

Stevenage Borough Council

Audit results report

Year ended 31 March 2019

27th November 2019

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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18 November 2019



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our audit conclusion in relation to the audit of Stevenage Borough Council for 2018/19.

We have substantially completed our audit of Stevenage Borough Council for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form in Section 3. We also expect to have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 27 November 2019

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01 Executive Summary

Executive Summary

Scope update

In our Audit Plan tabled at the 23 January 2019 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes in Scope

The Council has assessed its interest in Queensway Properties LLP as being material to Stevenage Borough Council group, consequently group financial statements have been prepared for the 2018/19 financial year. This is the first year which the Council has prepared group financial statements. As a result of this the scope of the audit has increased to include the appropriate audit procedures on the group financial statements for the year end 31 March 2019.

As Queensway Properties LLP is yet to appoint external auditors for its own single entity financial statements, we were not able to place reliance on the work of a component auditor. This has further increased the scope of Stevenage Borough Council group audit because we have had to conduct sufficient and appropriate audit procedures to gain assurance over the consolidated Queensway Properties LLP financial information for the 2018/19 year.

Changes in Risks

We have identified two additional significant audit risks in related to the group financial statements. These include:

- Preparation of group accounts – As the authority is preparing group accounts for the first time there is a risk that the accounting consolidation adjustments required are not complete or are not accurate.
- Significant judgements for Queensway LLP – Judgements have been taken in relation to the valuation of the Queensway property and also the leasing arrangements of the Queensway asset. There is a risk that the judgements taken may result in a material misstatement.

Section two of this report sets out our response and conclusions to all of significant risks identified.

Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.2m, but that we would update this at year end. Our materiality has slightly increased to £2.23m. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. The threshold for reporting misstatements has also increased slightly from £108k to £112k.

Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of the Authority's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Executive Summary

Status of the audit

Our audit of Stevenage Borough Council financial statements for the year ended 31 March 2019 is substantially complete. As at the date of this report the following areas of the audit were still to be concluded on:

- Value for Money Conclusion; resolution of final queries related to the due diligence processes and consideration of comparable rental incomes conducted by the authority. (See section below)
- Property, Plant and Equipment; including asset valuations and depreciation.
- Group accounts; including Queensway asset valuation, lease accounting arrangements and review of Group disclosure notes.
- Long term creditors; receipt of confirmation of the balance with Hertfordshire LEP as of 31 March 2019.
- Reserves and other related disclosures.

Additionally, to finalise the audit the following need to be completed.

- Completion of quality control and review procedures, including final Engagement Lead review and clearances.
- Review and agreement of the final version of the financial statements, including revised Annual Governance Statement.
- Completion of subsequent events review
- Receipt of signed management letter of representation
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified two significant risks surrounding the Authority's arrangements in place to secure economy, efficiency and effectiveness on its use of resources. These risks included:

- Decision Making Processes: Future Town, Future Council regeneration projects, in particular focusing on the Queensway redevelopment scheme and the establishment of Queensway Properties Limited Liability Partnership (LLP)
- Sustainable resources: The financial resilience of the authority's Medium Term Financial Strategy.

After performing the procedures as outlined in our Audit Plan, including the utilisation of specialists from EY's Transactions Advisory Service to review Queensway feasibility study conducted by the Authority's specialist Cushman & Wakefield, we expect to have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. The main areas we are concluding is obtaining further corroborative evidence of the extent of due diligence undertaken by the Council on Aviva and REEF, and also corroboration of assumed market value rental income.



Executive Summary

Audit differences

Section 4 of this report sets out the detail of audit differences arising from the course of the audit.

Audit differences in relation to the valuation of Queensway asset and Queensway lease accounting treatment in the Group financial statements have been identified, however as at the date of this report the final adjustment figures have yet to be finalised.

We have yet to finalise procedures on PPE valuations, however, we have identified a judgemental audit difference of £583k in relation to the valuation of the swimming pool in Stevenage town centre. Management have not adjusted for this audit difference in the financial statements.

We have substantially completed the audit; however until the audit is fully concluded it is possible that further audit differences may arise.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from the results of substantive procedures performed we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statement.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Stevenage Borough Council. We have no matters to report as a result of this work.

Independence

We have no independence issues to report and include in Section 09 our independence update.



02 Areas of Audit Focus

Significant risk

Risk of management override

(Fraud Risk)

What is the risk?

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

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focussed on testing key areas that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered of the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

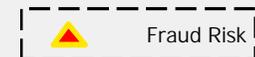
In addition to our overall response, we considered where these risks may present themselves and identified a separate fraud risk relating to adjustments made between the accounting and to the capitalisation of revenue expenditure as set out on the next slide.

What are our conclusions?

We have concluded on our testing of journal entry testing and have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.





Areas of Audit Focus

Significant risk

Capitalisation of Revenue Expenditure

(Fraud Risk)

What is the risk?

The Local Authority Accounting Code of Practice and IAS16 requires the Council to capitalise expenditure where future economic benefit or service potential will flow to the council.

The Council has a significantly expanded its capital programme, including ambitious redevelopment plans for the town centre. Total capital additions for 2018/19 were £29.9m. As such there is an increased risk that costs which do not meet the accounting standard criteria for recognition as capital expenditure may be capitalised.

What judgements are we focused on?

Capital expenditure, whether the expenditure meets the definition as capital.

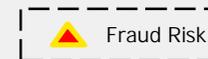
What did we do?

- Inquired with management to gain an understanding of the controls put in place to address this risk.
- Tested samples of capital expenditure to verify that revenue costs had not been inappropriately capitalised. These samples included:
 - Property, Plant and Equipment (including capital additions made to the Housing Revenue Account),
 - Investment Properties,
 - And, revenue expenditure funded by capital under statute (REFCUS).

What are our conclusions?

We have completed procedures in relation to this risk and we have concluded that capital expenditure incurred was appropriately capitalised.

We not identified any misstatements or issues.





Areas of Audit Focus

Significant risk

Preparation of group accounts

(Significant Risk)

What is the risk?

New Significant Risk for the audit

The 2018/19 financial year is the first time that the Council has prepared group financial statements. As such there is a significantly increased risk that the accounting consolidation adjustments required to prepare group financial statements are not complete or are not accurate.

What judgements are we focused on?

Group financial statements including disclosure notes, including the consolidation schedule for Stevenage Borough Council and Queensway LLP.

What did we do?

- Enquired with management as to the processes and controls in place for how intra-group transactions and balances are identified.
- Tested the consolidation schedule to review whether the adjustments made are consistent with our knowledge gained throughout the audit of the Stevenage Borough Council and Queensway LLP.
- Tested the consolidation schedule to review whether the adjustments made are compliant with the applicable accounting standards, including IFRS 10 Consolidated Financial Statements.

What are our conclusions?

We are yet to finalise and conclude procedures for this significant risk. This is due to a revision of the group financial statements due to the Queensway asset valuation and Queensway leasing accounting treatment. (See significant risk on next page).

However, based on procedures performed up to the date of this report we have no significant findings to report.





Areas of Audit Focus

Significant risk

Significant judgements for Queensway LLP

(New Significant Risk)

What is the risk?

Queensway LLP was established as a separate entity by Stevenage Borough Council during the 2018/19 financial year, and it has been consolidated into the authority's group financial statements.

This is the first time that Queensway LLP's financial information has been reported on. Consequently, there is a risk that key judgements adopted by management with respect to financial reporting of Queensway LLP may result in a material misstatement in the group financial statements.

What judgements are we focused on?

1. Queensway asset valuation
2. Queensway lease accounting treatment.

What did we do?

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Engaged our EY Valuations specialists to review the Queensway asset valuation as determined by the authority's valuer. This review verify the reasonableness of the valuation methodology applied and key assumptions used.
- Engaged our EY Financial Accounting Advisory specialists to review the accounting treatment adopted in relation to the Queensway lease arrangements. This includes consideration of the head-lease between Aviva and Stevenage Borough Council and the sub-lease between Stevenage Borough Council and Queensway LLP.

What are our conclusions?

We are yet to finalise and conclude procedures for this significant risk. This is because the asset valuation has been revised multiple times.

The initial valuation prepared by the authority's valuer (£1.9m) was not correct because the valuation erroneously included lease payments. Management identified that this was not correct so instead used a valuation at cost (£9.2m) within the draft financial statements.

After an initial discussion between our EY Valuation specialists and management the authority asked their valuer to revise the valuation. (Revised valuation £13.9m). Subsequently the EY Valuation specialist performed a detailed review of the revised valuation.

We are waiting for the updated revised valuation from the authority's valuer before we can conclude on the valuation of the Queensway asset.

The lease accounting treatment reflected in the financial statements has been updated based on the outcomes of the review conducted by EY Financial Accounting Advisory. There are minor ongoing queries still to be resolved.





Areas of Audit Focus

Other Areas of Audit Focus

Valuation of Property, Plant and Equipment and Investment Properties

What is the risk?

Property, plant and equipment (PPE), including Council Dwellings, represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and/or depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE and Investment Property balance.

As the Council's asset base is significant, and the outputs from valuers are subject to estimation, there is a higher inherent risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying estimates.

What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

What did we do?

The Council obtained a full update of the valuation undertaken in 2016/17 by Wilks Head Eve LLP. In response, we completed the following procedures:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. This was done by our in house specialists reviewing responses to enquiries they made of the valuer. We also followed up any issues arising by checking the position against a sample of assets reviewed in detail by our EY Real Estate specialists in 2016/17;
- We checked that the Council had communicated to the valuer changes in assets;
- We reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated;
- We considered changes to useful economic lives as a result of the most recent valuation in our depreciation testing; and
- We tested that the accounting entries had been correctly processed in the financial statements.

What are our conclusions?

As at the date of this report our work on the valuation of land and buildings and investment properties is in progress.

We have identified an audit difference in relation to the valuation of the swimming pool in Stevenage town centre. The Council's valuer has reduced the valuation of this asset to reflect the fact that whilst the pool is the Council's asset it is managed by a third party until 2023 which means that the Council does not directly receive income from the asset. The EY specialist considers that given the asset is not held as an investment property but rather for operational/utility purposes that this consideration is not relevant.

For the 2018/19 audit we have reported an audit difference of £583k that was not adjusted for in the financial statements. We have included this difference in our errors schedule in section 4.



Areas of Audit Focus

Other Areas of Audit Focus

Pension Liability Valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a highly material and involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

What judgements are we focused on?

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- significant changes in assumptions made by the actuary; and
- the assessments of the actuary undertaken by PWC and the EY actuarial team.

What did we do?

- Liaised with the auditors of the Hertfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Stevenage Borough and completed our programme of work;
- Assessed the work of the Pension Fund actuary Hymans Robertson including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

We have received assurances from the auditors of Hertfordshire Pension Fund to support our audit of the pensions information disclosed in the financial statements of the Authority.

The Council has adjusted its accounts for the revised IAS19 report to support their pensions disclosure. This revised report reflected the impact of the actuary's initial estimate on the return of pension investment assets, the McCloud judgement and the Guaranteed Minimum Pension (GMP) requirements.

In total the pensions liability has increased by £1.4m. This has been adjusted for by management in the financial statements.

The accounting entries prepared and disclosures made by the Council are compliant with accounting standard IAS 19.



Areas of Audit Focus

Other Areas of audit focus

New accounting standards

What is the area of focus?

The Code requires the Authority to comply with the requirements of two new accounting standards for 2018/19. These standards are:

- IFRS 9 – Financial instruments
- IFRS 15 – Revenue from contracts

There is a risk in relation to implementing new accounting standards and carrying out a sufficient assessment and evaluation.

What did we do?

- Reviewed the Authority's impact assessments for the new accounting standards.
- For IFRS 15, the review included consideration of each the Authority's income streams for whether the new accounting standard was applicable.
- For IFRS 9, the review included consideration of the classification of the Authority's investments, and consideration of changes in approach to calculating impairment losses.

What are our conclusion?

IFRS 15 - The Authority determined that income streams relevant to this accounting standard were not material. We have accepted this assertion.

IFRS 9 – The Authority's investments were appropriately classified under the new accounting standard and impairment losses have been appropriately calculated.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STEVENAGE BOROUGH COUNCIL

Opinion

We have audited the financial statements of Stevenage Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Stevenage Borough Council and Group Movement in Reserves Statement,
- Stevenage Borough Council and Group Comprehensive Income and Expenditure Statement,
- Stevenage Borough Council and Group Balance Sheet,
- Stevenage Borough Council and Group Cash Flow Statement,
- and the related notes 1 to 31,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 6,
- Collection Fund and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:
give a true and fair view of the financial position of Stevenage Borough Council and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Stevenage Borough Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Financial Report including Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Stevenage Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects



Audit Report

Our opinion on the financial statements

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Assistant Director (Finance and Estates) (Chief Finance Officer) Responsibilities set out on page 31, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Audit Report

Our opinion on the financial statements

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Stevenage Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Stevenage Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Stevenage Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

We certify that we have completed the audit of the accounts of Stevenage Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Stevenage Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Stevenage Borough Council and the Stevenage Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
Date

The maintenance and integrity of the Stevenage Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

Audit differences in relation to the valuation of Queensway asset and Queensway lease accounting treatment in the Group financial statements have been identified, however as at the date of this report the final adjustment figures have yet to be finalised and agreed with management.

In addition, we identified some minor disclosure amendments which management have accepted. We do not consider them to merit reporting to the Committee.

We have substantially completed the audit, however until the audit is fully concluded it is possible that further audit differences may arise.

Summary of unadjusted differences

We highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by this committee, and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2019 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase				Reserves
		Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Revaluation Reserve
Errors						
Judgemental differences:						
• Stevenage swimming pool valuation			583			-583

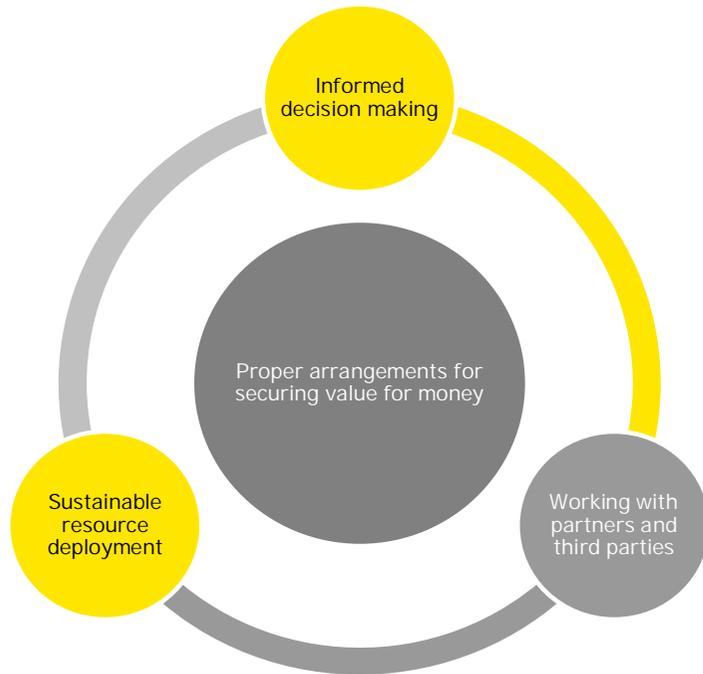


05

Value for Money Risks



Value for Money



Background

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

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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

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

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified two significant risks around Stevenage Borough Council's Value for Money arrangements for 2018/19. The tables below present our findings in response to the risks in our Audit Planning Report.

As at the date of this report we are waiting for final pieces of evidence and support before we can conclude on the value for money arrangements. However, anticipate that there will be no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Future Town, Future Council: Decision Making Processes</p> <p>The Council has an ambitious programme for the regeneration of Stevenage. There are major developments planned for Queensway.</p> <p>The Council established a limited liability partnership, Queensway Properties LLP, as an vehicle to regenerate Queensway.</p> <p>The council has also entered in a long term (37 years) lease agreement with Aviva UK as part of the Queensway deal.</p> <p>The authority is also working in close partnership with REEF to deliver the scheme. We needed to be assured that suitable arrangements have been put in place for the scheme.</p>	<ul style="list-style-type: none"> Take informed decisions and; Work with partners and other third parties. 	<p>We are waiting on the final pieces of evidence before we can conclude on this risk, particularly the evidence to support the Council’s due diligence assessment of Aviva and REEF.</p> <p>However, as at the time of this report our review has confirmed that the Council has followed proper processes and has taken informed decisions in relation to the Queensway redevelopment deal. This included the Council seeking commercial advise on the feasibility of the scheme. Although the Queensway development is a mixed use scheme and has diversification, given the inherent risks and volatility faced by the retail sector as a whole we engaged EY Transactions Advisory Service specialists to review the robustness of the commercial advice received by the Council.</p> <p>We have concluded that the deal was structured to minimise risk to Stevenage Borough Council, however the initial viability of the scheme is highly dependent on the performance of REEF as developer and asset manager. Through REEF, the Council is currently negotiating lease terms with prospective tenants to occupy Queensway units. The Council is committed to lease repayments over the 37 year term of the lease agreed with Aviva UK. If the rental income from tenants of Queensway is not sufficient to cover the head lease payment to Aviva UK then the Council will be financially exposed. Therefore, it is critical that the Council achieve sufficient rental income from Queensway units.</p> <p>We have also obtained assurance that the Council sought and reflected on other advice appropriate for a scheme of this size. This included appropriate legal (state aid) and tax advise.</p> <p>We have considered the governance arrangements in place for how REEF report to Queensway LLP. We have concluded that there are adequate arrangements in place for Queensway LLP to monitor the performance of REEF.</p>

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
<p>Financial Resilience of Medium Term Financial Strategy</p> <p>The Queensway development (referred to on the previous page) may have implications for the Council’s medium term financial strategy. While the Council has balances above the minimum determined by the Chief Finance Officer its balances are at a lower level than some other Hertfordshire districts.</p> <p>We need to be assured that the Council is deploying its resources in a sustainable manner.</p>	<ul style="list-style-type: none"> Deploy resources in a sustainable manner; 	<p>We have reviewed the Council’s budget setting process, encompassing the Council’s Medium Term Financial Strategy, to assess the robustness of any significant assumptions used. We have concluded that the Council’s medium term strategy is sufficiently robust given the Council’s risk assessed minimum general fund balance of £2.7m.</p> <p>The Council’s Medium Term Financial Strategy is not dependent on drawing profits out Queensway LLP (except monies required to meet the head lease payments to Aviva UK as reported on the previous page). The provides assurance that authority has planned to deploy its resources in a sustainable manner; projected balances are risk adjusted and does not rely on uncertain income streams, unplanned use of reserves or unrealistic savings targets.</p> <p>We have noted that Council £15m investment property strategy that was approved in 2017/18 was expected to generate a target of £0.2m additional income per annum. However, due to the lack of available investment property opportunities within the area it is unlikely that this target will not be achieved in the near future. This is an effective budget pressure for the Council. As of 31 March 2019 the Council had a Regeneration Asset reserve of £1.3m cover such fluctuations in rental streams. The Chief Financial Officer has flagged the delivery of this saving and income generation option as a risk area on the risk register.</p>



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We are yet to conclude on procedures for the other information published with the financial statements.

We have reviewed the Annual Governance Statement, and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

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

We expect to submit the Whole of the Government Accounts return upon conclusion of the audit. We have no matters to report in this area.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Stevenage Borough Council, and Group, financial reporting processes. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits.

No significant findings in relation to the above matters were identified as part of the audit.

However, we did note that the financial reporting processes in relation to fixed assets (e.g. Property, Plant and Equipment) are very manual and time intensive for the Council's officers. The Council has a fixed asset register that is maintained with the financial reporting details of the Council's individual assets. However, the financial reporting processes appeared to be constrained by the limitations of the Council's fixed asset register, in particular the usefulness of the reports that could be obtained from the register. The Property, Plant and Equipment disclosures within the financial statements are driven by the output reports from the asset register. We recommend that the Council reviews and investigate ways in which it can streamline and improve financial reporting processes for fixed assets.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



08 Data Analytics



Use of Data Analytics in the Audit

▶ General Ledger and Payroll Data Analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



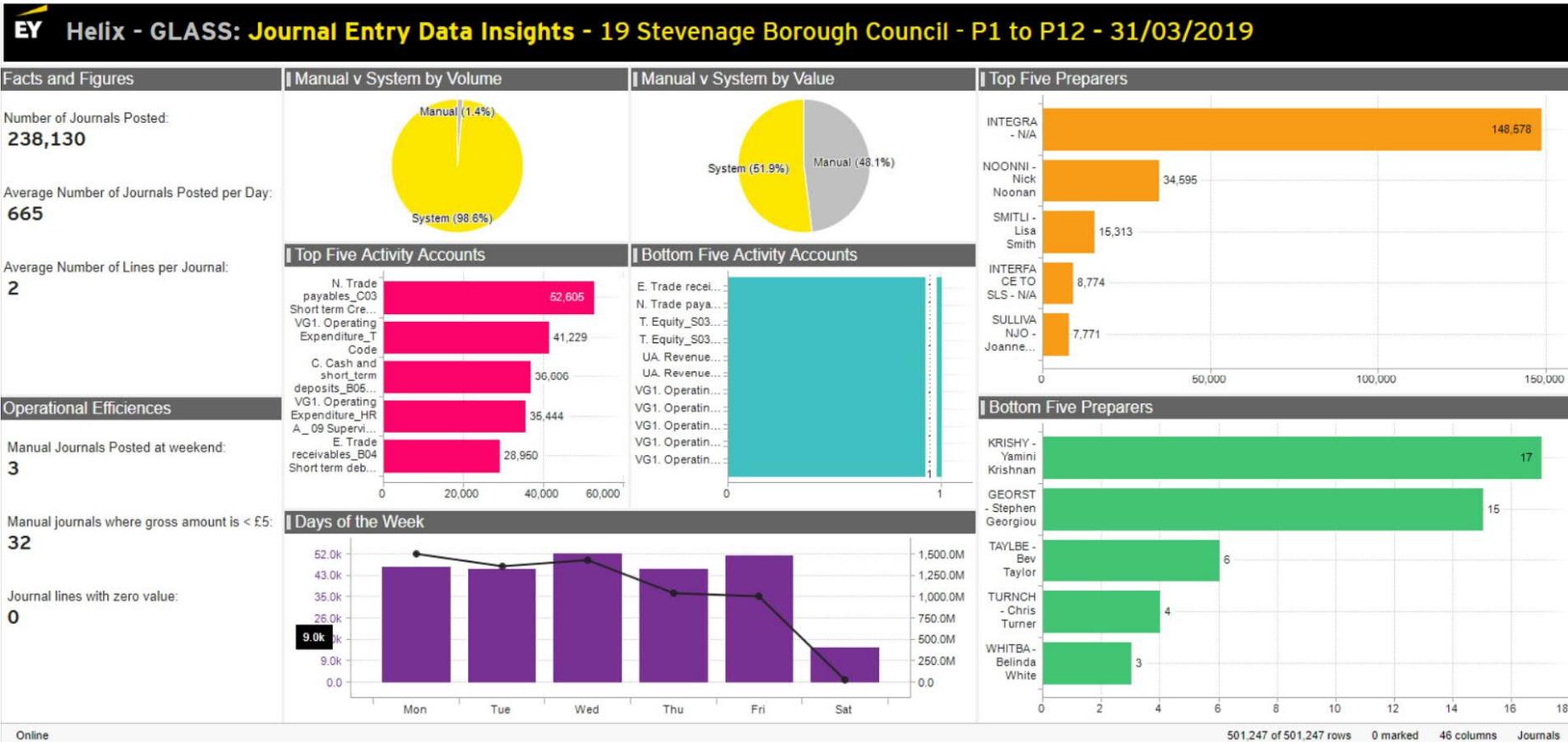
Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2018/19. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

The analysis of the journal data provides some useful insights which assists the audit team to focus our journals testing, for example, the large majority of journals are systems rather than manual which is indicative of an effective journals process with less reliance on manual journals; there are few manual journals posted at the weekend; and that the types and preparers of journals are in line with our expectations.





09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 23 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that the Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on the 27 November 2019

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have undertaken non-audit work outside the NAO Code requirements in relation to Certification of Housing Benefits. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

The fee for 2018/19 reflects the year 1 of the new 5 year contract awarded by PSAA.

	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£
Total Audit Fee – Code work	74,283 ~	49,283	65,259*
Certification of Housing Benefit Claim (PSAA)	n/a	n/a	16,145**
Certification of Housing Benefit	7,600***	n/a	n/a
Total fees	£81,883	£49,283	£81,404

All fees exclude VAT

- The fee includes £1,255 additional fee for additional work undertaken on the value for money conclusion in 2017/18.
- ** The fee for 2017/18 under the PSAA contract includes £5,234 for three extended samples over and above the two budgeted for in the scale fee for that year.
- *** We have been appointed to be the reporting accountant for the Housing Benefit Claim. The base fee for the certification of the housing benefit return is £7,600. Each extended sample attracts a fee of £2,400, for information there were five extended samples in 2017/18.

~ The planned fee for 2018/19 will attract a scale fee variation in relation to the additional scope and risk profiles that are not reflected in the base PSAA scale fee. For the 2018/19 audit this included:

- Value for money conclusion; EY Transactions Advisory Service involvement to assist in reviewing the arrangements for the Queensway regeneration scheme
- Queensway LLP, EY Valuations involvement to review the valuation of Queensway property asset.
- Queensway LLP, EY Financial Accounting Advisory Service involvement to review the lease accounting treatment adopted.
- Group financial statements, additional scope of the Group audit and additional requirements therein of the audit team.

The estimated scale fee variation for the 2018/19 audit is £25,000. This scale fee variation has yet to be agreed with the Council's Chief Finance Officer, and is also subject to agreement by the PSAA.



10 Appendices

Audit approach balance sheet

Our audit approach of the balance sheet is a fully substantive approach for all balance sheet categories. This is unchanged from the prior year.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix B

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report January 2019
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report November 2019

Appendix B

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report November 2019
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report November 2019
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report November 2019
Fraud	<ul style="list-style-type: none"> • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report November 2019

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report November 2019
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report, January 2019 and Audit results report November 2019
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report November 2019

Appendix B

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> • Management’s refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report, July 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit results report, July 2019
Written representations	<ul style="list-style-type: none"> • Written representations we are requesting from management and/or those charged with governance 	Audit results report, July 2019
Material inconsistencies or misstatements	<ul style="list-style-type: none"> • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report, July 2019
Auditors report	<ul style="list-style-type: none"> • Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report, July 2019
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	Audit planning report, March 2019 and Audit results report, July 2019

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