding gaps and identifies achievable savings

The Council has Financial Security Programme in place. The Programme has three main workstreams, with Assistant Directors taking key leads in relation to efficiency, commercial, and improving processes. There is a further workstream to prioritise services to meet a funding gap should the need arise. The Financial Security Programme continued to enhance the financial resilience of the Council by ensuring resources are being used effectively and efficiently and through the development of commercial and entrepreneurial skills and services.

The Corporation has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The MTFS includes Financial Security Targets. These targets are usually predicated by increase in council tax, income growth, and allocation of reserves. The General Fund is designed to cushion the impact of unexpected events and emergencies and help absorb the impact of uneven cash flows.

In the MTFS approved in September 2020, the Financial Security Target amounted to £2.4 million for the period 2021/22 to 2023/24 with a £1.0 million target for 2021/22. The Council's Senior Leadership Team (SLT) reviewed a number of options, including transformation and commercial options to achieve the three year target of £2.4 million. However, the level of options identified currently is less than the target required and the SLT was asked to identify further options. This will need to include a prioritisation of services to meet the savings targets required.

The Council continues to manage its use of general fund balances in the short term, but has reviewed the Council's 'Making Your Money Count' principle objective of an ongoing balanced budget by 2023/24 to 2024/25, ensuring in year inflationary pressures are matched by increases in income or reductions in expenditure as a result of COVID 19. The Council was able to balance the budget for 2021/22.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Future Town Future Council (FTFC) programme consists of nine key programmes that aim to deliver improved outcomes and real change for Stevenage residents. The FTFC programme serves to enhance governance. The focus and scope of programmes is monitored to ensure that the FTFC Programme continues to deliver the Council's priorities. The FTFC Programme is being reviewed for 2021/22.

Financial sustainability (continued)

A further FTFC programme, 'Place of Choice', has been included in the FTFC Programme and incorporates the activities associated with a number of existing and emerging strategies that focus on improving the quality of life for residents and visitors. This programme provides overarching governance, to ensure that these strategies are well aligned, and that the FTFC Board are tracking key deliverables and priorities for each year. The following existing and emerging strategies/plans are included in the scope of the programme:

- Stevenage Reimagined
- Healthy Stevenage
- Community Safety
- Community Wealth Building
- Climate Change
- Future Town Future Transport
- Biodiversity Action Plan

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Medium Term Financial Strategy (MTFS) is the Council's key General Fund financial planning document and sets out the Council's strategic approach to the management of the General Fund including council tax levels, capital funding and treasury management. This strategy underpins the Council's key priorities for Stevenage as set out in the FTFC agenda and other strategic documents of the Council. The key aim of the Strategy is to facilitate the Council in achieving the outcomes set out in those documents, by setting out MTFS principles, which generates the need for Financial Security targets, identifies financial pressures and any additional resources for priorities to ensure the Council has a financially sustainable plan.

Where it has been possible and in line with the government's restrictions, key FTFC delivery programmes continued during the COVID-19 crisis. The regeneration schemes at Queensway and Town Square continued to be progressed, with contractors working in accordance with government guidance. The Housing Development programme also continued on existing sites. A number of critical ICT projects also continued to be progressed as planned.

The FTFC reflects the Council's ambitions and projects and articulates to the public the Council's key priorities and objectives that support the achievement of the FTFC programme over the next few years.

Each year, progress against the Council's priorities are considered and this informs important decisions about where to focus the budget. The Annual Report summarises the Council's achievements over the past year and outlines what it plans to do in the next twelve months and is published on the Council's website.

Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council has a number of joint arrangements in place with other local councils to support the delivery of the Council's priorities set out in the FTFC programme and provide residents with the standard of services they expect. Finances are planned through the MTFP and budget setting processes. The Senior Leadership Team has been structured to drive the development of a sustainable, customer orientated and commercial operating model. The model is focused upon delivering the right services to the right standards, at the right time for the town's residents and businesses, using the most cost/resource effective delivery models.

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Council's MTFS is presented and approved alongside the budget. The MTFS is refreshed and updated based on the current environment. The Treasury Management Strategy, HRA Strategy and Capital Strategy are also approved each year. Quarterly monitoring reports of achievements and corporate performance are presented to the Executive Committee meetings.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The MTFS contains a dedicated section on risk management. It provides a description of inherent risks and their rating from low to very high. Initial risk ratings are based on inherent risks and the likelihood of them occurring. The MTFS is refreshed and updated based on the current environment, taking into account factors such as pressures or savings targets. In 2020/21, the MTFS was been updated in June 2020, September 2020 and December 2020 to consider the impact of Covid.

The Audit Committee also receives the Strategic Risk Register at every Committee meeting.

Governance

For 2020/21, the Council had the expected arrangements in place to ensure that it made informed decisions and properly managed its risks.

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council maintains a strategic risk register. This provides a description of inherent risks and their rating from low to very high. Initial risk ratings are based on inherent risks and the likelihood of them occurring. The risk register is monitored and presented to every Audit Committee Meeting.

Delivery of the Council's internal audit service is carried out by the Shared Internal Audit Service (SIAS) hosted by Hertfordshire County Council and managed by the Head of Assurance. Annual audit coverage is determined through a risk assessment, which is influenced by external regulatory requirements and the strategic and operational risks of the Council. By reviewing the Council's systems of internal control, risk management and governance in accordance with an approved Audit Plan, Internal Audit contribute to the Council's corporate governance framework.

The SIAS operates to defined professional standards, i.e. the Public Sector Internal Audit Standards (PSIAS) and the Head of Assurance reports to the Council's Strategic Director (Chief Finance Officer and Section 151 Officer) providing updates on internal audit progress and issues at regular liaison meetings. The Head of Assurance provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control and this is reported annually to Audit Committee. The main responsibility of SIAS is to provide assurance and advice on the internal control systems of the Council to both Management and Members. The SIAS reviews and appraises the adequacy, reliability and effectiveness of internal control within systems and recommends improvement where necessary.

SIAS also supports management in developing systems by providing advice on matters pertaining to risk and control.

In 2020/21, SIAS issued 'satisfactory' assurance for financial and non-financial systems.

The Council also has a Data Quality Policy which outlines the Council's commitment to ensuring data quality and arrangements are in place to monitor and enhance the quality of performance data.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Governance (continued)

How the body approaches and carries out its annual budget setting process

The Council is required to set a balanced budget each year. The Local Government Finance Act 1992 requires the Council to estimate revenue expenditure and income for the forthcoming year from all sources, together with contributions from reserves, in order to determine a net budget requirement to be met by Government grant and council tax.

The Budget and Policy Framework Procedure Rules in the Constitution, prescribe the budget setting process, which includes a consultation period.

The timescale required to implement this process is outlined below:

- December - Financial Security options to be presented to Executive, and Overview and Scrutiny Committees
- December - Draft HRA Budget to be presented to Executive and Overview and Scrutiny Committees
- January – Final HRA Budget and Draft GF Budget /NDR/taxbase to be presented to Executive, and Overview and Scrutiny Committees
- February - Final GF Budget to be approved by Executive Committee, Overview and Scrutiny Committee and Council

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council has evolved its budget strategy to meet the ongoing challenging economic conditions whether because of funding cuts, welfare reforms or inflationary increases and latterly to meet the financial threat of covid. The financial strategy to deal with this is the 'Financial Security' strand of 'Future Town Future Council'.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

The Council's framework of internal financial control is supported by Financial Regulations and Contract Standing Orders. The regulations provide the framework for managing the Council's financial affairs. They set out the procedures that the Council has adopted for financial planning, budgeting, risk management, auditing, treasury management and procurement of goods and services. The Council's Financial Regulations and Contract Standing Orders for the 2020/21 financial year were reviewed and agreed by Executive in July 2020.

Governance (continued)

As noted above, the Head of Assurance provides an independent opinion on the adequacy and effectiveness of the system of internal control and this is reported annually to Audit Committee. The main responsibility of SIAS is to provide assurance and advice on the internal control systems of the Council to both Management and Members. The SIAS reviews and appraises the adequacy, reliability and effectiveness of internal control within systems and recommends improvement where necessary. It also supports management in developing systems by providing advice on matters pertaining to risk and control.

Whilst the Head of Assurance's opinion is only provided on an annual basis, a regular report on progress on internal audit work is presented to the Audit Committee. This provides details of the status of the work and any issues that have been noted from the work performed. Implementation of corrective actions based on recommendations are also reported to the Audit Committee. In 2020/21, SIAS provided satisfactory opinion on the financial and non-financial systems of the Council.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

In addition to the above, monitoring of budget versus actual is also reported to the Executive Committee meetings on a quarterly basis.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

The Council has structured its processes and procedures for the Executive and Scrutiny Committees plus other Committees such as the regulatory ones, to minimise the risk of it acting in contravention of its own policies and external laws and regulations.

Reporting on performance, value for money, the stewardship of resources and the assessment of robust corporate governance arrangements are provided throughout the year through:

- Quarterly financial monitoring reports to Executive Committee
- Quarterly FTFC and corporate performance status reports to Executive Committee
- Annual publication of the Statement of Accounts
- Annual publication of the Annual Governance Statement
- The Council's Annual Report.

Governance (continued)

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Council's Local Code of Corporate Governance identifies the Nolan Principles (Standards in Public Life) as underpinning all local government activity.

The standards of conduct and personal behaviour expected of Members and Officers, its partners and the community are defined and communicated through Codes of Conduct and Protocols and the Council's Constitution. Arrangements are in place to ensure that Members and Officers are aware of their responsibilities under these codes and protocols.

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Council's website outlines the arrangements for making a complaint that a member of the Council has failed to comply with the Code of Conduct and sets out how the Council will deal with such allegations. Complaints about Members and allegations that a Member has breached the Code of Conduct would be dealt with by the Standards Committee and the Borough Solicitor (Monitoring Officer) under the Localism Act 2011. The Council has appointed an Independent Person, to consult on alleged breaches to the Member Code of Conduct.

The Council has a Standards Committee to promote and maintain high standards of conduct by Members of the Council and deal with any allegations that a member is in breach of the Council's Code of Conduct and to consider changes to the Code as required.

The Council's Constitution sets out the employment procedures for the Head of the Paid Service, Strategic and Assistant Directors, Monitoring Officer and Chief Finance Officer.

The Council's six organisational values underpinned by a behaviour framework for staff. The values are intended to influence the ways in which elected Members and officers think and behave in responding to future challenges. The values are embedded into Member and Officer Induction, regular officer meetings with managers (REAL conversations), the Modern Member training programme, and management development programmes. A set of desired behaviours associated with each of the values has been developed and forms part of the Council's appraisal process for officers.

The Council has a Whistle-blowing Policy which is based on the Public Interest Disclosure Act 1998 as well as an Anti-Fraud and Corruption Policy, and new Anti-Money Laundering and Anti-Bribery Policies. The Council's website and intranet have options for the public and staff to report suspected fraud that link to the Shared Anti-Fraud Service webpage.

At the start of all Committee meetings, members/officers are required to declare interests.

Improving economy, efficiency and effectiveness

For 2020/21 the Council had the expected arrangements in place for using information about its costs and performance to improve the way it manages and delivers services.

How financial and performance information has been used to assess performance to identify areas for improvement.

The performance and quality of each FTFC programme is monitored through a monthly Programme Board. The corporate programme is monitored through assessment of progress against target for a set of corporate performance measures aligned to service priorities.

A performance management framework monitors performance measure results associated with the FTFC Programme together with measures to monitor the delivery of effective services (the corporate programme).

A performance and governance system is used to monitor performance and risk and is providing improved insight into corporate priority delivery. The system provides a range of corporate performance monitoring relating to service delivery, finances, staff, and customers, alongside consideration of the risks associated with the delivery of objectives in order to provide strategic insight and facilitate prompt implementation of any necessary improvement plans.

The status of performance for both the FTFC programme and the corporate programme with proposed improvement plans, where necessary, are discussed by senior management prior to Executive on a quarterly basis. In addition, the Executive receive separate regular updates on the Council's financial position and quarterly overview reports.

A Performance Guide is available to staff on the Council's intranet. The guide sets out the Council's approach to:

- Identifying appropriate performance measures aligned to corporate and services priorities and resource
- Monitoring and reviewing performance measure results to help identify activity to improve outcomes for the community
- Identifying and celebrating business achievements
- Identifying and managing risk
- Ensuring that the overall governance of the organisation is robust.

All of this information provides business insight that help to drive improvement and deliver outcomes that benefit the community.

The Council also has a Data Quality Policy which outlines the Council's commitment to ensuring data quality and arrangements are in place to monitor and enhance the quality of performance data.

The reports from SIAS are also used to identify areas for improvement.

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Improving economy, efficiency and effectiveness (continued)

How the body evaluates the services it provides to assess performance and identify areas for improvement

Reporting on performance, value for money, the stewardship of resources and the assessment of robust corporate governance arrangements are provided throughout the year through:

- Quarterly financial monitoring reports to Executive Committee
- Quarterly FTFC and corporate performance status reports to Executive Committee
- Annual publication of the Statement of Accounts
- Annual publication of the Annual Governance Statement
- The Council's Annual Report

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

The Council had the following significant partnerships during the year:

1. Reef, who are redeveloping Queensway in the town centre
2. Herts Local Enterprise Partnership & Chamber of Commerce and Hertfordshire Growth Board
3. Mace Developments, who are involved in the SG1 regeneration scheme for the Council's offices.

The Council also have shared services with other councils, for example there is a legal shared service with Hertfordshire County Council.

Internal audit also looks at procurement, contract management and project management as part of its work. This includes review and evaluation of:

- Stevenage Bus Interchange
- Regeneration - SG1
- Procurement activity
- Partnerships/shared services

Internal audit provides recommendations and follows up on status of implementation.

In 2020/21, Hertfordshire Growth Board Joint Committee and Hertfordshire Growth Board Scrutiny Committees were established as Joint committees. In addition, a new Hertfordshire Growth Board Integrated Governance Framework has been adopted and incorporated into the Council's Constitution. A North East and Central Hertfordshire Growth Board has also met to agree a forward plan of work.

Improving economy, efficiency and effectiveness (continued)

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Every contract made by the Council is required to comply with the Contract Standing Orders set out in Part 4 of this Constitution. Internal Audit also audit procurement, contract management and project management. This has includes reviews of:

- Stevenage Bus Interchange
- Regeneration - SG1
- Procurement activity
- Partnerships/shared services

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.



Section 5

Other Reporting Issues

Other Reporting Issues

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 complies with relevant guidance.

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

Whole of Government Accounts

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. NAO has now confirmed that they do not require any additional procedures on bodies below the £2bn threshold.

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 Corporation 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.

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.

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

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

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

We considered whether circumstances arising from covid resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

Appendix A

Audit Fees

Audit Fees

Our fee for 2020/21 is in line with the audit fee agreed and reported in our Audit Planning Report (26 January 2023) and Audit Results Report (19 February 2024).

	Proposed Fee 2020/21	Planned Fee 2020/21	Final Fee 2019/20
	£	£	£
Scale fee – Code Work	49,283	49,283	49,283
Scale fee variation	TBC (a)	TBC (a)	99,292 (b)
Total audit fee	TBC (a)	TBC (a)	148,575
Other non-audit services (Housing Benefits Certification)	51,000	51,000	38,800
Total all fees	TBC	TBC	187,375

Notes:

a) We do not believe the existing scale fees provide a clear link between public sector bodies risk and complexity and the increased regulatory requirements to deliver an ISA compliant audit. We will propose an increase to the scale fee to recognise this, in the range of £110k to £140k. This proposed increase will be determined by PSAA following the conclusion of our audit. The key factors impacting the scale fee are:

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.
 - To address this risk our procedures now entail testing higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.
2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.
 - To address these findings, our required procedures now entail testing higher samples sizes, increased requirements for corroborative evidence to support the assumptions, use of our internal specialists and increased correspondence with external specialists.

Audit Fees

3. Regulatory environment. Other pressures come from the changing regulatory landscape and audit market dynamics:

- ▶ Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.
- ▶ This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting requirements plus changes in auditing and accounting standards. In addition, the regulatory lens on Local Audit specifically, is greater.

b) This is the amount scale fee variation for the 2019/20 audit to reflect the issues noted above as well as specific in year risks resulting in additional audit work which has been determined by PSAA.

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