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AUDIT COMMITTEE

Date 3 June 2025

SUPPLEMENTARY AGENDA

PART 1

3. **EXTERNAL AUDIT PLAN - AZETS**
To consider the Azets External Audit plan 2024/25.
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Supplementary Agenda Published 29 May 2025

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Stevenage Borough Council

External audit plan

Year ended 31 March 2025

May 2025

Contents

Your key team members

Paul Grady
Key Audit Partner
Paul.Grady@azets.co.uk

Martha Charima
Manager
Martha.Charima@azets.co.uk

CJ Abellera
Assistant Manager
CJ.Abellera@azets.co.uk

Ava Campbell
In-Charge auditor
Ava.Campbell@azets.co.uk

Introduction

Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Stevenage Borough ('the Council') for the year ended 31 March 2025 for those charged with governance.

The core elements of our work include:

- An audit of the 2024/25 Statement of Accounts for the Council and its Group; and
- An assessment of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (our Value for Money work).

This document also includes our indicative plans for building back assurance for the Council and its Group over the coming years following the previous disclaimed audits.

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), the National Audit Office Code of Audit Practice and associated guidance. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

Auditor responsibilities

As auditors we have been appointed to perform an audit, in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and ISAs UK. Our primary responsibility is to form and express an independent opinion on the Council's (and its Group's) financial statements, stating whether they provide a true and fair view and have been prepared properly in accordance with applicable law and the CIPFA Code of Practice on Local Authority Accounting in the UK (the 'CIPFA Code).

We are also required to:

- Report on whether the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is consistent with the financial statements;
- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report by exception any significant weaknesses identified in arrangements for securing value for money and a summary of associated recommendations;
- Report by exception on the use of our other statutory powers and duties; and
- Certify completion of our audit.

continued…..

Introduction

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

This planning letter has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Auditor responsibilities *(….continued)*

We will issue our Audit Completion Report and an Auditor's Annual Report to the Audit Committee setting out the findings from our work.

Under the Act we have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom. These include:

- Reporting matters in the public interest;
- Making written recommendations to the Council;
- Making an application to the court for a declaration that an item of account is contrary to law;
- Issuing and advisory notice; or
- Making an application for judicial review.

The Act also requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts.

On completion of our audit work, we will issue an Audit Completion Report (prior to the approval of the financial statements), detailing our significant findings and other matters arising from the audit on the financial statements, together with an Auditor's Annual Report including our commentary on the value for money arrangements.

If, during the course of the audit, we identify any significant adverse or unexpected findings that we conclude should be communicated, we will do so on a timely basis, either informally or in writing.

The audit does not relieve management or the Audit Committee of your responsibilities, including those in relation to the preparation of the financial statements.

Council responsibilities

The Council has responsibility for:

- Preparing financial statements which give a true and fair view, in accordance with the applicable financial reporting framework and relevant legislation;
- Preparing and publishing, along with the financial statements, an annual governance statement and narrative report;
- Maintaining proper accounting records and preparing working papers to an acceptable professional standard that support its financial statements and related reports disclosures; and
- Ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

Audit scope and general approach

This section of our letter sets out the scope and nature of our audit and should be considered in conjunction with the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments Limited (PSAA).

General approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of the Council and its Group, including its environment, the financial reporting framework and its system of internal control;
- Review the design and implementation of key internal controls;
- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures which, in a normal year, are designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. We are unlikely to be able to obtain sufficient assurance in 2024/25 to reach this conclusion due to the previously disclaimed audits.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Audit scope and general approach

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. **The basis for our assessment of materiality for the year is set out on page 17.**

Any identified errors greater than:

£110,000

will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to you in writing.

Specialised skill or knowledge required to complete the audit procedures

We will use audit specialists to assist us in our audit work in the following areas:

- The audit of the actuarial assumptions used in the calculation of the defined benefit pension liability/asset; and
- The audit of investment or property valuations, should the need arise during the course of the audit.

We will consult internally with our Technology Risk team for them to support the audit team by assessing the information technology general controls (ITGC) of your key accounting systems.

Audit scope and general approach

Significant changes in the financial reporting framework

There has been one significant change in the financial reporting framework this year, including the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 (the ‘CIPFA Code). The new standard relating to IFRS 16 Leases issued in January 2016 has now been mandated for implementation from 1 April 2024 within the 2024/25 Code.

Significant changes in the Council’s and Group’s functions or activities

There have been no significant changes to the functions and activities of the Council or its group structure. We have not been made aware of any significant changes in the functions or activities of the other components in the Council’s group.

Our group audit scope and risk assessment is set out in Appendix I.

Going concern

Management responsibility

Management is required to make and document an assessment of whether the Council and group is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management are also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

Going concern

Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management’s use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the Council and group’s ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in the CIPFA Code and Practice Note 10 (PN10), which focusses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

Audit scope and general approach

Related party transactions

ISA 550 requires that the audit process starts with the audited body providing a list of related parties to the auditor, including any entities under common control.

During our initial audit planning you have informed us of the individuals and entities that you consider to be related parties. Please advise us of any changes as and when they arise.

Additional procedures for the NAO

The National Audit Office (the ‘NAO’) issues group audit instructions which set out additional audit requirements. We expect the procedures for this year to be similar to previous years.

The NAO audit team for the WGA request us to undertake specific audit procedures in order to provide them with additional assurance over the amounts recorded in WGA schedules. The extent of these procedures will depend on whether the Council has been selected by the NAO as a sampled component for 2024/25. As at the date of this report, the draft instructions have not yet been issued by the NAO and the NAO has not yet confirmed which entities will be sampled components.

We will comply with the instructions and report to the NAO in accordance with their requirements once instructions have been issued.

Building back assurance

Statutory backstop dates and disclaimed audits

Statutory Instrument (2024) No. 907 - "*The Accounts and Audit (Amendment) Regulations 2024*", imposed annual statutory backstop dates up to and including the 2027/28 year of account for the publication by the Council of its final Statement of Accounts. The Code of Audit Practice specifies that auditors are required to issue their auditor's report before these dates, even if planned audit procedures are not fully complete, so that local government bodies can comply with the statutory reporting deadline.

This legislation provides the following statutory backstop dates:

- 13 December 2024 — Audits from 2015/16 to 2022/23
- 28 February 2025 — 2023/24 audit
- 28 February 2026 — 2024/25 audit
- 31 January 2027 — 2025/26 audit
- 30 November 2027 — 2026/27 audit
- 30 November 2028 — 2027/28 audit

The statutory backstop has resulted in the audits of the Council's accounts being disclaimed for 2021/22, 2022/23 and 2023/24. The previous clean opinion, where the closing balances were assured by the auditor, was 2020/21. The closing balances as at 31 March 2021 are therefore our required starting point for building back assurance.

Building back assurance

Government's expectation is that auditors and councils build back assurance to enable, at some point in the future, the return to unmodified (clean) opinions. The recovery period has been designed to allow auditors to rebuild assurance for balances from disclaimed years over multiple audit cycles, reducing the risk of the backlog recurring. Because auditors will need to make prioritisation decisions to issue audit opinions ahead of the backstop dates, they may not be able to obtain sufficient evidence to support all balances nor all in-year and comparative expenditure, income, cash flow and reserves movements.

As a firm we have invested considerable resources in developing our overall response to the disclaimed periods of assurance, the impact this has on our audit responsibilities and what an indicative build-back plan may involve. Due to the complexities caused by the disclaiming of previous audits our work has required greater involvement from senior members of the audit team than would normally be the case. PSAA has made clear that this additional work is over and above the annual scale fee.

Our planning takes into account the guidance contained in the Local Audit Reset and Recovery Implementation Guidance (LARRIG), numbers 1 to 5. LARRIGs are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the *Local Audit and Accountability Act 2014* (the Act). LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England. The guidance in LARRIGs supports auditors in meeting their requirements under the Act and the Code of Audit Practice published by the NAO on behalf of the C&AG.

Building back assurance

Our planning also takes into account the guidance contained in the FRC's document Local Audit Backlog Rebuilding Assurance. Alongside the backlog measures, the Government has announced its intention to 'overhaul the local audit system.'

The FRC's guidance states: "*Recovery from the backlog is a shared endeavour between auditors and local bodies. Accounts preparers have a vital part to play, providing good quality draft financial statements supported by comprehensive working papers and supporting evidence to auditors. The success of these proposals relies on both auditors and accounts preparers working closely together to agree jointly-owned delivery plans for each year's audit. Chartered Institute of Public Finance and Accountancy (CIPFA) are responsible for the production of guidance to support accounts preparers. Audit Committees should ensure that they are planning and able to play their full part in the process.*"

Elements of building back assurance are subject to detailed discussion within a cross-firm working group, also attended by the FRC, known as 'the Sandbox'. We will ensure our build-back approach is fully ISA compliant and, where it relies on the eventual outcome of Sandbox discussions, we will only utilise this approach where it has been endorsed by the FRC.

As part of our work in 2023/24, we began assessing what work, carried out in 2023/24, can be used to inform the process of rebuilding assurance in future years. Where work was able to be undertaken in 2023/24, we intend to accrete this work into this and future audit periods to inform the future building back of assurance. The build-back approach will require us to apply a process of rebuilding assurance over all financial years for which disclaimers of opinion have been issued.

As a result of the approach we adopted in 2023/24 we have developed our understanding of the Council's systems, processes, controls and arrangements for the preparation of the financial statements and have gathered information which may inform the process of rebuilding assurance in this and future years.

We have developed an indicative end-to-end build-back recovery plan for disclaimed audits. We set out this indicative plan for your Council here.

Our overarching approach

Our approach to your audit from 2024/25 onwards comprises three distinct phases with the ultimate objective of returning to unmodified opinions in the future.

Phase	Planned work	Timing	Included in scale fee?
1	Undertake the normal 'in-year' audit. This will provide assurance over some closing balances and most in-year movements	Annually	Yes
2	Undertake 'build-back' testing back to the last clean opinion for specified balance sheet items where full assurance over the closing balance cannot be obtained without opening assurance	To be agreed with Council	No – additional cost
3	Undertake work on prior-year disclaimed CIES entries and reserve movements back to the last clean opinion (subject to Sandbox discussions)	To be agreed with Council	No – additional cost

Building back assurance

One of the contributing factors to the existing backlog of opinions nationally was insufficient capacity across audit suppliers and, in some cases, within council finance teams. These capacity constraints continue. It is therefore not possible to rebuild all assurance within a one-year period. In terms of the work required under phases 2 and 3 – which could be considerable – we will discuss with management the appropriate timing and year(s) for such work. For 2024/25 we anticipate there will be sufficient capacity to undertake phase 1 and potentially some elements of phase 2, with the remainder of the indicative build back plan falling into future years.

Phase 1: the 'in-year' audit and accretion of evidence

In 2024/25 and future years, our 'in-year' audit will enable us to reach one of the following conclusions for each balance sheet item of account. This approach is subject to the provision of appropriate and timely evidence which fully supports the balances in question, and whether our detailed work confirms our assumptions over which balances can be fully supported independently of the missing opening assurance.

The items in the first category will be rolled forward and accreted into future years as part of the overarching indicative build-back strategy. It will take a minimum of three years for the items in this first category to be fully assured across three closing balances. By this time, no further retrospective build back should be required for these items of account.

The items in the second category will need further work to obtain full assurance, which forms phases 2 and 3 of the overarching indicative build-back approach.

Conclusion	Likely applicable balances
Assurance gained over the closing balance of the item of account (i.e. closing balance is not inherently tied to the opening position)	• Other land and buildings valuation • Council dwellings valuation • Investment properties • Investments • Debtors • Creditors • Cash and cash equivalents • Borrowing • Provisions
Assurance gained in-year but lack of opening assurance means the closing balance / full year balance on CIES cannot be fully assured and remains disclaimed	• Property plant and equipment • Council dwellings • Pension liabilities (IAS19) • Long term debtors • Long term creditors • Long term lease liabilities • Income strip balances • All reserves

Building back assurance

Phase 2: build-back for specified balance sheet items where the closing position is inherently tied to the opening position

These closing balances can only be assured by undertaking work on these items of account in the disclaimed years, back to the last clean opinion.

We are not, at this stage, proposing to rebuild assurance for historic land and buildings, council dwelling and IAS19 pension valuations or CIES income and expenditure over the disclaimed years. This is considered further in Phase 3.

Obtaining full assurance over the pension liability valuation (IAS19) closing balance will not be possible until the completion of the next triennial valuation. This is because of missing assurance over the current position dating back to the previous triennial valuation. The next triennial valuation is due to be accounted for from 2025/26, and we will undertake work in respect of this in conjunction with the pension fund auditor during the 2025/26 audit year.

In 2024/25 we will undertake work on the IAS19 disclosures and, in particular, the Council's accounting for the pension asset ceiling and related accounting items, to assess the accuracy and disclosure of these and other factors, in readiness for 2025/26 and the triennial valuation.

Phase 3: build-back on prior year disclaimed CIES entries and reserve movements back to the last clean opinion

The approach to this is being discussed by all firms within the 'Sandbox'. Firms, including Azets, will only use this approach if it is endorsed by MHCLG and appropriate statutory guidance.

If it is endorsed, we will employ the 'Sandbox' approach back to the last clean opinion to gain full assurance over prior years' CIES and reserves movements and, therefore, reserves closing balances. This may involve selective substantive testing of income and expenditure transactions within disclaimed years.

If the 'Sandbox' approach is not endorsed, or if the risk assessment of the Council's position means the approach cannot be used, we will need to undertake full CIES testing in previously disclaimed years. This will then enable us to undertake reserves testing for each disclaimed year, enabling us to rebuild the assurance over the reserves balances and provide assurance over the general fund, earmarked reserves and unusable reserves, as well as over the Council's Capital Financing Requirement (CFR) and minimum revenue provision (MRP).

Indicative build-back planner

	Build back of specified closing balances				Recovery of closing balances	Recovery of reserves and CIES	
Item of account	**Phase 1**				**Phase 2 (year and timing to be agreed with management)**	**Phase 3 (year and timing to be agreed with management)**	**Included in scale fee?**
	2024/25	**2025/26**	**2026/27**	**2027/28**			
Income in-year *(fees and charges, taxation, grants, other income)*	Yes	Yes	Yes	Yes	N/A	N/A	Yes
Expenditure in-year *(payroll, operating expenditure, other expenditure)*	Yes	Yes	Yes	Yes	N/A	N/A	Yes
Other land and buildings valuation, council dwellings valuation	Yes	Yes	Yes	Yes	N/A	N/A	Yes
Closing balances not inherently tied to the opening balance *(includes Investment properties, investments, debtors, creditors, cash and cash equivalents, borrowing, provisions)*	Yes	Yes	Yes	Yes	N/A	N/A	Yes
Pension liabilities (IAS19) *(triennial in 2025/26)*	Yes	Yes	Yes	Yes	N/A	N/A	Yes
Reserves and reserves movements in-year *(general fund, earmarked reserves, unusable reserves, CFR, MRP, disclaimed year CIES movements)*	Yes	Yes	Yes	Yes	N/A	N/A	Yes
Cash flow statement in-year	Yes	Yes	Yes	Yes	N/A	N/A	Yes
Collection fund and HRA in-year	Yes	Yes	Yes	Yes	N/A	N/A	Yes
Cash flow statement and related notes full assurance	Yes	Yes	Yes	Yes	N/A	N/A	Yes
PPE closing balances, council dwelling closing balances *(recovery of additions, disposals, depreciation and other capital movements)*	No	No	No	No	Yes	No	No
Closing balances inherently tied to the opening balances where prior year recovery is required *(Long term debtors, long term creditors, long term lease liabilities, PFI, income strip)*	No	No	No	No	Yes	No	No
Collection fund surplus	No	No	No	No	Yes	No	No
Reserves and reserves movements full assurance (including movement on HRA statement) *(general fund, earmarked reserves, unusable reserves, CFR, MRP, disclaimed year CIES movements)*	No	No	No	No	No	Yes	No

Indicative assurance over build-back period

	Build back of specified closing balances through in-year audit				Recovery of closing balances	Recovery of reserves and CIES
	Phase 1				Phase 2 (year and timing to be agreed with management)	Phase 3 (year and timing to be agreed with management)
	2024/25	2025/26	2026/27	2027/28		
PHASE 1(A): Assurance gained over specific balance sheet closing balances which are not inherently tied to the opening balance, EXCEPT FOR pensions IAS19 balance	Yes	Yes	Yes	Yes	N/A	N/A
PHASE 1(B): Assurance gained over specific balance sheet closing balances which are not inherently tied to the opening balance, INCLUDING pensions IAS19 balance	No	Yes	Yes	Yes	N/A	N/A
PHASE 1(C): Assurance gained over comparator closing balance for specific balance sheet items not inherently tied to the opening balance	No	No	Yes	Yes	N/A	N/A
PHASE 1(D): Assurance gained over comparator opening balance for specific balance sheet items not inherently tied to the opening balance	No	No	No	Yes	N/A	N/A
PHASE 2: Assurance gained over balance sheet balances which are inherently tied to the opening balance – current year closing, prior year closing, prior year opening – plus collection fund surplus	N/A	N/A	N/A	N/A	Yes	N/A
PHASE 3: Assurance gained over general fund, earmarked reserves, unusable reserves	N/A	N/A	N/A	N/A	N/A	Yes
Full assurance gained for each phase?	No	No	No	Yes	Yes	Yes
Is missing assurance pervasive?	**YES**	**YES**	**YES**	**YES *(phase 1 obtained only)***	**YES *(phase 1 and 2 obtained only)***	**NO *(provided also have full phase 1 and 2)***
Anticipated opinion	**Disclaimer**	**Disclaimer**	**Disclaimer**	**Disclaimer**	**Disclaimer**	**Clean**
Additional fee – disclaimer	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**No**
Additional fee – build back	**No**	**No**	**No**	**No**	**Yes**	**Yes**

Anticipated audit reports by year

Year	Assurance gained								Anticipated audit report
	Closing balances	Comparator closing balances	Comparator opening balances	Pensions IAS19 closing balance	Pensions IAS19 comparator closing balance	Pensions IAS19 comparator opening balance	Closing balances inherently tied to the opening balance	Reserves	
2024/25	Y	N	N	N	N	N	N	N	Disclaimer
2025/26	Y	Y	N	Y	N	N	N	N	Disclaimer
2026/27	Y	Y	Y	Y	Y	N	N	N	Disclaimer
2027/28 ***(phase 1 only)***	Y	Y	Y	Y	Y	Y	N	N	Disclaimer
2027/28 * ***(phase 1 and 2 only)***	Y	Y	Y	Y	Y	Y	Y	N	Disclaimer
2027/28 * ***(phase 1, 2 and 3)***	Y	Y	Y	Y	Y	Y	Y	Y	Clean

** Phase 2 (recovery of assurance back to the last clean opinion) and Phase 3 (recovery of general fund and reserves assurance) can be undertaken earlier than 2027/28 should there be sufficient capacity within the audit team and finance team, and subject to agreement of cost for this additional work.*

Our financial statements audit explained

Dec - Feb | Feb - Mar | 31 March 2025 | From July | Jan 2026 | Feb 2026 | By 27 Feb 2026

Planning

- Identify changes in your business environment
- Determine materiality
- Scope the audit
- Risk assessment
- Planning meetings with management
- Planning requirements checklist to management
- Issue audit plan

Interim

- Document design control and effectiveness
- Discuss audit plan with audit committee
- Early testing

Period end: 31 March

Final accounts

- Regular updates with management
- Completion of all audit testing
- Conclude on significant risk areas
- Report observations on other risk areas, management judgements
- Draft Audit Completion report
- Discuss with management

Audit Committee

- Discuss audit findings with Audit Committee

Completion

- Subsequent events procedures
- Management representation letter
- Sign financial statements

Sign off

- Sign auditor's report
- Issue delayed certificate

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these. Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA (UK) 260 defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Council and the needs of the users. When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2025 was calculated as follows:

	Group £’000	Council £’000	Explanation
Overall materiality for the financial statements	2,200	2,100	Our initial assessment is based on 2% of gross revenue expenditure as disclosed in the 2023/24 annual report and accounts. We consider this to be the principal consideration for the users of the financial statements when assessing financial performance of the Council and Group. The financial statements are considered to be materially misstated where total errors exceed this value
Performance materiality	1,430	1,365	65% of materiality (adjusted to take into account the Council component materiality allocation for the group accounts) Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
Trivial threshold	110	110	5% of overall materiality for the Council and group. Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. Individual errors above this threshold are communicated to those charged with governance.

In addition to the above, we consider any areas for specific lower materiality.

Significant risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- Our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- Are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Management override of controls (Council and group) Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. **Risk of material misstatement: Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals; • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals; • Testing high risk and/or unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council’s journals policy; • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will also challenge assumptions and consider for reasonableness and indicators of bias which could result in material misstatement due to fraud; and • Evaluating the rationale for any changes in accounting policies, estimate or significant unusual transactions.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Prior year opinion on the financial statements (Council and group) As a result of the backstop implemented on 28 February 2025, a disclaimer audit opinion was provided on the council 2023/24 financial statements. Disclaimed audit opinions have also been provided on the Council's accounts for the 2021/22 and 2022/23 years. As a result of prior year disclaimed audit opinion: • There is limited assurance available over the Council's opening balances, including those balances which involve higher levels of management judgement and more complex estimation techniques (e.g. defined benefit pension valuations, land and building, council dwelling and investment property valuations, amongst others); and • Significant transactions, accounting treatment and management judgements may not have been subject to audits for one or more years – or at all. This may include management judgements and accounting treatment in respect of significant or complex schemes or transactions which came into effect during the qualified or disclaimed period/s. The absence of prior year assurance raises a significant risk of material misstatement at the financial statement level that may require additional audit procedures. **Inherent risk of material misstatement: Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Considering the findings and outcomes of prior year audits and their impact on the 2024/25 audit; • Considering the impact on our audit of qualified or disclaimed audit opinions, particularly regarding opening balances and 'unaudited' transactions and management judgements made in the previous years which continue into 2024/25; and • Considering the impact of any changes in Code requirements for financial reporting in previous and current audit years.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Income Strip (Council and group) The Council has entered a complex and financially significant income strip scheme. This requires the recognition of an asset, a significant finance lease liability and management judgement on accounting for various transactions related to this scheme. The complexity of the accounting is greater as part of this transaction sits within the Council's subsidiary entity. The Council will also need to consider the impact of IFRS16 on the income strip arrangement and how this is accounted for within the financial statements. The accounting transactions of the income strip affect various assertions across multiple items of account in the CIES, balance sheet and Movement in Reserves statement. We have therefore assessed this as a financial statements level risk. **Inherent risk of material misstatement: Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Reviewing management's accounting treatment for this transaction, including revenue flows in year and the value of long and short-term assets and liabilities associated with the scheme • Assessing management's accounting treatment against the requirements of the CIPFA Code and International Financial Reporting Standards. • Assessing management's judgement on the impact of IFRS16 on the accounting for income strip transactions.

Significant risks of material misstatement

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Fraud in revenue recognition for income and expenditure (Council and group) – rebutted Material misstatement due to fraudulent financial reporting relating to revenue recognition is a rebuttable presumed risk in ISA (UK) 240. Having considered the nature of the revenue streams at the Council, we consider that the risk of fraud in revenue recognition can be rebutted on all income streams because: • there is little opportunity available to manipulate revenue recognition; • there is limited incentive to manipulate revenue recognition • the Council's existing income transactions do not provide a significant opportunity to manipulate income between years in any meaningful way or to adopt aggressive recognition policies. We have also considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at the Council, and we are satisfied that this is not a significant risk for the reasons set out below: • significant amount of expenditure is in relation to pay, and • non-pay expenditure reflected in the Council's financial statements exhibits a straightforward nature, characterised by reduced subjectivity, and there is little incentive to management to manipulate expenditure. **Inherent risk of material misstatement (existence and occurrence): Low**	Whilst we have rebutted the risk of fraud in income and expenditure, we will perform the below procedures based on their value within the financial statements: • Documenting our understanding of the Council's systems for income and expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements • Evaluating the Council's accounting policies for recognition of income and expenditure and compliance with the CIPFA Code. • Substantively testing material income and expenditure streams using analytical procedures and sample testing of transactions recognised for the year

Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of council dwellings, other land and buildings and investment property – key accounting estimate – (Council and group) Revaluation of council dwellings, other land and buildings and investment property should be performed with sufficient regularity so that carrying amounts are not materially misstated. The Council carries out a rolling programme of revaluations to ensure all property, plant and equipment required to be measured at fair value is revalued at each 1 April and it undertakes a full revaluation of its investment property annually. Management engage the services of a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS) to undertake these valuations as of 31 March 2025. The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and the methods, assumptions and source data underlying the fair value estimates. These valuations represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurements and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of council dwellings, other land and buildings and investment property as a significant risk. We will further pinpoint this risk to specific assets, or asset types, on receipt of the draft financial statements and the year-end updated asset valuations to those assets where the in-year valuation movements falls outside of our expectations. **Inherent risk of material misstatement (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating management processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of management's valuation expert; • Considering the basis on which the valuations are carried out and challenging the key assumptions applied; • Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. We will consider whether we require an auditor's expert; • For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding; • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct; and • Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

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Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of the defined pension fund net liability/asset – key accounting estimate – (Council and group) An actuarial estimate of the net defined pension liability/asset is calculated on an annual basis under IAS 19 ‘Employee Benefits’, and on a triennial funding basis, by an independent firm of actuaries with specialist knowledge and experience. The triennial estimates are based on the most up to date membership data held by the pension fund and a roll forward approach is used in intervening years, as permitted by the CIPFA Code. The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates. This represents a key accounting estimate made by management within the financial statements due to the size of the values involves, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk. **Inherent risk of material misstatement (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating managements processes for the calculation of the estimate, the instructions issued to management’s expert (the actuary) and the scope of their work; • Evaluating the competence, capabilities and objectivity of the actuary; • Assessing the controls in place to ensure that the data provided to the actuary by the Council and their pension fund was accurate and complete; • Evaluating the methods, assumptions and source data used by the actuary in their valuations, with the support of an auditors’ expert; • Evaluating whether any asset ceiling was appropriately considered (if applicable) when determining the value of any pension asset included in the financial statements; • Assessing the impact of any significant differences between the estimated gross asset valuations included in the financial statements and the Council’s share of the investment valuations in the audited pension fund accounts’; and • Ensuring pension valuation movements for the year and related disclosures have been correctly reflected in the financial statements.

Other risks of material misstatement

Other identified risks

Other identified risks are those which, although not considered to be significant, will require specific consideration during the audit.

Identified risk	Planned audit procedures
Implementation of IFRS 16 – key accounting estimate – (Council and group) IFRS 16 was adopted and implemented by local government bodies under the Code of Audit Practice from 1 April 2024. Under IFRS 16 a lessee is required to recognise a right of use asset and associated lease liability in its Balance Sheet. This will result in significant changes to the accounting for leased assets and the associated disclosures within the financial statements for the year ended 31 March 2025. As of 31 March 2024, the Council does not have any material operating leases. We are currently waiting for the Council's confirmation of the impact for 2024/25. The Council will also need to consider the impact of IFRS16 on the income strip arrangement and how this is accounted for within the financial statements.	Procedures performed to mitigate risks in this area will include: • Assessing the appropriateness of the Council's approach to identification of leases captured within the scope of IFRS 16, with a particular focus on ensuring completeness of leases; • Performing a walkthrough of the Council's systems and processes to capture the data required to account for right of use (RoU) lease assets and associated liability in accordance with IFRS 16; • Reviewing the Council's accounting policies for the year ended 31 March 2025 to reflect the requirements of the new accounting standard; • Assessing the existence, valuation, accuracy and completeness of the right of use assets and associates lease liabilities, and the related disclosures within the financial statements; • Assessing and testing Council's method of valuing the lease liability attributed to the Queensway income strip scheme; and • Evaluating whether Right of Use assets and lease liabilities have been appropriately remeasured in line with the requirements of IFRS 16 as set out in the CIPFA Code.

Other risks of material misstatement

Identified risk	Planned audit procedures
Minimum revenue provision (MRP) – (Council) Linked to the risk of 'misstatements due to fraud and error', we consider specific areas where management makes significant judgements that impact charges to the General Fund balance. Local authorities are required to charge a 'Minimum Revenue Provision' (MRP) to the General Fund in each financial year related to borrowing. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP but need to ensure the calculation is prudent. In calculating a prudent provision, local authorities are required to have regard to statutory guidance. There is a risk that the Council may not been appropriately prudent in its calculation of MRP and/or not followed the relevant statutory guidance.	Procedures performed to mitigate risks of material misstatement in this area will include: • Gaining an understanding of the processes and controls put in place by management to calculate the Minimum Revenue Provision (MRP) • Assessing and reviewing the calculation of the Capital Financing Requirement to ensure it is appropriate and consistent with other notes in the financial statements • Reviewing the MRP Policy statement and confirming consistency with prior year or any changes thereof • Evaluating the appropriateness of the Council's MRP policy • Evaluating whether the MRP has been appropriately calculated in accordance with the latest statutory guidance.
Housing Revenue Account (HRA) – (Council) Expenditure by the HRA is tightly controlled by legislative requirements. HRA monies are ring-fenced and cannot be used for general fund purposes. Funds can also not be appropriated from the HRA and moved to the general fund.	Procedures performed to mitigate risks in this area will include: • Reviewing expenditure incurred by the HRA to assess whether it is correctly accounted for within the HRA boundary

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Other risks of material misstatement

Identified risk	Planned audit procedures
Valuation of Debtors (Council) The Council's accounts hold long term debtors of circa £34m owed by the Council's subsidiary entities: Queensway (Stevenage) LLP and Marshgate Ltd. However, their ability to pay this is not certain based on their audited reported financial positions. It is important that the Council undertakes an expected credit loss assessment in line with International Financial Reporting Standard 9 (IFRS9) and requirements within the CIPFA Code of Practice on local authority accounting, to assess whether this £34m debtor should be impaired. The Council should ensure the financial risks related to both companies are fully considered and reflected in the financial statements of the Council, as the ultimate beneficial owner, ensuring any expected credit loss which may require recognition is included within the Council's annual financial position. The Council should also consider, if any guarantee is given to the subsidiaries to support their going concern, the impact this may have on the Council's financial statements and ensure it is appropriately accounted for within the Council's accounts.	Procedures performed to mitigate risks of material misstatement in this area will include: • Gaining an understanding of the processes and controls put in place by management to ensure compliance with the requirements of IFRS9 • Gaining an understanding of any guarantees provided by the Council to the subsidiaries and assessing whether these have been correctly accounted for within the Council's financial statements

Other risks of material misstatement

Identified risk	Planned audit procedures
Impact on going concern of the performance of the income strip – (Council and group) We have reviewed the most recent set of audited accounts for Queensway (Stevenage) LLP and noted ongoing losses reported by the subsidiary (£0.71m in 2023/24 and £0.53m in 2022/23). The subsidiary also has reported a negative balance sheet position of £4.89m. These ongoing losses and the net liability position of the company as a whole indicate financial strain. If the LLP continues to make losses and is not generating sufficient income in the medium to longer term to cover the lease payments to the Council, this could create a mismatch between the Council's liabilities to Aviva and its income from the LLP. This could in turn negatively impact the Council's overall financial position.	Procedures performed to mitigate risks in this area will include: • Reviewing cashflow forecasts, ongoing performance of the income strip and the impact on the Council of continued underperformance • Obtaining and reviewing management's going concern assessment

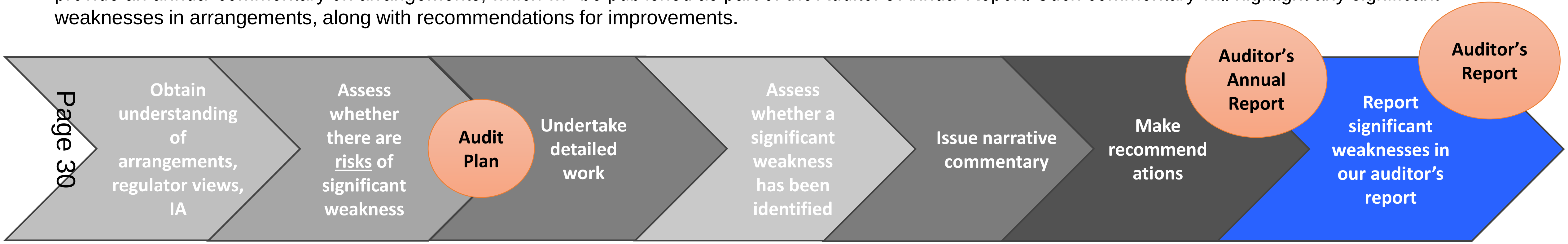
Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as those adopted for the risks identified in this report.

Value for money

Under the Code of Audit Practice, we must satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to here as "Value for Money", or "VFM").

NAO Auditor Guidance Note 03 'Auditors' Work on Value for Money Arrangements' ("AGN 03") was updated and issued on 14 November 2024 and requires us to provide an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report. Such commentary will highlight any significant weaknesses in arrangements, along with recommendations for improvements.



When reporting on such arrangements, the Code of Practice requires us to structure our commentary under three specified reporting criteria:

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

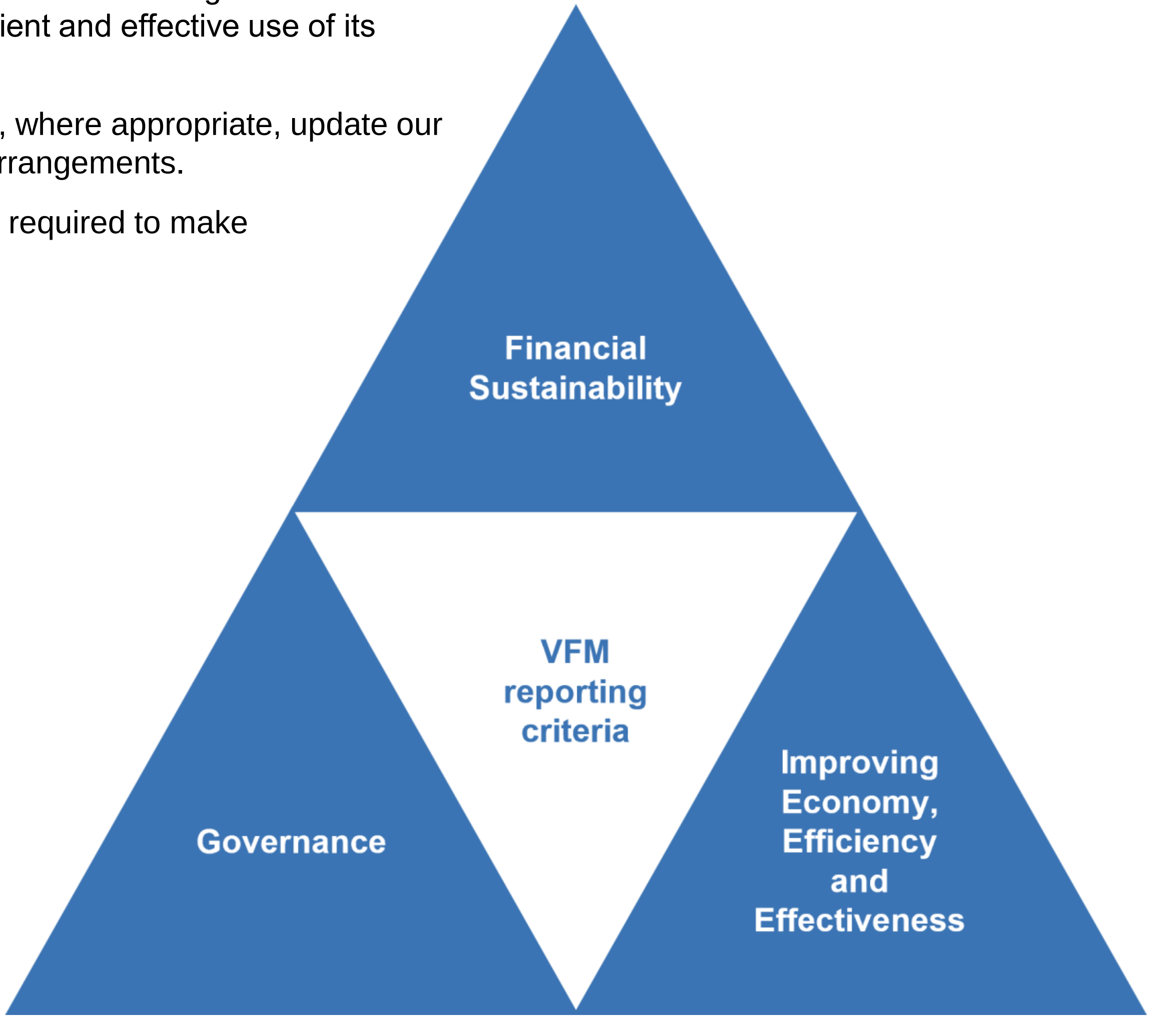
Value for Money

As part of the planning process, we are required to perform procedures to identify potential risks of significant weaknesses in the Council's arrangements to secure VFM through the economic, efficient and effective use of its resources.

We are required to re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

Where we identify significant weaknesses in arrangements as part of our work, we are required to make recommendations setting out:

- Our judgement on the nature of the weakness identified;
- The evidence on which our view is based;
- The impact on the local body; and
- The action the body needs to take to address the weakness.



Value for Money

Risks of significant weakness in VFM arrangements

We have carried out an initial risk assessment to identify any risks of significant weakness in respect of the three specific areas of proper arrangements using the guidance contained in AGN 03. A significant weakness is a risk requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

We will re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

When considering the Council's arrangements, we will have regard to the three reporting criteria set out in AGN03, as well as performing additional work in the areas identified below which are the potential areas of significant weaknesses, we have identified at the planning stage.

Criteria	Potential risk of significant weakness	Our risk based procedures and evaluation approach includes (but is not limited to)
Financial sustainability	None identified	We have not identified any risks of significant weakness at this stage. However, there are financial risks present which, if not managed effectively over the short to medium term, could introduce significant weakness in future years. These relate primarily to the financial performance of the income strip scheme. We reported these issues in our Auditor's Annual Report in 2023/24 and will follow up on the recommendations raised from the prior year.
Governance	None identified	We have not identified any significant risks of weakness at this stage. We raised one recommendation in the prior year to strengthen the reporting arrangements for the income strip and performance of the subsidiary companies. We will follow up on progress in this area as part of our audit.
Improving economy, efficiency and effectiveness	None identified	We have not at this stage identified any risks of significant weakness that require specific audit procedures

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist.

Audit team and logistics

Your audit team

Role	Name	Contact details
Key Audit Partner	Paul Grady	Paul.Grady@azets.co.uk
Engagement Manager	Martha Charima	Martha.Charima@azets.co.uk
Assistant Manager	CJ Abellera	CJ.Abellera@azets.co.uk
In-charge auditor	Ava Campbell	Ava.Campbell@azets.co.uk

Timetable

Event	Date
Planning and risk assessment	Dec – Mar 2025
Reporting of plan to Audit Committee	June 2025
Publication of draft accounts	30 June 2025
Year end audit	Sep – Nov 2025
Auditor's Annual Report (AAR)	Nov 2025
Reporting of Audit Findings (ISA260)	Feb 2026
Target date of approval of accounts	Feb 2026
Accounts publication deadline (as specified in the Accounts and Audit (Amendments) Regulations 2024)	27 Feb 2026

Our expectations and requirements

For us to be able to deliver the audit in line with the agreed fee and timetable, we require the following:

- Draft financial statements to be produced to a good quality by the deadlines you have agreed with us. These should be complete including all notes, the Narrative Statement and the Annual Governance Statement;
- The provision of good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- Ensuring staff are available and on site (as agreed) during the period of the audit;
- Prompt and sufficient responses to audit queries within two working days (unless otherwise agreed) to minimise delays.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that the audit team and the Council's finance team work closely together to achieve this timetable.

Independence, objectivity and other services provided

Auditor independence

We confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. We have also complied with the NAOs Auditor Guidance Note 01, issued in September 2022, which contains supplementary guidance on ethical requirements for auditors of local public bodies. We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which should be bought to your attention

Other services

We have detailed in the table below any other services provided to the Council (and the Group), the threats to our independence these present and the safeguards we have put in place to mitigate these threats

Service	Provided to	Fee	Safeguards to mitigate threats to independence
Audit related: Certification of Housing Benefit Assurance Process (HBAP) claim (2024/25)	Council	£28,000 plus per diem rate for additional work required	**Self-interest:** Given this is likely to be a recurring fee, we consider a threat present. However, the fee is not significant to Azets Audit Services or Stevenage Borough Council. The fee is fixed (apart from an additional £2,000 for each additional 40+ workbook) and not contingent in nature. **Self-review**: Whilst housing benefit revenue and expenditure streams are within the financial statements, we do not complete the claim form. The focus of our work is solely testing the data in the claim form prepared by the management. **Management:** As above, the claim form is completed by management and any adjustments or amendments identified to the form during the certification work are discussed and agreed by management prior to submission of the certification report. We therefore consider these risks sufficiently mitigated.

Fees

PSAA set a fee scale for each audit that assumes the audited body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. This fee scale is reviewed by PSAA each year and adjusted, if necessary, based on auditors' experience, new requirements, or significant changes to the audited body. The fee may be varied above the fee scale to reflect the circumstances and local risks within the audited body.

Our estimated fee (excluding VAT) is as follows. This fee is estimated based on our understanding at this point in time and may be subject to change. Our planned fee is on the basis that our expectations set out on pages 4 and 31 are met.

Audit fee	2024/25 £
Scale fee: base fee for the audit of the Council (and Group's) financial statements (as set out in the fee scales issued by PSAA)	219,875
IFRS16: work needed to audit the new standard. PSAA have confirmed this work is not included in the above scale fee	TBC
Disclaimer work (**note 1**)	TBC
Build back work (**note 2**)	TBC
Total audit fee for Stevenage Borough Council	**TBC**

It is our policy to bill for overruns or scope extensions e.g., where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work.

Our policy is to raise fees to account at appropriate stages of the audit in line with specified milestones set out by PSAA. All fee variations are subject to determination by PSAA.

The approximate total fees charged to the Council and group for the provision of services in 2024/25 is as follows:

Audit fee	2024/25 £
Audit of the Council (scale fee)	219,875
IFRS16	TBC
Certification of the HBAP Claim (Excluding additional workbooks)	28,000
Additional certification work on HBAP claim (additional workbooks)	TBC
Total fees for the Council	**TBC**

Note 1: *this includes the additional annual work required to consider the disclaimed audits from prior years, development of revised approach for the Council in response to the missing assurance, the production, agreement and reporting of additional interim progress reports to management and the Audit Committee, the development and reporting of a revised 'Audit Completion Report' for reporting the additional considerations arising from the disclaimers, the drafting of a disclaimed audit report and the various risk, compliance and technical consultations arising as a result of this unique and unprecedented situation.*

Note 2: *this includes all work for phases 2 and 3 which require building back assurance to the last clean opinion*

Appendix I: Group audit scope and risk assessment

As Group auditor under ISA (UK) 600 (Revised September 2022) we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The auditing standard for group engagements has been revised, as a result the key changes that you may see reflected in the audit plan are:

- Revisions to the definitions of a group and component extend the scope of the ISA to encompass a wider range of group scenarios. This means that a single legal entity could fall under the scope of the group's ISA based on its internal structure, while multiple legal entities may sometimes be defined as a single component;
- There is increased leadership responsibilities and involvement requirements for the group engagement leader, particularly when component auditors are utilised;
- There is a specific requirement for all component auditors to confirm their ability and willingness to comply with the FRC's Ethical Standard;
- The analytical/desktop review designation has been removed from the scope of procedures performed over a component in response to risk.

Group audit scope

The Group consists of the following entities:

Component	Nature and extent of further audit procedures	Planned audit approach
Stevenage Borough Council	Full Scope	Full scope statutory audit, as set out in this audit plan.
Queensway Properties (Stevenage) LLP	Specific Scope	Specific scope procedures to be performed by the group engagement team
Marshgate Plc	Specific Scope	Specific scope procedures to be performed by the group engagement team
Joint Venture with Mace Development	Specific scope	Procedures to Ensure Accurate Treatment of the Council's share in the Joint Venture

Full Scope Design and perform further audit procedures on the entire financial information of the component.
Specific Scope Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures.
None No further audit procedures required.

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Stevenage Borough Council

Auditor’s Annual Report

Year ended 31 March 2024

May 2025

AZETS

We are required to satisfy ourselves under s20(1)(c) of the Local Audit and Accountability Act 2014 that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report to you if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements are operating effectively.

Contents

Our 2023/34 audit approach and the detailed outcomes of our audit of the financial statements are communicated in the following reports:

- the auditor's report on the financial statements for the year ended 31 March 2024
- The audit completion (ISA 260) report to Those Charged with Governance

This report has been prepared in line with the Code of Audit Practice 2024 (the "Code") and supporting auditor guidance issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. This report is required to be published by the Council alongside the annual report and accounts.

We have complied with the Code, International Standards on Auditing (UK) and guidance issued by the NAO in the completion of our work. The NAO guidance includes both the normal Auditor Guidance Notes (AGNs) and the new Local Audit Reset and Recovery Implementation Guidance Notes (LLARIGs) which were issued by the NAO following the publication of **Statutory Instrument (2024) No. 907** under which the new statutory backstop dates for publishing of English local government financial statements were set in legislation.

Key messages

The purpose of the Auditor's Annual Report is to bring together all the auditor's work over the year. This includes the audit work carried out on the Council's financial statements and the audit work we are required to carry out under the Code on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money (VFM) arrangements).

A core element of the report is our commentary on VFM arrangements, which aims to draw to the attention of the members of the Council and the wider public relevant issues, recommendations arising from the auditor's work and the auditor's view on whether previous recommendations have been implemented satisfactorily.

Area of work	Our responsibilities	Conclusions
Financial statements	We were appointed as auditors to perform an audit of the financial statements of the Council in accordance with International Standards on Auditing (UK) (ISAs (UK), which are directed towards forming and expressing an opinion on the financial statements that have been prepared on behalf of management with the oversight of Those Charged with Governance. However, **The Accounts and Audit Regulations 2015**, as amended by the **Accounts and Audit (Amendment) Regulations 2024**, imposed a statutory backstop date of 28 February 2025 for the publication by the Council of their final Statement of Accounts for 2023/24. The Code specifies that (except in a few exceptional circumstances) auditors are required to issue their auditor's report before this date, even if planned audit procedures are not fully complete, so that local government bodies can comply with this statutory reporting deadline. This measure was introduced by government to reduce the audit backlog. We considered whether the time constraints imposed by the backstop date meant that we would not be able to complete all necessary procedures to obtain sufficient, appropriate audit evidence to support our audit opinion and fulfil all the objectives of all relevant ISAs (UK). These time constraints were further restricted by the earlier statutory backstop date of 13 December 2024, which led to the financial statements for 2021/22 and 2022/23 being disclaimed by the predecessor auditor on 5 December 2024.	• The disclaimed audit opinions issued on each of the last two years' financial statements by the predecessor auditor resulted in a lack of assurance on the Council's opening balances as at 1 April 2024. The lack of assurance over opening balances, together with the statutory backstop date for 2023/24, impacted on the audit procedures that we had planned to undertake to gain assurance on the 2023/24 financial statements. There was insufficient time and resource available for us to gain sufficient assurance during the 2023/24 audit, including recovering missing assurance from earlier years, before the statutory backstop date. • We therefore disclaimed our opinion on the Council's 2023/24 accounts on 12 February 2025. • The responsibilities of the Council and Those Charged with Governance remain unchanged. The Council's Responsible Finance Officer has a responsibility under **The Accounts and Audit Regulations 2015** to confirm that the Accountability Statements included in the Statement of Accounts give a true and fair view. Those Charged with Governance have an essential role in ensuring that they have assurance over the quality and accuracy of the financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. • As part of our 2024/25 audit, we will work with management to develop a recovery plan setting out the work required to return to unmodified audit opinions in the coming years.

continued......

Key messages

Area of work	Our responsibilities	Conclusions
Narrative report and annual governance statement	We are required to read and report if the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is materially inconsistent with the financial statements and our knowledge obtained from the audit, or otherwise appears to be materially misstated. We are also required to assess whether the Annual Governance Statement complies with the disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.	• We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have nothing to report in this regard. • As we concluded we are disclaiming the audit we do not have any findings to report in respect of this work.
Value for money	We are required under Section 20(1)c of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code requires us to report to you our commentary relating to proper arrangements. We assess the arrangements in place for securing economy, efficiency and effectiveness in the Council's use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work. We are required to report our commentary under specified criteria: Financial sustainability, Governance and Improving economy, efficiency and effectiveness.	• We have not identified any significant weaknesses in the arrangements for securing at economy, efficiency and effectiveness in the use of resources at the Council. • We have made "other" recommendations to support the Council's ongoing improvement.
Key recommend-dations	The Code requires that where auditors identify significant weaknesses as part of their review of the Council's arrangements to secure value for money, they should make recommendations setting out the actions that should be taken by the Council. We consider these to be key, or essential, recommendations.	• We did not make any key recommendations.

continued......

Key messages

Area of work	Our responsibilities	Conclusions
Public interest report	Under Section 24, Schedule 7(1)(1) of the Local Audit and Accountability Act 2014 the auditor of the Council must consider whether to make a report in the public interest if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public.	• We did not identify any matters for which we considered a public interest report to be required as part of our external audit for 2023/24.
Statutory recommend-ations	Under Section 24, Schedule 7(2) of the Local Audit and Accountability Act 2014 the auditor of a Council can make written recommendations to the Council which need to be considered by the Council and responded to publicly.	• We did not identify any matters for which we considered statutory recommendations are required as part of our external audit for 2023/24.
Application to the court	Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think than an item of account is contrary to law, they may apply to the court for a declaration to that effect.	• We did not make an application to the court.
Advisory notice	Under Section 29, Schedule 8 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if they think that the Council, or an officer of the Council, is about to make, or has made, a decision which involves or would involve the Council incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful.	• We did not issue any advisory notices.
Judicial review	Under Section 31, Schedule 8 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure to act by an authority, which it is reasonable to believe would have an effect on the accounts of that body.	• We did not make an application for judicial review.

Financial statements

The Statement of Accounts and financial statements included therein are an important tool for the Council to show how it has used public money and how it can demonstrate its financial health.

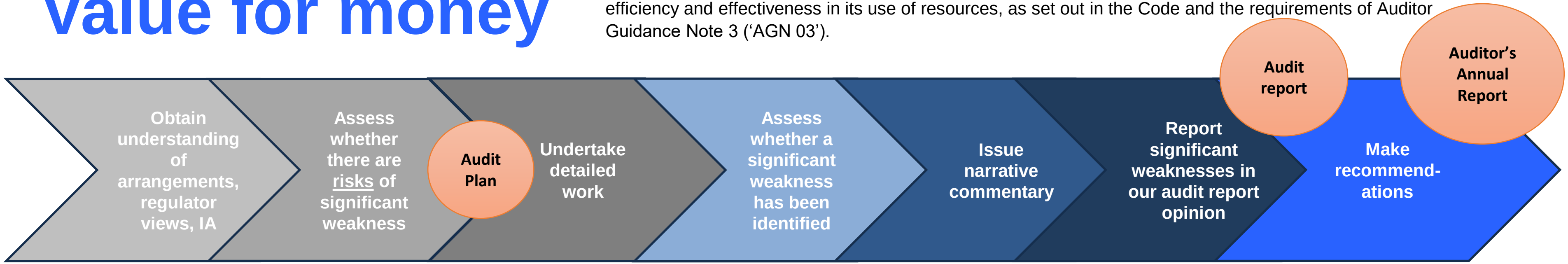
We were appointed as auditors to perform the audit in accordance with International Standards on Auditing (UK) (ISAs (UK).

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Area of work	Conclusions
Audit opinion on the financial statements	We issued a disclaimed opinion on the Council's financial statements on 12 February 2025.
Audit Completion (ISA260) report	Further details of the work we undertook can be found in our ISA260 report, which was reported to the Council's audit committee on 11 February 2025. Requests for this report should be directed to the Council. The significant risks we identified as part of our audit are set out in Appendix I.
Internal control recommendations	Recommendations relating to internal control arising from our financial statements work are contained in the Audit Completion (IS260) report. None of the recommendations we made reflected significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in the Council's use of resources and, as such, are not considered key recommendations.
Whole of Government Accounts (WGA)	We are required to carry out specified procedures on behalf of the NAO on the WGA consolidation pack under WGA group audit instructions. The Council does not exceed the threshold for detailed testing. However, we are required to issue an assurance statement to the NAO, including where an audit is disclaimed.
Preparation of the accounts	Under **The Accounts and Audit Regulations 2015** the deadline for the production and approval for the draft financial statements was 31 May 2024. The Council did not prepare its draft accounts in line with this deadline as, at the time, the prior year audit remained in progress. Management time was impacted closing audit years 2020/21 to 2022/23 with the previous external auditors by the backstop dates. With multiple years open, the preparation of the 2023/24 accounts by the 31 May 2024 was not possible due to uncertainty over comparators from unclosed audit years and the need to divert a comparatively small finance team to respond to and facilitate the earlier audits. The 2023/24 draft financial statements were subsequently published and made available for inspection on the Council's website on 20 September 2024.

Value for money

We are required to consider whether the Council has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources, as set out in the Code and the requirements of Auditor Guidance Note 3 (‘AGN 03’).



Updated risk assessment

At the time of making our initial risk assessment in January 2024 the predecessor auditor had not concluded their value for money work. We reported at the time that, upon completion of their work by the predecessor auditor, we would reconsider our planning assumptions and update our risk assessment as appropriate to take account of the findings reported. The predecessor auditor reported interim findings in March 2024 and finalised their work in November 2024. The impact on our risk assessment is set out in the table below.

Criteria	Significant weaknesses reported by prior year auditor in 2022/23	Key recommendations made by prior year auditor in 2022/23	Impact on 2023/24 risk assessment
Financial sustainability	None identified	None identified	No significant risks identified
Governance	None identified	None identified	No significant risks identified
Improving economy, efficiency and effectiveness	None identified	None identified	No significant risks identified

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Value for money

In undertaking our work we have not identified any significant weaknesses in arrangements. This was reported to the Council on 11 February 2025. Our detailed commentary is set out on the following pages.

Reporting criteria	Planning – risk of significant weakness identified?	Final – significant weakness identified?	Key recommendations made?	Other recommendations made?
Financial sustainability How the body plans and manages its resources to ensure it can continue to deliver its services	**No**	**No**	**No**	**Yes**
Governance How the body ensures it makes informed decisions and properly manages risk	**No**	**No**	**No**	**Yes**
Improving economy, efficiency and effectiveness How the body uses information about its costs and performance to improve the way it manages and delivers its services	**No**	**No**	**No**	**No**

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Value for money

In addition to our financial statements work we performed a range of procedures to inform our value for money commentary, including:

- Meeting with management and regular meetings with senior officers
- Interviews as appropriate with other executive officers and management
- Review of Council and committee reports and attendance at audit committee meetings
- Reviewing reports from third parties
- Considering the findings from our audit work on the financial statements
- Review of the Council's Annual Governance Statement and Narrative Report and other publications
- Considering the work of internal audit and the counter fraud function
- Consideration of other sources of external evidence.

Councils are responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in their use of resources. This includes managing key operational and financial risks and taking properly informed decisions so that they can deliver their objectives and safeguard public money.

As auditors, we are required to consider whether the Council has established proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We performed risk assessment procedures at the audit planning stage to identify any potential areas of significant weakness which could result in value for money not being achieved. This included considering the findings from other regulators and internal auditors, reviewing records at the Council and performing procedures to gain an understanding of the high-level arrangements in place. The resulting risk areas we identified were set out in our audit plan.

For each identified risk area, we performed further procedures during our audit to consider whether there were significant weaknesses in the processes in place at the Council to achieve value for money.

The NAO Code of Audit Practice requires us to structure our commentary on VFM arrangements under three reporting criteria: financial sustainability, governance and improving economy, efficiency and effectiveness.

We have set out on the following pages our commentary and findings on the arrangements at the Council in each area.

Summary of findings

Based on the audit work performed, we have not identified any significant weaknesses in the Council's arrangements for achieving value for money and have therefore not raised any key recommendations. We have raised other recommendations regarding financial sustainability and governance arrangements.

Value for money

Introduction

Stevenage Borough Council (the Council) is a district council in Hertfordshire. It works with nine other district and borough councils, local parish and town councils and Hertfordshire County Council (which includes Hertfordshire Fire and Rescue Service) in a three-tier local government system. The administrative area also includes the Hertfordshire Police and Crime Commissioner and Hertfordshire Constabulary. The Council serves a population of circa 90,000 people. The Council provides social housing from an in-house Housing Revenue Account and has entered into a number of large capital and investment schemes to promote regeneration, attract business to the area and becoming a growing ‘tech-hub’ location of choice. Some of these investment schemes carry significant financial risk. The Council faces, over the medium term, growing financial challenge and increasing uncertainty over its longer-term income predictions, particularly in respect of its investment in the Queensway ‘income strip’ investment.

Like all councils and the wider local government sector, Stevenage continues to face significant challenges. The sector faces high levels of uncertainty over future levels of government funding and, for a number of years, has had to plan on the basis of single-year settlements. This makes it harder to produce comprehensive multi-year plans as part of medium-term financial planning. The government has signaled an intention to return to multi-year settlements in the future and announced a national overhaul of local government, reorganizing multi-tier council areas into a series of unitary authorities with devolved powers at a regional, mayoral level. The changes proposed would impact Stevenage which, like all districts, would be absorbed into a larger unitary council from 1 April 2028 according to the current planned timescales. Work is currently ongoing to present options for reorganization in response to government requirements.

High inflation over recent years has increased cost pressures on all councils’ revenue and capital expenditure and, whilst it had been falling, in February 2025 inflation has increased again to 3%, indicating reduced certainty about what the future may hold, economically. High interest rates have provided the Council with fortuitously higher than expected interest income on cash balances, but the combination of higher inflation and higher interest rates impacts local communities, including the community the Council serves in Stevenage. This can lead to increases in demand for council services and impact on council income in areas such as car parking and collection rates for council tax, business rates and rents.

The Local Government Association continues to estimate that the costs to councils of delivering their services will exceed core funding in the future. Nationally, there has been an increase in the number of councils issuing s114 notices or indicating one may be likely.

Stevenage has arrangements in place to mitigate the macro-risks posed by the national context and, at present, a reasonable level of general fund reserves. However, these could be significantly depleted over the next few years if macro-economic conditions are unfavourable and the uncertainty inherent in the Council’s cost and income assumptions do not crystallise in the Council’s favour.

Financial sustainability

This relates to how the Council plans and manages its resources to ensure it can continue to deliver its services.

We considered the following areas:

- how the Council identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into the plans;
- how the Council plans to bridge its funding gaps and identifies achievable savings;
- how the Council plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- how the Council ensures that its financial plan is consistent with workforce, capital, investment, and other operational plans, which may include working with other local public bodies as part of a wider system; and
- how the Council identifies and manages risks to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

General fund

At 31 March 2024 the Council's general fund stood at £5.3m, a slight reduction from the general fund balance at 31 March 2023 of £5.95m. However, the level of earmarked reserves increased during the year from £5.6m to £8.8m, meaning the overall level of useable general fund reserves available to the Council now stands at £14.1m, compared to £11.5m a year ago. This is a reasonable level of reserves; the Council's net expenditure on services in 2023/24 was £15.6m and this level of reserves provides a buffer for unexpected short-term shocks.

However, whilst earmarked reserves can be utilised if Members decide to change their use, they are earmarked for specific purposes in anticipation of specific costs. The general fund balance of £5.3m as at 31 March 2024, whilst currently healthy at £1.6m higher than the Council's minimum level, is the true reserve for 'unanticipated' cost pressures. The earmarked reserves also include an Income equalisation Reserve and NNDR reserve. These are available to further support financial resilience and manage risk, over and above the general fund position.

Ring-fenced reserves for the Housing Revenue Account (HRA) stood at £10.6m at 31 March 2024, with a further £20.7m earmarked for use within the HRA. This is consistent with the balances from a year ago.

Stevenage Borough Council manages its budget in conjunction with the Medium-Term Financial Strategy (MTFS). The MTFS is the Council's key financial planning document for the General Fund. It sets out the Council's strategic approach to the management of the General Fund and contains key assumptions over council tax levels, income, cost and inflation pressures, payroll uplifts, capital funding and treasury management.

This strategy underpins the Council's key priorities for Stevenage and supports the delivery of these priorities and achievement of strategic outcomes within an affordable financial envelope. The MTFS sets out principles which generate financial security targets and identifies financial pressures and any additional resources for priorities to ensure the Council has a financially sustainable plan.

The MTFS is regularly updated and serves as a guide for the Council's financial planning over a multi-year period. Update summaries are included in savings report and budget reports on an ongoing basis. The MTFS includes forecasts for the General Fund, which covers the day-to-day expenses of the council. This involves adjusting for various pressures and savings, such as changes in government funding, inflation, and service demands. Alongside the MTFS, the Council also reviews its Capital Strategy, which outlines plans for long-term investments in infrastructure and other capital projects.

The MTFS identifies potential savings and efficiencies to support financial sustainability. This includes reviewing service delivery models and exploring new income generation opportunities. The strategy also considers borrowing costs and investment returns so that the Council can fund its projects while maintaining financial stability. The Council engages with the public and stakeholders to gather input on budget priorities and enhance transparency in the financial planning process.

The Council's Financial plan is completed as part of wider engagement with the Senior Leadership Team (SLT). The first stage of the annual budget setting process is a review of pressures that might impact the council such as new legislation or Council priorities.

Financial sustainability

The Council approved as part of its budget setting process a new Climate Change lead to support the Council in meeting its climate change priorities. The Council approves the budget in February of every year.

Informing the budget are Capital Strategy reports (reported quarterly) and service plans. These are constructed with input from the Senior Leadership Team and identify budget requirements. There is a quarterly monitoring process reported to Clearance Boards and the Cabinet. All heads of service are required to complete a 3-year savings, growth and Capital need form that feeds into a Star Chamber process, reviewed by the Council's Directors and reported to SLT for sign off. The Senior Leadership Team also meets with the Cabinet Portfolio Holders to 'agree' the process and completeness of the plan and uses the Council's Financial Security Group (cross party) to 'test options' ahead of approval.

The Revenue and Capital investment plans are approved as part of the budget setting process. The Council also has shared partnerships which require joint approval of spending requirements for Audit, Anti Fraud, Building Control, Revenue and Benefits and ICT. In addition, the Council liaises with the County Council and Police and Crime Commissioner in terms of the impact of the Collection Fund on their financial plans.

The Council plans its finances to support sustainable service delivery aligned with strategic and statutory priorities. The Council's revised procurement strategy outlines priorities and how procurement contributes to their Future Town, Future Council strategy ambitions. The strategy encourages local suppliers, supports wealth building and emphasizes social value benefits in procurement. Contracts are reviewed to enhance service delivery and consider insourcing procurement opportunities.

The Council maintains a Risk Register which each service is required to contribute to both in terms of identifying risks and monitoring them on a quarterly basis for reporting to Members. The SLT approves any changes and reviews the effectiveness of the Risk Management guide following recommendations from the Corporate Risk Group. The Audit Committee receives a report on these and comments or advises as appropriate.

The Council's assumptions in its financial strategy are not unreasonable and are supported by well-thought through rationale. Unavoidably, there remains risk attached to them. The strategy assumes pay increases of 3% in 2025/26 and 2% per annum thereafter. It assumes general inflationary increases of 2% per year from 2025/26 and a higher inflationary impact on fuel costs of 5%-8%. The risk remains that the anticipated reductions in inflationary pressures in the later years fails to materialise. In February 2025 inflation was 3%, which could put pressure on the assumptions built into 2025/26. Higher inflation will put increased pressure on pay budgets, which may offset the anticipated falls in pay inflation hoped for from 2025/26 onwards. Notwithstanding this, and in anticipation of future pressures in these and other areas, the Council has built some contingency into its earmarked reserves. The income equalisation reserve was increased during the year and now stands at £0.76m. This reserve offsets in-year income fluctuations where actual income varies from the assumptions made.

Increases in the base rate have had a positive impact as interest earned on cash balances has increased materially. However, the Council is aware that these rates will likely slowly reduce over the period of the MTFS, resulting in lower levels of investment income in future years.

Like all councils, Stevenage faces ongoing and increasing financial pressures. The general fund has been used to support the in-year budgets in recent years. This is not a sustainable strategy, although the amount needed has been reducing year on year and the general fund balance has remained above the minimum level of £3.65m set by the Strategic Director (s151), the Council's Chief Finance Officer. Inflation pressures are forecasted to add costs of £3.8m over the period until 2028/29, whilst increases in grant funding and taxation are forecast to increase by only £1.3m over the same period. For the year 2024/25, the Council has a savings target of £1.2m and then £1m each for the next three years. Star Chamber events are being held with Assistant Directors to identify savings within each Business Unit. The Council has, historically, demonstrated a good track record of achieving savings. The challenge, however, is that year-on-year, the achievement of additional savings becomes increasingly harder, particularly where macro-economic conditions are less certain.

Financial sustainability

The MTFS assumes the savings targets will be achieved in full to avoid further reliance being placed on in-year use of general fund reserves over the period to 2028/29. Whilst not unachievable, this will require robust monitoring and corrective action to address at an early stage any signs of slippage or changes in the risk profile or achievability of savings.

The Council recognises there is uncertainty over business rate income. The current system means business rate income fluctuates between years. The Council has made assumptions over the level of business rates growth that it is hoping to retain, but there remains significant uncertainty over these assumptions pending updates to central government policy. Moreover, business rates are a volatile income type, easily influenced by the economic environment, meaning that this is a greater area of risk. The Council maintains a significant collection fund earmarked reserve to mitigate the effects of this. This is £2.7m, representing 30% of all earmarked reserves. Maintaining this, the Council only allows for £0.2m of gains in the general fund in any one year.

Notwithstanding the challenging financial pressures over the MTFS period, the Council's arrangements for identifying its financial and economic risks and understanding its position are strong. The MTFS is well-thought-through and management are responsive to in-year changes to income and cost and their impact both in the current year and future MTFS plans. The Council's financial management in-year has enabled it to reduce its draw on General Fund reserves compared to previous years. Risks associated with the assumptions in the MTFS are well-understood and well-articulated and the MTFS is a detailed, granular strategy with a in-depth level of consideration across all areas of funding, costs and risks.

Housing Revenue Account

The Council maintains a Housing Revenue Account (HRA). The HRA Business Plan is the Council's strategic plan for managing its housing stock. It sets out the Council's short-to-medium term plans and priorities for its housing management services and provides a long-term (30 year) perspective on stock investment and financial planning. The plan was originally adopted by the Council's Cabinet in November 2014 following consultation with the Housing Management Board. The Business Plan is reviewed regularly to reflect changing circumstances as well as tenant and Councillor priorities. The HRA Business Plan was fully reviewed in 2023/24 to ensure a balanced HRA financial plan for the next 30 years and to ensure there are sufficient HRA funds to support the Council's Housebuilding and Acquisitions Programme, as well as reflect new requirements placed on social housing providers under the Social Housing Regulation Act 2023. This includes the Decent Homes Standard, building regulations and environmental improvements including decarbonisation of the Council's housing stock and compliance with revised consumer standards and a new inspection regime.

The latest version of the Business Plan was approved by the Cabinet on 15th November 2023. The Council's HRA Medium Term Financial Strategy (MTFS) looks at these plans over a five-year horizon in greater detail, setting out the principles which generates the need for Financial Security targets.

Financial sustainability

The risk associated with the HRA is increasing. Costs continue to increase, including for both regulation requirements and material costs, and this has resulted in the need for increased savings. Housing rents are uplifted based on the September Consumer Price Index (CPI) which was only 1.7%, limiting the income increases available. There is increasing pressure due to the volume of repairs required and the voids created whilst those repairs are being carried out. The cost pressures have led to the Council having to scale back their ambitions on the social housing decarbonisation scheme.

The HRA MTFS demonstrates a good understanding of the risks faced, including the increasing financial risk associated with the HRA. The assumptions, as with the general fund MTFS, are not unreasonable. Savings requirements are well-understood and articulated. The inherent financial risk is, however, increasing.

Marshgate Ltd

The Council set up a wholly-Council-owned company called Marshgate Ltd in 2018 with the principal purpose of forming a partnership — Queensway Properties (Stevenage) LLP. The Council owns 99.9% of Queensway LLP, with Marshgate owning the remaining 0.1%. Through Marshgate, the Council has ultimate ownership of 100% of the Queensway LLP.

The operations of Marshgate Ltd were expanded in line with the HRA Business Plan. The Council provided a loan to Marshgate Ltd to purchase ten dwellings (houses) for £1.35m on the open market. Marshgate leases these properties to the HRA at social cost plus interest costs plus a further 15%. The Council contends that this is lower than the cost at which the HRA could lease similar properties from the open market. The HRA then uses these houses to provide social housing to HRA tenants. The properties can be purchased by the HRA after 25 years for 58% of the original value. This approach was used to attract additional Homes England grant funding to the company – and thus the group as a whole –for the purchase of these properties that otherwise wouldn’t have been obtainable had the HRA purchased the properties directly.

Expenditure by the HRA is tightly controlled by legislative requirements. HRA monies are ring-fenced and cannot be used for general fund purposes. Funds can also not be appropriated from the HRA and moved to the general fund.

The Housing Act 1985 specifies that a local housing authority may provide housing accommodation by erecting houses, converting buildings into houses, or acquiring houses. It does not explicitly specify whether the HRA can lease properties in order to use these properties to provide social housing. However, the Housing Act 1985 also does not appear to expressly prohibit this. Moreover, the Act does not expressly prohibit the HRA leasing houses from the general fund.

We are satisfied that, in setting up the current arrangement, management were working with the best interests of the Council and the HRA in mind: the arrangement attracted grant funding otherwise not available and the Council believes the lease costs paid by the HRA to the Council are lower than if the HRA were to lease these properties from the open market. The option for the HRA to purchase the properties after 25 years for 58% of their historic value also demonstrates intent on the part of the Council to ensure, as far as possible, the HRA is not financially disadvantaged by the arrangement.

However, the substance of the arrangement is that the HRA is paying, annually, lease costs to the general fund for properties owned, ultimately, by the general fund. Given the unusual nature of this arrangement, and given the tight restrictions over the use of HRA monies and their appropriation by the general fund, we recommend management seek a specialist legal view over the arrangement to ensure the actions and transactions are *intra vires* and ensure officers and the Council are adequately protected against any potential future challenge over the arrangement.

Financial sustainability

The Group position

As well as holding 100% ownership of Marshgate Ltd the Council also owns 99.9% of Queensway Properties (Stevenage) LLP. The other 0.1% is owned by Marshgate Ltd meaning, ultimately, the Council owns 100% of both entities.

The Council has loaned Marshgate almost £12m to purchase dwellings for lease to the HRA and to finance building at a site called Courtlands, an old riding stables site, and developing properties for sale. A large proportion of this loan is repayable to the Council in 2025/26.

Marshgate's net assets total only £0.056m. The loans, totalling £11.93m, are offset by cash of £3.1m, housing stock valued at £7.6m and other debtors totalling £1.4m. The majority of the company's assets are not liquid and, therefore, its ability to pay the loan on time depends on the completion and sale of housing assets. There is, therefore, an element of risk over this position. The 'expected credit loss' related to potential impairment of the loan has not been factored into the Council's accounts.

Queensway LLP, which houses the income strip (considered in further detail in the next section), has a negative balance sheet with net liability of £4.9m following annual losses in each year since the partnership's inception. The auditors of the LLP, Moore NHS Audit Limited, have issued an unqualified opinion and raised no concerns over the going concern of the company. The accounts do not state whether or not a guarantee has been received from the Council over the LLP's financial position or to secure its going concern.

Based on accounting requirements under IFRS 9, organisations are required to assess the expected credit loss on financial assets, including lease receivables. The Council's 2023/24 accounts include a long term debtor, payable by Queensway LLP, for £21.99m. The expected credit loss of this financial asset should also be considered, particularly in light of the £4.9m negative balance sheet. Ultimately, the responsibility for meeting any losses sits with the Council.

In total, the Council's accounts hold long term debtors of circa £34m across both companies. However, their ability to pay this is not certain based on their audited reported financial positions. It is important that the Council undertakes an expected credit loss assessment in line with International Financial Reporting Standard 9 (IFRS9) and requirements within the CIPFA Code of Practice on local authority accounting, to assess whether this £34m debtor should be impaired.

The Council should ensure the financial risks related to both companies are fully considered and reflected in the financial statements of the Council, as the ultimate beneficial owner, ensuring any expected credit loss which may require recognition is included within the Council's annual financial position.

The Minimum Revenue Provision

The Council is required, each year, to set a Minimum Revenue Provision (the MRP). The MRP refers to the amount charged to the revenue budget for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt).

The underlying debt is needed to finance the capital programme. Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It is therefore prudent to charge an amount for the repayment of debt over the life of the asset or some similar proxy figure, allowing borrowing to be matched to asset life. Setting aside an amount for the repayment of debt in this manner allows for future borrowing to be taken out to finance the asset when it needs replacing at no incremental cost. The manner of spreading these costs is through an annual Minimum Revenue Provision.

Financial sustainability

It is important, therefore, that the MRP is sufficiently prudent to avoid longer term financial sustainability risks. Indicators of prudence can be seen by comparing the MRP against the capital financing requirement (CFR) and the total borrowings held by the Council. A level of MRP which is lower than 2% of the CFR and 3% of total borrowings indicates increased financial risk in the medium to long term.

Management has provided detailed information on the general fund CFR (excluding HRA and HRA supported borrowing subject to a determination agreed with MHCLG). The residual CFR is £26.5m. The MRP in 2023/24 of £0.375m is 1.4% of the net general fund CFR. This suggests a higher risk that the MRP may be insufficient to ensure long-term financial resilience.

While maintaining a low MRP may temporarily improve short-term financial flexibility, it poses several risks that could impact the local authority’s financial health in the medium to longer term. A low MRP results in slower repayment of the CFR, leading to the accumulation of long-term debt. Borrowing costs (interest payments) may therefore remain a financial burden for future budgets, reducing the flexibility to address emerging priorities.

A low MRP also limits the ability to borrow further for new capital projects, as a higher CFR reduces headroom under statutory and policy borrowing limits. The council also has a statutory responsibility to ensure it is providing a prudent MRP charge under the Local Government Act 2003.

Management should review the current provision in future years to ensure that the annual MRP adjustment is adequate and prudent and ensure longer term financial risks are contained.

The Queensway ‘income strip’

The Council entered into an income strip agreement in relation to the Queensway redevelopment project in 2019. This agreement was part of the financial arrangements to facilitate the redevelopment of Queensway North, a mixed-use project aimed at regenerating the area.

An income strip agreement typically involves a long-term lease arrangement, under which the council commits to making lease payments while benefiting from the redevelopment and regeneration of the asset and increased rental income it is hoped this will generate. The arrangement in this case supported significant investment into housing, retail, and community spaces. In essence:

- The Council enters into a long-term finance lease with the investor and is required to make annual, index-linked lease payments for, in this case, 37 years
- The investor provides access to its preferred developer, who regenerates the asset and the numerous constituent units
- The units are leased out and rental income from these units is retained by the Council
- At the end of the 37 year lease, the assets are handed to the Council.

Financial sustainability

The Council's costs – the annual lease payments to the investor – are fixed and increase annually in line with RPI (capped at 3.5%). The Council's income within the arrangement, which is needed to fund the investment, is dependant wholly upon the commercial and retail units being let and market rent levels rising sufficiently to cover the annual, increasing costs of the head lease payment. The economic risk sits with the Council – regardless of the rental income received from the asset, the Council is required to pay the index-linked lease costs to the investor for the next 37 years.

On 7 November 2018 Stevenage BC formed a limited Liability Partnership called Queensway Properties (Stevenage) LLP (further referred to as Queensway LLP). The Council holds 99.9% of the partnership with the remaining 0.1% held by Marshgate Ltd, a company wholly owned by Stevenage Borough Council (incorporated on 30 October 2018). The purpose of establishing Queensway LLP was to facilitate the regeneration of 85-100 Queensway and 24-26 The Forum, a large element of the new town centre. The Council has entered into a partnership with REEF (the developer, referred by the investor as part of the overall arrangement) and Aviva (the investor) to deliver a mixed-use redevelopment of the site including commercial, residential, and leisure uses. In 2018/19 the Council acquired a 37-year head lease from Aviva for Queensway. The total lease payments due to Aviva recognised in the Council's accounts amount to £21.99m in 2023/24 (£22.37m in 2022/23) as a lease liability. The Council has in turn leased these properties to Queensway LLP under the same terms and conditions and therefore also shows a corresponding lease receivable of the same amount.

We have reviewed the most recent set of audited accounts for Queensway LLP and noted ongoing losses reported by the subsidiary (£0.71m in 2023/24 and £0.53m in 2022/23). As noted, the partnership also has reported a negative balance sheet position of £4.89m. These ongoing losses and the net liability position of the company as a whole indicate financial strain.

If the LLP continues to make losses and is not generating sufficient income in the medium to longer term to cover the lease payments to the Council, this could create a mismatch between the Council's liabilities to Aviva and its income from the LLP. This could in turn negatively impact the Council's overall financial position. Any 'bailout' or additional financial support needed for the financial viability of the partnership could place additional strain on the Council's budget. As noted, the Council has committed to a 37-year head lease with significant annual payments and lease payments are typically subject to upward adjustments (e.g., inflation-linked escalations). If the LLP's income does not keep pace with these increases, the Council faces growing financial pressure. Within the latest MTFS approved by Cabinet in September 2024, the MTFS set aside a reserve of £0.05m each year to support financial resilience of the costs of the scheme. With current year losses of the LLP standing at £0.71m for 2023/24 alone and a negative balance sheet at £4.89m, the current reserve would not be sufficient to address the current losses.

Queensway LLP Financial Performance

We have obtained a copy of the most recent management accounts for Queensway LLP which shows a budgeted loss position of £0.44m for 2024/25. This loss has grown during the year; the latest projected draft outturn for the year projects a loss of £0.46m. Although this is an improvement from the prior year position, the continued projection of losses highlights challenges over the performance of this arrangement.

We also obtained a copy of the most recent Queensway LLP business plan dated July 2022. The five-year cashflow forecast outlined within the business plan shows a projected cumulative loss of £1.841m as at 31 March 2024. The table on the next page shows the actual financial results of Queensway LLP since it's inception:

Financial sustainability

Year	31 March 2020 £000	31 March 2021 £000	31 March 2022 £000	31 March 2023 £000	31 March 2024 £000
Net Operating Profit / (Loss)	(1,351)	(891)	(885)	(529)	(710)
Cumulative Profit / (Loss) Position	(1,351)	(2,242)	(3,127)	(3,656)	(4,366)

The cumulative loss position as at 31 March 2024 of £4.37m compares with the July 2022 business plan expected loss position, at the same date, of £1.84m. Losses incurred are therefore significantly higher than expected, highlighting the significant financial risk associated with the current project. Historic losses include the costs of incentive payments on vacant units to partly offset the incoming tenants fit out costs, which were remunerated to the Council at the point the lease agreement was signed. However, the retail and office sector has proved more challenging than originally envisaged within the business plan and the Council's Directors are currently working on a new business plan.

The scheme's poor performance is attributable to a number of assumptions in the business case not being borne out in reality. This is in part attributable to the outbreak of Covid-19 shortly after the scheme's inception, which has had a potentially ongoing impact on business practice and retail performance. Business rents are significantly lower than anticipated in the business plan, and thus generating significantly less income than forecast. The business plan assumed that existing rentals would reduce by 19% but, in effect, they reduced by 39% with some vacancies persisting. In addition, voids and empty units are higher than assumed in the business case; it is harder to let units in the post-Covid climate and when let, they are often for less rental income than hoped for. The net result is the income forecasts as a whole are not being met. However, the Council's required payments to Aviva under the scheme remain unaffected and continue to increase year on year, widening the gap between the income generated from the scheme and the costs the Council has to pay the investor.

There are another 30 years before the scheme concludes and the risk that Council lease payments become unaffordable is significant. The Council has made provision with the MTFS to support the LLP should losses persist and the Directors have an action plan to reduce losses. A report will be presented to the September 2025 Cabinet on the LLP's progress.

The business case of the scheme also relied on the fact that the asset in question would be worth sufficient value at the end of the scheme that the payments made by the Council would be considered good value for money. With falling rental yields, there is a risk that the Council will have ended up paying significantly more for the asset than its value by the conclusion of the scheme in 30 years. There is a risk that the poor performance of this investment vehicle and the large, in-built costs results in a potentially unmanageable deficit that could threaten the Council's financial sustainability.

Under this scheme, all of the economic risk sits with the Council. There is therefore a long-term financial sustainability risk should economic conditions result in an impairment of the asset value and continued reductions in rental income, whilst at the same time the value of the lease payments owed by the Council will continue to increase by up to 3.5% each year.

The negative net asset position of the LLP and ongoing losses raise questions about whether the transaction is delivering value for money, as the redevelopment project may not be generating sufficient rental or commercial income to justify the scale of investment. The Council should assess whether assumptions underpinning the project (e.g., expected income levels, occupancy rates) remain realistic as outlined in the business plan. There is a further risk that if the Council has to subsidise the LLP or cover any shortfalls, this could divert funds from other critical public services or find itself in significant financial challenges.

Management is alert to these risks and is considering actively mitigation strategies, including renegotiation and potential changes of use of the asset to increase income generation capability.

Financial sustainability

Management is also keen to stress that the business case for the income strip scheme was not just financial: the regeneration opportunities it provides and the indirect consequential income received (for example, a regenerated town centre attracts more visitors to the area, increasing parking income amongst others) offset the financial underperformance of the scheme to an extent. In addition, regardless of its value, the Council will retain ownership of the asset as a whole at the end of the arrangement.

Notwithstanding this, the income strip scheme is a significant investment with considerable risk, which is underperforming significantly against its business case and forecasts. The Council is locked into the scheme for another 30 years and ongoing annual deficits could result in a significant loss to the taxpayer over this period. An effective plan that arrests the ongoing losses and mitigates the significant financial risks is essential. Management should draw up and progress formal mitigation strategies to prevent further ongoing losses from the scheme and, if this is not possible, consider options available to withdraw from, buy out or otherwise exit the scheme in a way which minimises losses to the taxpayer. Management should also consider the performance of the scheme by updating the business case with known current income and costs and updated projections to assess whether the scheme remains one in which the Council should remain involved longer term.

Further, the Council should identify the point at which the scheme performance renders it onerous and make plans for what actions should be taken in this eventuality.

The Council should also ensure that the subsidiary has a clear plan in place to improve the financial position of the subsidiary company and that the assumptions contained within the business plan are reviewed and updated on a regular basis.

Summary

We have not, at present, identified any significant weaknesses in the arrangements in place to support financial sustainability. However, there are financial risks present which, if not managed effectively over the short to medium term, could introduce significant weakness in future years.

The Council has effective arrangements in place to plan and manage its resources to ensure it can continue to deliver its services. It has a good understanding of its financial position and the risks inherent in the forward-looking MTFS. It has a capable, experienced and informed management team who demonstrate a good understanding of the current position and future financial challenge. Arrangements in respect of financial planning, budget setting and control are in place and operating effectively. The Council monitors its Medium-Term Financial Strategy (MTFS) through regular updates and reviews, quarterly monitoring reports, executive oversight and public and stakeholder consultation. The MTFS is reviewed annually to ensure alignment with financial goals and economic changes. Quarterly reports update on financial performance, highlighting variances and proposing corrective actions. The Cabinet Committee regularly reviews the MTFS to ensure targets are met and adjustments are made as needed.

There are indicators of financial strain: MRP is low compared to the Council's residual general fund CFR, the subsidiary entities owned by the Council have limited financial resilience which may impact on the Council's financial position, and the income strip is significantly underperforming compared to its business case assumptions. Management is, however, alert to the risks present and is actively considering options to mitigate. The arrangements in place enable management to be aware of and respond to the risks, notwithstanding the significant financial challenge presented and, as such, in considering management capability and the efficacy of the arrangements, we have not, at present, identified any significant weaknesses in the arrangements in place to support financial sustainability. However, the risks present in the income strip are such that urgent action is needed to prevent this from leading to significant weaknesses in the Council's longer term financial sustainability. All of the economic risk falls on the Council. Unfavourable macro economic conditions could result in an impairment of the asset value and reductions in rental income, whilst the cost of the lease continues to increase by up to 3.5% each year, regardless.

Financial sustainability

We have raised a number of recommendations in respect of financial sustainability:

1. **Regarding the HRA leasing assets from the Council's wholly owned subsidiary company at full market value, management should seek a specialist legal view over the arrangement to ensure the actions and transactions are *intra vires* and ensure officers and the Council are adequately protected against any potential future challenge over the arrangement.**
2. **The Council should undertake an expected credit loss assessment in line with International Financial Reporting Standard 9 (IFRS9) and the requirements of the CIPFA Code of Practice on local authority accounting, to assess whether the £34m debtors due from the subsidiary company and LLP should be impaired.**
3. **The Council should ensure the financial risks related to both subsidiary entities are fully considered and reflected in the financial statements of the Council, as the ultimate beneficial owner, ensuring any expected credit loss which may require recognition is included within the Council's annual financial position.**
4. **Management should review the minimum revenue provision (MRP) in future years to ensure the annual MRP adjustment is adequate and prudent and ensure longer term financial risks are contained.**
5. **Management should draw up and progress formal mitigation strategies to prevent further ongoing losses from the Queensway income strip scheme and, if this is not possible, consider options available to withdraw from, buy out or otherwise exit the scheme in a way which minimises losses to the taxpayer.**
6. **Management should consider the performance of the Queensway income strip scheme by updating the business case with known current income and costs and updated projections to assess whether the scheme remains one in which the Council should remain involved longer-term.**
7. **The Council should identify the point at which the Queensway income strip scheme performance renders it onerous and make plans for what actions should be taken in this eventuality.**
8. **The Council should ensure that the Queensway LLP subsidiary has a clear plan in place to improve the financial position of the subsidiary company and that the assumptions contained within the business plan are reviewed and updated on a regular basis.**
9. **The Council should consider the impact of IFRS16 on the Queensway income strip scheme, as this standard comes into force from the 2024/25 year of account for the Council.**
10. **The Council should consider whether the Queensway income strip scheme contains an embedded derivative – and, if so, whether the derivative is closely associated – and account for this within the financial statements accordingly.**
11. **The Council should ensure the Effective Interest Rate (EIR), and thus the net present value (NPV) of the liability for the scheme, remains appropriate given the scheme's performance, and ensure this is reflected in the financial statements accordingly.**

Governance

This relates to the arrangements in place for overseeing the Council's performance, identifying risks to achievement of its objectives and taking key decisions.

We considered the following areas:

- how the Council monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Council approaches and carries out its annual budget setting process;
- how the Council 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, including in relation to significant partnerships;
- how the Council 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; and
- how the Council 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 has appropriate arrangements in place to assess risk and gain assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud.

The Council considers fraud and counters risk across a broad range of areas. The Council has an approved Risk Management Policy and a Risk Management Guide. Strategic risks are linked to the Council's priorities. The Strategic Risk Register is reviewed and monitored on a quarterly basis. Operational risks are also developed and monitored.

A corporate risk management group meets quarterly to oversee and review the process and development of the Council's approach to risk. The Council's Senior Leadership Team reviews risks each quarter and then reports to the Cabinet and Audit Committee quarterly. To support service delivery improvements, the Council welcomes constructive challenge from scrutiny by internal and external audit activity, the work programme of the Overview and Scrutiny Committee, and other external review agencies and inspectorates.

The Corporate Governance Board oversees all risks and governance matters, whilst the Risk Management Group leads on risk across the organisation and ensures there are robust action plans.

Members of the audit committee were offered Risk and Management training in January 2024 and Fraud Prevention training in February 2024 to ensure they are well-prepared to oversee and manage potential risks within the Council.

The Council promotes informed decision-making by creating committees with distinct responsibilities. These committees hold regular meetings to address significant matters as per their terms of reference. Details of these meetings, including agendas, are published on the Council's website to foster transparency and facilitate stakeholder engagement. Reports are distributed well in advance of meetings to enable members to contribute effectively and raise challenges. The governance process implemented by the Council undergoes independent review by the Audit Committee. At the start of each committee meeting, members and officers are required to declare their interests.

The Council's Monitoring Officer holds overall responsibility for ensuring that the Council acts lawfully and has a statutory duty to report any legal non-compliance. Procedures for report preparation are in place to ensure legal compliance is considered. Individual service managers bear the operational responsibility for legal compliance and staff training. Training needs are identified through job specifications and considered during the annual appraisal process. These processes are incorporated within the Council's appraisal system and are published in the "Our Values and Behaviours" document and the competency framework, which has been disseminated to all staff.

Staff members are periodically reminded about the declaration of interests and hospitality. The Council has a whistleblowing policy and a separate email address for this purpose. Additionally, the Shared Anti-Fraud Service (SAFS) has conducted team talks to help staff identify potential fraud and understand how to report it.

Governance

The Council adopted its Co-operative Procurement Strategy (2021-2024) in October 2021. The focus of the strategy is on five principal foundations: Community Wealth Building, Sustainability, Social Value and Ethical Procurement, Commercial and Insourcing and Pro-active Procurement. Each foundation is a building block that needs to underpin the procurement process and is embedded in the way the Council procures goods, works, and services. The Council has joined with other Hertfordshire local authorities and public bodies to work together on procurement and partnership projects for the benefit of all participating authorities. As part of this partnership, the Council has a portal called Supply Hertfordshire that holds information about advertised opportunities and participating authorities.

Contracts are actively reviewed to enhance service delivery and consider insourcing procurement opportunities.

The ability to identify and assimilate new technologies is an integral part of the Council's approach to achieving its strategic objectives. The Council has a Shared ICT service with East Herts District Council. The shared ICT service is responsible for developing the shared ICT platform as well as delivering ICT services.

A joint Stevenage / East Herts ICT Partnership Board meets every month to consider the strategic direction of the service. A Joint (Member led) Committee Board meets quarterly to review the ICT Improvement Programme. The ICT service is committed to embracing new digital opportunities to better meet the needs of residents, achieve savings and transform services. A secure, resilient, effective, and forward-looking Technology Service is critical in delivering these aims. Access to all IT systems is strictly defined according to role. Password access is controlled according to best practice. Specific Council policies exist (whistleblowing, anti-money laundering for example) and training offered to Officers and Members in these areas to encourage early detection and investigation of any suspicious activity. The information governance policy is still in the process of being reviewed by the East Herts council which will then be approved by the members.

The Council's internal audit provision is delivered by the Shared Internal Audit Service (SIAS) hosted by Hertfordshire County Council. The service complies with CIPFA's Statement on the role of the Head of Internal Audit and operates to Public Sector Internal Audit Standards. The Head of Assurance confirms to Audit Committee the 'Fitness for Purpose' of internal audit to conduct the work that informs the assurance opinion each year. For each audit, SIAS issues a Final Audit Report, and this is signed off by management together with an agreement to implement the recommendations that have been made.

In compliance with the requirements of Accounts and Regulations 2015, the Council places reliance on the Shared Internal Audit Service (SIAS) which undertakes a programme of work to review the effectiveness of the Council's risk management, control environment and governance processes. An annual audit of operational plan is presented to the Audit Committee for approval. Progress of internal audit against the audit operational plan is considered at Audit Committee meetings.

Progress regarding implementation of audit recommendations is monitored by the Performance and Improvement Team and areas of concern are escalated to Corporate Governance Group / Corporate Risk Group. SIAS reports to the Audit Committee quarterly regarding progress against the Audit Plan and the implementation status of high priority recommendations.

The overall internal audit assurance opinion is 'Substantial assurance' on financial systems, meaning there is a sound system of governance, risk management, and control, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. The assurance on the non-financial systems is 'Reasonable assurance', meaning there is a sound system of governance, risk management, and control in place. Some issues, non-compliance, or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited. SIAS has concluded that the corporate governance and risk management frameworks comply with the CIPFA / SOLACE best practice guidance on corporate governance. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2023/24 and the specific reviews of Risk Management and Corporate Governance conducted by SIAS during the year.

Governance

The Council produces quarterly budget monitoring reports which are available on the Council website. These reports include a review of the general fund balance, financial position, the capital program, and performance against local indicators related to strategic risks, freedom of information, and environment information requests. These reports are subject to review by relevant committees of the Council.

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'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 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 are 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 their managers, the Modern Member training programme and the management development programmes. A set of desired behaviours associated with each of the Values has been developed and form 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.

Governance over the Queensway 'income strip'

Management is committed to transparency in their reporting. This is demonstrated in the granularity of description and analysis presented in the general fund and HRA MTFS and budget documents, and the information shared with Members across a wide range of matters.

The Queensway LLP sits, for the most part, in a subsidiary LLP, which has its own legal obligations and reporting requirements. Management decided on the use of this vehicle for the income strip to ensure the transactions related to it were transparent and could easily be identified and dealt with independently. Notwithstanding this, the ownership structure involving Queensway LLP adds complexity, which could inadvertently obscure transparency and make governance more challenging. The subsidiary entity is a further step removed from Members than most Council activity and, therefore, the significance of the risks involved may not be understood in the same way.

Governance

It is our understanding that meetings are held between the Queensway LLP and Marshgate Ltd finance leads and the council's section151 officer to discuss the performance of the subsidiaries. A report was considered at Cabinet in July 2024 which outlined the performance of the subsidiaries and outlining the loss for 2023/24.

Although it is positive to see that outturns of the subsidiaries are being reported within the Council, further reporting on performance within the entities, and particularly within the income strip, would provide Members with greater transparency over the performance of the each. It is important that Members have oversight of the full financial statements for the year; although the current year loss in the LLP may not be material to the Council in year, the overall financial position, including the negative balance sheet position, shows a financially challenging position for the LLP which could impact the Council in the future. It is not clear whether the full risks related to the income strip and the performance of the company and LLP is being reported to Members in the same level of detail as other risks the Council is facing. There is scope for the Council to enhance its governance, oversight, and scrutiny mechanisms in relation to the subsidiary companies.

The Council should ensure that arrangements for the reporting and oversight of performance of the subsidiary entities and of the income strip to Members is strengthened to ensure clear accountability for financial performance and decision making. It is best practice that an annual business plan for each subsidiary entity is presented to the relevant Council committee and a report at the end of each financial year to highlight performance against the business plan to give shareholders (the Council) assurance over its financial and operational performance, enhance transparency over the risks inherent in the income strip entity and enable Members to make fully informed decisions over the risks faced.

Summary

We have not identified any significant weaknesses in the Council's arrangements. The Council has effective arrangements in place for overseeing the Council's performance, identifying risks to achievement of its objectives and taking key decisions.

We have raised one recommendation to enhance the governance arrangements:

12. The Council should ensure that arrangements for the reporting and oversight of performance of the subsidiary entities and of the income strip to Members is strengthened to ensure clear accountability for financial performance and decision making. In particular, the medium and longer term risks associated with the Queensway income strip scheme should be reported in full, together with the proposed actions to address these risks and secure longer-term financial sustainability.

AZETS

Improving economy, efficiency and effectiveness

This relates to how the Council seeks to improve its systems so that it can deliver more for the resources that are available to it.

We considered the following areas:

- how financial and performance information has been used to assess performance and identify areas for improvement;
- how the Council evaluates service quality to assess performance and identify areas for improvement;
- how the Council 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; and
- where the Council commissions or procures services, how it ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how it assesses whether it is realising the expected benefits.

The Council utilises financial and performance information to assess its performance. It ensures that services and priorities approved by the Members are delivered by reporting quarterly using key measures and programme updates to track progress. Some of these measures relate to the Future Town Future Council (FTFC) programme that the Council has implemented, while the remainder are tied to Key Performance Indicators (KPIs) that assess how well the Council is providing services and meeting their targets. These are reviewed by the Senior Leadership Team (SLT) and the Council considers any mitigation they can implement if their targets are not being met. The KPIs are approved by Members. Some measures might not be on target; in these instances the Council considers corrective action and recognises ways they can always improve.

The FTFC programme is an ambitious initiative for Stevenage and this brings a level of risk for the Council. The Council maintains a Strategic Risk Register which is reported to the Senior Leadership Team (SLT), Corporate Risk Group, and the Audit Committee on a quarterly basis. This register includes all the top perceived risks for the Council and includes actions to mitigate risk. In addition, any decisions taken by our Members are considered, taking into account financial, legal, and identified risks.

The Council actively collaborates with various partners, including private investors, to drive major commercial and residential developments. Notably, this includes partnerships to facilitate the regeneration of Queensway and Marshgate using wholly owned Council subsidiary entities. Their Co-operative Neighbourhoods initiative fosters locally based approaches to shaping services, ensuring safe, clean and green neighbourhoods. This cooperative ethos extends to the ‘Future Town Future Council’ program, which aims to reform and revitalize both the town and the Council for the 21st century. The Council works closely with Hertfordshire County Council and neighbouring councils to identify sources for reducing greenhouse gas emissions, as outlined in their Climate Change Strategy. The Council values community input and actively engages with stakeholders. Listening to residents and working collaboratively ensures that their plans align with expectations and needs. The Council prioritises supporting and valuing communities by delivering health, wellbeing, cultural, community safety, and environmental initiatives. This cooperative effort involves a wide range of partners.

To assess whether expected benefits are being realized, the Council employs monitoring and evaluation mechanisms. This ensures that outcomes align with expectations and provides a basis for continuous improvement. Members also play a crucial role in scrutinising procurement processes and monitoring their results. These measures collectively contribute to quality outcomes.

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.

Improving economy, efficiency and effectiveness

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 Cabinet on a quarterly basis. In addition the Cabinet receive separate regular updates on the Council's financial position and quarterly overview reports.

The Council oversees the commissioning and procurement of services, ensuring strict adherence to relevant legislation, professional standards and internal policies. There is a Procurement policy in place, delineating the prescribed approach for all procurement activities. This policy has been communicated to all staff involved in the procurement process. All contracts entered into by the Council are required to comply with the Contract Standing Orders set out in Part 4 of the Council's Constitution.

Summary

We have not identified any significant weaknesses in the Council's arrangements. The Council has effective arrangements in place for using financial and performance information to make informed decisions and working with partnerships effectively.

Improvement recommendations

We have not identified any significant weaknesses within the Council's arrangements and, therefore, have not raised any key recommendations. During our review, however, we identified some areas where we have raised recommendations which we believe could further strengthen or improve the arrangements already in place. Progressing the actions management has identified to address the recommendations made will support the Council in realising the improvement opportunities identified from our work.

Criteria	Recommendation	Observation and implication / impact
Financial sustainability	Recommendation 1: Regarding the HRA leasing assets from the Council's wholly owned subsidiary company at full market value, management should seek a specialist legal view over the arrangement to ensure the actions and transactions are *intra vires* and ensure officers and the Council are adequately protected against any potential future challenge over the arrangement. Recommendation 2: The Council should undertake an expected credit loss assessment in line with International Financial Reporting Standard 9 (IFRS9) and the requirements of the CIPFA Code of Practice on local authority accounting, to assess whether the £34m debtors due from the subsidiary company and LLP should be impaired. Recommendation 3: The Council should ensure the financial risks related to both subsidiary entities are fully considered and reflected in the financial statements of the Council, as the ultimate beneficial owner, ensuring any expected credit loss which may require recognition is included within the Council's annual financial position.	The substance of the lease arrangement is that the HRA is paying, annually, full market value lease rates to the general fund for properties owned, ultimately, by the general fund. Given the unusual nature of this arrangement, and given the tight restrictions over the use of HRA monies and their appropriation by the general fund, there is a risk the arrangement may breach the ring-fence requirements in place over the use of HRA monies. Both subsidiary entities have uncertain financial positions: Marshgate Ltd owes the Council £11.9m in loans but has a net asset position of only £0.056m with only £3m held in cash; and Queensway LLP has a negative balance sheet of £4.9m and ongoing annual losses, but owes the Council almost £22m in long term lease payments which are recognised as a long term debtor in the Council's accounts At present, the Council has not included an expected credit loss impairment consideration in the financial statements.

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Improvement recommendations

Criteria	Recommendation	Observation and implication / impact
Financial sustainability	Recommendation 4: Management should review the minimum revenue provision (MRP) in future years to ensure the annual MRP adjustment is adequate and prudent and ensure longer term financial risks are contained.	Indicators of prudence can be seen by comparing the MRP against the capital financing requirement (CFR) and the total borrowings held by the Council. A level of MRP which is lower than 2% of the CFR and 3% of total borrowings indicates increased financial risk in the medium to long term. In 2023/24 the MRP as a percentage of the residual general fund CFR is 1.4%. This suggests a higher risk that the MRP may be insufficient to ensure long-term financial resilience.
	Recommendation 5: Management should draw up and progress formal mitigation strategies to prevent further ongoing losses from the Queensway income strip scheme and, if this is not possible, consider options available to withdraw from, buy out or otherwise exit the scheme in a way which minimises losses to the taxpayer.	The Queensway income strip scheme is performing significantly below the levels anticipated in the original business case and making annual losses. The economic risk sits fully with the Council and the Council's costs are contractually required to increase annually by up to 3.5% whilst income levels are not currently sufficient to cover current or future costs.
	Recommendation 6: Management should consider the performance of the Queensway income strip scheme by updating the business case with known current income and costs and updated projections to assess whether the scheme remains one in which the Council should remain involved longer-term.	The scheme is performing significantly below expectations as set out in the business case and is due to continue for a further 30 years.
	Recommendation 7: The Council should identify the point at which the Queensway income strip scheme performance renders it onerous and make plans for what actions should be taken in this eventuality.	The underperformance of the scheme compared to business plan projections means the scheme may not, in its current form, pass the business case considerations were the same considerations made over what are now the known actuals. As such, the Council will need to have a clear view over the parameters when the scheme becomes onerous.

Improvement recommendations

Criteria	Recommendation	Observation and implication / impact
	Recommendation 8: The Council should ensure that the Queensway LLP subsidiary has a clear plan in place to improve the financial position of the subsidiary company and that the assumptions contained within the business plan are reviewed and updated on a regular basis.	The subsidiary LLP is a separate legal entity with its own Companies Act legal obligations. It is wholly owned by the Council but has a negative balance sheet and makes annual losses. As the beneficial owner, the Council may be impacted if ongoing underperformance within the LLP means its financial obligations cannot be met.
	Recommendation 9: The Council should consider the impact of IFRS16 on the Queensway income strip scheme, as this standard comes into force from the 2024/25 year of account for the Council.	This new standard may impact on current year costs and recognition, which could impact the in-year reported financial position of the Council.
Financial sustainability	Recommendation 10: The Council should consider whether the Queensway income strip scheme contains an embedded derivative – and, if so, whether the derivative is closely associated – and account for this within the financial statements accordingly	An embedded derivative may exist where the Council, under the terms of the scheme, may be able to reduce its overall liability with additional payments. International Financial Reporting Standards require that this is accounted for within the financial statements. As the accounts have been disclaimed for the previous 3 years, auditors have not been able to express a view on the appropriateness of the current accounting treatment in this respect.
	Recommendation 11: The Council should ensure the Effective Interest Rate (EIR), and thus the net present value (NPV) of the liability for the scheme, remains appropriate given the scheme's performance, and ensure this is reflected in the financial statements accordingly	The EIR impacts the overall size of the financial liability payable to the investor in terms of the net present value (NPV). As the accounts have been disclaimed for the previous 3 years, auditors have not been able to express a view on the appropriateness of the current accounting treatment in this respect.
Governance	Recommendation 12: The Council should ensure that arrangements for the reporting and oversight of performance of the subsidiary entities and of the income strip to Members is strengthened to ensure clear accountability for financial performance and decision making. In particular, the medium and longer term risks associated with the Queensway income strip scheme should be reported in full, together with the proposed actions to address these risks and secure longer-term financial sustainability.	There is no suggestion management is not being transparent with Members about the risks associated. However, given the risks, both current and longer term, in the performance of the income strip scheme and their potential impact on the Council's financial position, it is important that the fact this scheme sits within a subsidiary company does not inadvertently mean Members are less sighted on the scale and nature of the risks present.

Follow up of prior recommendations

Criteria	Recommendation	Type	Date raised	Progress to date	Addressed?	Further action needed
Governance	The Internal Audit report on cyber security provided limited assurance and recommended that ‘the Council review its cyber security functions to meet an adequate level of security to protect itself from any cyber security threats. Thereafter, the Council should seek appropriate accreditation to provide assurance for their cyber security. When the Council has completed its rollout of Windows 10, it should renew its PSN certification’. This risk is also noted in the strategic risk register, along with mitigations in place to reduce the overall risk rating. As this is an area which can have a significant impact across all areas of the Council’s services, management need to ensure that they respond to the Internal Audit recommendations as a priority.	Other	2022/23	The Council has successfully completed the rollout of Windows 10 and participated in the National Cyber Security Centre (NCSC) Cyber Assessment Framework (CAF) pilot for local government. The CAF pilot also examined whether it would replace PSN certification; however, it has been determined that the CAF will not replace PSN certification. The Council is currently finalising this process and will then focus on renewing our Public Services Network (PSN) certification."	N	Implementation in progress
	A limited assurance report was also received in relation to the Internal Audit Landlord Health and Safety Follow Up. As the provision of housing is a key service provided by the Council responding to the recommendations in this report needs to be given a high priority	Other	2022/23	Work is currently in progress to address the recommendation made by the predecessor auditor. The Council recently underwent the Regular of Social Housing inspection and was awarded a C2 grade. The highest achievable grade is C1, with C4 being the lowest. Attaining this grade underscores the Council’s dedication to their corporate plan priority of providing more social, affordable, and high-quality homes	N	Implementation in progress

Appendices

Appendix I: Financial statements audit risks

This section of our report includes a summary of the significant risk areas we identified during our audit planning that required special consideration. It provides an overview of our risk identification for the year to 31 March 2024. We set out our planned responses to each of these risks in our audit plan.

We have not amended the risks which we reported in our audit plan as formally presented on 6 February 2024.

Significant risk	Fraud risk?	Planned approach to controls	Level of judgement / estimation uncertainty	Work completed
Prior year opinion on the financial statements	No	N/A	Low	The work we completed is set out on the next page.
Management override of controls	Yes	Assess design & implementation	Low	Due to the missing assurance for prior periods and the time constraints imposed by the statutory backstop we have been unable to complete all our planned procedures on the significant and other risks we identified. As a result of the material and pervasive nature of missing assurance, and the imminent statutory backstop date of 28 February 2025 for the 2023/24 audit, we disclaimed the audit in our audit report.
Presumption of fraud in revenue recognition	Rebutted	Assess design & implementation	Low	
Expenditure recognition	Rebutted	Assess design & implementation	Low	
Valuation of land and buildings and investments property	No	Assess design & implementation	High	
Valuation of pension assets and liabilities (IAS19)	No	Assess design & implementation	High	
Other risk: The council entered a complex and financially significant income strip scheme.	No	Assess design & implementation	High	

Appendix I: Financial statements audit risks

Identified risk	Audit procedures completed	Outcome
Prior year opinion on the financial statements In our audit plan we highlighted that we had not yet obtained a copy of the audit opinion from your predecessor auditor for the 2022/23, 2021/22 and 2020/21 financial years. We therefore reported that: • There was a risk that issues not yet identified in these audit years could impact the current audit year; • There was a further risk that the audit backstop of 13 December 2024 may prevent the prior year audits from being completed, resulting in prior year audit opinions being qualified by a 'limitation of scope' or disclaimed in full. As a result, we reported the significant risk that: • there may be limited assurance available over the Council's opening balances, including those balances which involve higher levels of management judgement and more complex estimation techniques (e.g. defined benefit pensions valuations and property, plant and equipment valuations, amongst others). • significant transactions, accounting treatment and management judgements may not have been subject to audit for one or more years – or at all. This may include management judgements and accounting treatment in respect of significant or complex schemes or transactions which came into effect during the qualified or disclaimed periods.	In response to this risk, we: • considered the findings and outcomes of your prior year audits and their impact on our 2023/24 audit; • considered the impact on our 2023/24 audit of the prior year disclaimed audit opinions you have received from your predecessor auditor, with particular regard to opening balances and 'unaudited' transactions and management judgements made in previous disclaimed years which continue into 2023/24; and • considered the impact of any changes in The CIPFA Code requirements for financial reporting in previous and current audit years.	The Council's accounts were disclaimed for 2022/23 and 2021/22 under the statutory back stop as there was not sufficient time for the predecessor auditor to complete the audits This means we have no assurance over the comparators in the 2023/24 financial statements and no assurance over transactions occurring in those years which impact the figures reported in the financial statements for 2023/24. Statutory Instrument (2024) No. 907 - "The Accounts and Audit (Amendment) Regulations 2024" (the SI) imposes a backstop date of 28 February 2025. By this date we were required to issue our opinion on the financial statements. We considered whether the time constraints imposed by the backstop date meant that we would not be able to complete all necessary procedures to obtain sufficient, appropriate audit evidence to support the opinion and fulfil all the objectives of all relevant ISAs (UK). Taking the above into account, for the year ended 31 March 2024 we determined that we cannot meet the objectives of the ISAs (UK). We issued a disclaimed opinion on 12 February 2025.

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