



Stevenage Borough Council

Annual Audit Letter 2008/09

December 2009

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1 Introduction and key messages

Purpose of this Letter

- 1.1 This Annual Audit Letter ("Letter") summarises the key issues arising from the work that we have carried out at Stevenage Borough Council ("the Council") during our 2008/09 audit. The Letter is written in an accessible style, designed to communicate our key messages to the Council and external stakeholders, including members of the public. The Letter will be published on the Council's website.

Responsibilities of the external auditors and the Council

- 1.2 This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).
- 1.3 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.
- 1.4 Our annual work programme is set in accordance with the Code of Audit Practice ("the Code") issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our Code conclusions.
- 1.5 In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies.
- 1.6 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

What this Letter covers

- 1.7 This Letter covers the audit work we have carried out in respect of 2008/09, including key messages and conclusions from our work in:
- auditing the 2008/09 year end accounts (Section 2)
 - assessing the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (Section 3)
 - certifying claims and returns (Section 4).

- 1.8 We have not repeated recommendations agreed with the Council during the year in this Letter. A list of the reports issued can be found at Appendix A. Appendix B sets out our actual and budgeted fees for 2008/09.
- 1.9 The findings of our work in 2008/09 contribute towards the Audit Commission's Organisational Assessment of the Council and the Comprehensive Area Assessment for Hertfordshire. The results of this work will be reported separately to the Council by the Audit Commission.

Key areas for Council action

- 1.9 We highlight the following key areas, where the Council should take action in 2009/10:
- medium term financial planning needs to take account of the current economic climate and the likely restrictions in public spending in the short to medium term. This is particularly important for the Council as it is currently forecasting a further planned reduction in General Fund balances of £1.6m in 2009/10, leaving a balance of £1.3m at 31 March 2010. Continued use of reserves at this level is clearly unsustainable. However, the Council is aware of these challenges and is actively pursuing additional efficiencies to ensure that a robust and balanced medium term financial strategy is in place for 2010/11
 - preparations need to be made for the introduction of accounting under International Financial Reporting Standards ("IFRS"), through robust project planning and identification of the resources required.
- 1.10 The context for these key messages can be found in this Letter.

2 Audit of accounts

Introduction

- 2.1 We issued an unqualified opinion on the Council's 2008/09 accounts on 22 September 2009, ahead of the statutory certification deadline. Our opinion confirms that the financial statements 'present fairly' the financial position of the Council.
- 2.2 Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to "those charged with governance" (for these purposes the Audit Committee is designated as "those charged with governance"). We presented our Annual Report to those Charged with Governance to the Audit Committee on 22 September and summarise only the key messages in this Letter.

Audit of the accounts

- 2.3 We were presented with the draft statement of accounts on 19 June 2009. There was a relatively smooth audit process and a low level of proposed adjustments, demonstrating the continued improvements made by the in accounts production.
- 2.4 Our audit identified four misstatements, the correction of which had no impact on the General Fund balance or charges to Council tax payers.

Financial performance

- 2.5 The Council reported a deficit on the Income and Expenditure account of £25,216,000 (2007/08 £22,649,000). The main reason for the increase in this deficit is the recognition of impairments of the value of land, buildings and investment properties. Land values in particular have fallen due to the economic downturn. There is no impact on General Fund balances.
- 2.6 The Council over spent against the General Fund budget by £133,000 (2007/08: under spend of £291,000). As a result the Council has used a further £2,120,000 (2007/08: £2,350,000) from balances. Continued use of reserves on this level is not sustainable in the medium term, especially as additional efficiencies will be required to counter the short to medium term challenges facing all councils due to the economic downturn. However, the Council is aware of these challenges and is actively pursuing additional efficiencies to ensure that a robust and balanced medium term financial strategy is in place for 2010/11.
- 2.7 The Council under spent against the Housing Revenue Account ("HRA") budget by £378,000. Within the HRA the Council does have to identify further efficiencies to balance future budgets, whilst ensuring that these budgets are robust. We are pleased to note that the housing service achieved a 2-star rating from the Audit Commission, which enabled additional money to be made available to the Council's Arms Length Management Organisation to invest in the housing stock.

- 2.8 Although the Council is currently projecting a small under spend against the revised budget (and a smaller over spend against the original budget), it is still experiencing financial pressures in 2009/10. The main risks that could lead to an over spend are that the impact of the economic downturn has led to reduced income from commercial properties, market rents and car parks. Income in 2009/10 is anticipated to reduce by an additional £176,000. The Council is currently forecasting that it will reduce general fund balances by a further £1.6m in 2009/10 to leave balances of £1.3m at 31 March 2010.
- 2.9 The HRA net expenditure is projected to be £560,060 an increase of £139,300 on the revised budget. The increase in expenditure relates mainly to additional staffing resources.
- 2.10 The Council is pursuing plans to mitigate the impact of the financial pressures in these areas and continues to closely monitor the position.

Financial systems

- 2.11 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the statement of accounts audit. Our evaluation of the Council's key financial control systems did not identify any control issues presenting a material risk to the accuracy of the statement of accounts.
- 2.12 We reviewed the work of internal audit and concluded that the scope and conduct of internal audit work was appropriate to support our work in auditing the Council's 2008/09 accounts.
- 2.13 We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that adversely impact on the accuracy of financial statements and hence our audit of the accounts.

Annual Governance Statement

- 2.14 We examined the Council's arrangements and process for compiling the Annual Governance Statement ('AGS').
- 2.15 We concluded that the AGS was consistent with our knowledge of the Council. We are pleased to note that the Council has reflected on arrangements in place to manage risks in respect of treasury management and members' allowances in the AGS in addition to actions to improve its governance arrangements. It will be important for the Council to ensure timely and robust action is taken to implement the required control improvements identified in the AGS.

Members' expenses and allowances

- 2.16 Due to the high profile coverage of Parliamentary expenses during 2008/09, we undertook a high level review of members' and senior officers' allowances and expenses. Our review found appropriate procedures and controls are currently in operation at the Council.

Treasury Management

- 2.17 The Council did not have any investments in the collapsed Icelandic banks. Officers continue to closely monitor credit ratings and future prospects of financial institutions that the Authority is authorised to invest in to minimise the risk of losses, whilst securing competitive returns. In 2008/09 the Authority reviewed its treasury management arrangements in response to the Audit Commission report on Icelandic investments. The Audit Committee has been proactive in ensuring that treasury management arrangements remain appropriate for the Council.

Looking ahead

- 2.18 We would like to draw to the attention of the Council further significant changes that will happen to the statement of accounts in future years, the most significant of which is the full implementation of IFRS in the 2010/11 accounts. Although this may seem a long way off, it is important that authorities start planning now, as there will be significant changes to the accounts. Our experience in other sectors shows that audited bodies that are well prepared for the transition to IFRS have fewer amendments to their accounts and are less likely to be charged additional audit fees.

3 Use of resources

Introduction

- 3.1 We issued our annual VFM conclusion on 25 September 2009, at the same time as our accounts opinion, in line with the required deadline. We concluded that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.
- 3.2 We set out the results of our assessment of the Council against the use of resources framework in our Use of Resources 2009 report. In this Letter we summarise the key messages alongside relevant current findings, and look forward to helping the Council resolve forthcoming challenges.

2008/09 VFM conclusion and use of resources assessment

- 3.3 Our VFM conclusion was informed by our use of resources work which, in councils, is based on the Audit Commission's new use of resources ("UoR") assessment. The new framework emphasises **outcomes** over **processes**, and brings new areas into the assessment such as environmental management. It presents a more robust challenge than the old framework, based on different scoring criteria. It should be noted, therefore, that changes from prior year scores do not necessarily reflect an objective change in performance.
- 3.4 In order for us to provide an unqualified conclusion, the Council needed to achieve an 'adequate' assessment (score of at least 2) for each component of the UoR assessment. Failure to achieve an 'adequate' assessment in any one area results in an "except for" conclusion.
- 3.5 Our UoR assessment concluded that the Council had at least adequate arrangements in all areas. Therefore, our VFM conclusion was unqualified.
- 3.6 The 2008/09 scores by Key Line of Enquiry ("KLoE") area are shown in the table overleaf.

Scoring scale:

1 - Below minimum requirements - inadequate performance
 2 - Only at minimum requirements – adequate performance
 3 - Consistently above minimum requirements – performing well
 4 - Well above minimum requirements – performing strongly

* Within the Managing Resources theme, in 2008/09, managing natural resources and asset management are not assessed.

Table 1: UoR scores 2008/09

Theme / KLoE		Score
Theme 1 - Managing finances		2
1.1	Financial planning	2
1.2	Understanding costs	3
1.3	Financial reporting	2
Theme 2 - Governing the business		2
2.1	Commissioning and procurement	2
2.2	Use of data	3
2.3	Good governance	2
2.4	Internal control	2
Theme 3 - Managing resources		2
3.1	Managing natural resources	N/A*
3.2	Asset management	N/A*
3.3	Workforce management	2

- 3.7 We assessed the Council as meeting minimum requirements in managing finances. The Council has achieved a number of good financial outcomes in the year of audit and is improving processes for preparing year end accounts. One of the key challenges facing the Council is in balancing the financial position, especially as additional efficiencies will be required to counter the short to medium term challenges arising from the economic downturn. However, the Council is aware of these challenges and is actively pursuing additional efficiencies to ensure that a robust and balanced medium term financial strategy is in place.
- 3.8 We assessed the Council as meeting minimum requirements in governing the business. The Council has established processes for securing good quality performance and financial data and uses these processes to identify areas of under performance and/or areas where data quality requires improvement. Performance and data quality improvements have been achieved in the year of audit. Our judgements in the Governing the Business theme have also been informed by the results of our data quality spot-checking work. We reviewed eight performance indicators and found no weaknesses in the audit trail to support their calculation.
- 3.9 The high priority recommendations arising from our UoR assessment were for the Council to ensure that it:
- demonstrates financial outcomes from key decisions taken by the Council across all significant services
 - ensures that savings are identified and actions plans put in place to make sustainable savings for the medium to longer term. This is particularly important given expected future decreases in funding of public services and the need to demonstrate robust business planning in all areas of Council activity

- demonstrates that the wider community is impacted through commissioning and procurement decisions, through a variety of social, economic and environmental objectives
 - enhances current internal reporting processes to ensure that specific Council actions are incorporated so that the success of initiatives and service reviews can be measured. Internal reporting processes should also incorporate staff satisfaction and effectiveness indicators.
- 3.10 We agreed a number of recommendations with management and we will review progress on implementation during the 2009/10 audit.

National Fraud Initiative

- 3.11 The Audit Commission is in the process of completing an assessment of how audited bodies have addressed the National Fraud Initiative ("NFI"). The first stage of this has been our completion of an initial risk assessment.
- 3.12 We have assessed the Council as performing well. Good progress is being made on following up NFI matches. We will continue to monitor the progress the Council makes with this work and report on any concerns to the Head of Internal Audit, Strategic Director and the Audit Committee as necessary.
- 3.13 The next stage of this process will be that the Audit Commission NFI team will monitor NFI progress, through management information and evaluation of auditor risk assessments to select bodies for site visits and will also review a sample of bodies strategic approaches to using information from the NFI. The outcomes from this work will also inform our conclusions on your arrangements for preventing and detecting fraud and corruption and KLOE 2.4 of the UoR assessment in 2009/10.

Looking ahead

- 3.14 We agreed our indicative 2009/10 audit fee with the Council in March 2009. The letter set out our initial assessment of the local risk based use of resources work we plan to carry out to support our VFM conclusion, comprising:
- reviewing the change in Benefits system to assess the adequacy of the changeover arrangements
 - ongoing review of treasury management arrangements.
- 3.15 We confirm that these assumptions remain relevant and we will build these into the risk assessment for our 2009/10 plan, along with specific follow up of our 2008/09 recommendations and any new risks emerging between now and when we agree our full plan with the Council.

4 Certification of claims and returns

Introduction

- 4.1 In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission to review and provide certificates on the accuracy of grant claims and returns to various government departments and other agencies.
- 4.2 In its national report, "Review of arrangements for certifying claims and returns" (September 2009), the Audit Commission identified that further improvements in performance in preparing and auditing claims and returns are achievable:
- local authorities need to attach greater importance to the preparation of claims and returns to reduce the volume and value of errors made
 - grant-paying bodies should improve their understanding of the certification process
 - auditors need to do more to raise the profile of certification work at the local level and encourage authorities to improve their use of resources.

Key messages

- 4.3 As this is our first year as the Council's auditors we have not yet produced a grants report as our work is still ongoing. The main outstanding work is on the benefits subsidy claim, which has been problematic in the past with amendments and qualification in the prior year.
- 4.4 Our indicative findings based on work completed to date are:
- no claims or returns required qualification
 - only minor amendments were made to three grant claims and returns
 - two grant claims and returns were certified without amendment or qualification
 - the Council had administrative problems in accessing the Communities and Local Government website portal for recording and certifying grant claim and return information.
- 4.5 We will report fully on Council performance against relevant measures for 2008/09 in our forthcoming Certification of 2008/09 claims and returns report.

5 Closing remarks

Introduction

- 5.1 This Letter was agreed with the Chief Financial Officer on 3 December 2009 and presented to Audit Committee on 14 December 2009.
- 5.2 We would like to take this opportunity to express our appreciation for the assistance and cooperation provided during the course of the audit. Our aim is to deliver a high standard of audit, which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support.

Grant Thornton UK LLP
December 2009

Appendix A 2008/09 reports issued

Report	Date issued
Audit Plan	September 2008
Audit Strategy Document	June 2009
Annual Report to those Charged with Governance	September 2009
Use of Resources 2009	December 2009
Annual Audit Letter	December 2009

Appendix B Audit fees 2008/09

Audit area	Budget 2008/09	Actual 2008/09
Financial statements, including WGA	95,400	95,400
VFM conclusion/Use of resources/Data Quality	39,300	39,300
Total Code of Practice fee	134,700	134,700



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