Dear Members

Audit and Accounts Committee

A meeting of the Audit and Accounts Committee will be held in the Craddock Room, Civic Centre, Riverside, Stafford on Tuesday 30 July 2019 at 6.30pm to deal with the business as set out on the agenda.

Please note that this meeting will be recorded.

Members are reminded that contact officers are shown in each report and members are welcome to raise questions etc in advance of the meeting with the appropriate officer.

Officers from Grant Thornton will be available from 6.00pm.

I. Cameron

Interim Head of Law and Administration
AUDIT AND ACCOUNTS COMMITTEE -
30 JULY 2019

Chair - Councillor A M Loughran

AGENDA

1  Minutes of 11 June 2019 as circulated and to be published in Digest No 258 on 2 August 2019

2  Apologies

3  Officers’ Reports

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<td>GRANT THORNTON</td>
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<table>
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<tr>
<td></td>
<td>INTERIM HEAD OF LAW AND ADMINISTRATION</td>
<td>54 - 57</td>
</tr>
</tbody>
</table>

Membership

Chair - Councillor A M Loughran

M G Dodson  P W Jones
I D Fordham  A M Loughran
R A James    J A Nixon

Cabinet Member - Councillor R M Smith
23 April 2019

Dear Bob

Planned audit fee for 2019/20

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted-in local government bodies from 2018/19.

For opted-in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the PSAA website.

All grant work, including housing benefit certification, falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the PSAA website. The Council's scale fee for 2019/20 has been set by PSAA at £40,186 which is the same as in 2018/19.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the NAO website.
The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

**Value for Money conclusion**

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*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.*

**Billing schedule**

Fees will be billed as follows:

<table>
<thead>
<tr>
<th>Main Audit fee</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2019</td>
<td>10,047</td>
</tr>
<tr>
<td>December 2019</td>
<td>10,047</td>
</tr>
<tr>
<td>March 2020</td>
<td>10,047</td>
</tr>
<tr>
<td>June 2020</td>
<td>10,045</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40,186</td>
</tr>
</tbody>
</table>

**Outline audit timetable**

We will undertake our audit planning and interim audit procedures from December 2019 to March 2020. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June and July 2020 and work on the whole of government accounts alongside this.

<table>
<thead>
<tr>
<th>Phase of work</th>
<th>Timing</th>
<th>Outputs</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit planning and interim audit</td>
<td>December 2019 to March 2020</td>
<td>Audit plan</td>
<td>The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.</td>
</tr>
<tr>
<td>Final accounts audit</td>
<td>June to July 2020</td>
<td>Audit Findings (Report to those charged with governance)</td>
<td>This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.</td>
</tr>
<tr>
<td>VfM conclusion</td>
<td>June to July 2020</td>
<td>Audit Findings</td>
<td>As above</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------</td>
<td>----------------</td>
<td>---------</td>
</tr>
<tr>
<td>Whole of government accounts</td>
<td>June to July 2020</td>
<td>Opinion on the WGA return</td>
<td>This work will be completed alongside the accounts audit.</td>
</tr>
<tr>
<td>Annual audit letter</td>
<td>August 2020</td>
<td>Annual audit letter to the Council</td>
<td>The letter will summarise the findings of all aspects of our work.</td>
</tr>
</tbody>
</table>

Our team

The key members of the audit team for 2019/20 are:

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone Number</th>
<th>E-mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagement Lead</td>
<td>Richard Percival</td>
<td>0121 232 5434</td>
</tr>
<tr>
<td>Engagement Manager</td>
<td>James McLarnon</td>
<td>0121 232 5219</td>
</tr>
<tr>
<td>In Charge Auditor</td>
<td>Harkamal Vaid</td>
<td>0121 232 8775</td>
</tr>
</tbody>
</table>

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed, and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Mark Stocks, our Public Sector Assurance regional lead partner, via mark.c.stocks@uk.gt.com

Yours sincerely

Richard Percival  
Engagement Lead  
Grant Thornton UK LLP
The Audit Findings
For Stafford Borough District Council

Year ended 31 March 2019
30 July 2019
The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Stafford Borough District Council (‘the Council’) and the preparation of the Council’s financial statements for the year ended 31 March 2019 for those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion, the Council’s financial statements:

- give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LSAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 14. We have identified one adjustment to the financial statements of £1.6 million relating to the Council’s net pension liability. This is detailed in Appendix B. Our follow up of recommendations from the prior year’s audit are detailed in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion at Appendix D or material changes to the financial statements, subject to the following outstanding matters:

- final review of audit work by the Engagement Lead and consideration of the overall sufficiency of audit evidence
- update of our subsequent events review to the date of sign off
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (‘the value for money (VFM) conclusion’).

We have completed our risk based review of the Council’s value for money arrangements. We have concluded that Stafford Borough District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 15 to 18.

## Statutory duties

The Local Audit and Accountability Act 2014 (‘the Act’) also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

## Acknowledgements

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

Overview of the scope of our audit
This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice (‘the Code’). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach
Our audit approach was based on a thorough understanding of the Council's business and is risk based, and included:
• An evaluation of the Council's internal controls environment, including its IT systems and controls; and
• Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

Conclusion
We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Accounts Committee meeting on 30 July 2019, as detailed in Appendix D

Our approach to materiality
The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Stafford Borough Council.

<table>
<thead>
<tr>
<th>Amount (£)</th>
<th>Qualitative factors considered</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Materiality for the financial statements</strong></td>
<td>1,165,000 • Business environment – the Council operates in a stable, publicly funded environment • Control environment – no significant deficiencies identified.</td>
</tr>
<tr>
<td><strong>Performance materiality</strong></td>
<td>873,750 • No history of significant deficiencies or high number of deficiencies • No history of a large number of misstatements.</td>
</tr>
<tr>
<td><strong>Trivial matters</strong></td>
<td>58,250 • Matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</td>
</tr>
<tr>
<td><strong>Specific materiality:</strong> - Senior officer remuneration</td>
<td>100,000 • Public interest</td>
</tr>
</tbody>
</table>
## Significant findings – audit risks

<table>
<thead>
<tr>
<th>Risks identified in our Audit Plan</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The revenue cycle includes fraudulent transactions (rebuted)</strong></td>
<td><strong>Auditor commentary</strong></td>
</tr>
<tr>
<td></td>
<td>We have considered our assessment of the presumed significant risk under ISA (UK) 240 that revenue may be misstated due to fraud and subsequent rebuttal as communicated in the audit plan and consider this to remain appropriate. The primary reasons for this rebuttal are:</td>
</tr>
<tr>
<td></td>
<td>• there is little incentive to manipulate revenue recognition</td>
</tr>
<tr>
<td></td>
<td>• opportunities to manipulate revenue recognition are very limited</td>
</tr>
<tr>
<td></td>
<td>• the culture and ethical frameworks of local authorities, including Stafford Borough Council, mean that all forms of fraud are seen as unacceptable</td>
</tr>
<tr>
<td></td>
<td>We therefore consider there is a low risk of material misstatement due to fraud in revenue.</td>
</tr>
<tr>
<td><strong>Management over-ride of controls</strong></td>
<td>We have:</td>
</tr>
<tr>
<td></td>
<td>• evaluated the design effectiveness of management controls over journals</td>
</tr>
<tr>
<td></td>
<td>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</td>
</tr>
<tr>
<td></td>
<td>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</td>
</tr>
<tr>
<td></td>
<td>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</td>
</tr>
<tr>
<td></td>
<td>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</td>
</tr>
<tr>
<td></td>
<td><strong>Conclusion</strong></td>
</tr>
<tr>
<td></td>
<td>Our audit work has not identified any issues in respect of management override of controls.</td>
</tr>
</tbody>
</table>
### Significant findings – audit risks

#### Risks identified in our Audit Plan

<table>
<thead>
<tr>
<th>Valuation of land and buildings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commentary</strong></td>
</tr>
<tr>
<td>We have:</td>
</tr>
<tr>
<td>• evaluated management’s processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</td>
</tr>
<tr>
<td>• evaluated the competence, capabilities and objectivity of the valuation expert</td>
</tr>
<tr>
<td>• written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out</td>
</tr>
<tr>
<td>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</td>
</tr>
<tr>
<td>• tested, on a sample basis, revaluations made during the year to ensure they have are consistent with the valuer’s report and have been input correctly into the Authority’s asset register</td>
</tr>
<tr>
<td>• evaluated the assumption made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end</td>
</tr>
</tbody>
</table>

**Conclusion**

Our audit work has not identified any issues regarding the valuation of property, plant and equipment included within the financial statements.

As part of our audit work we also considered how management obtained assurance that assets not revalued in 2018/19 were materially correct. The potential estimation uncertainty for assets not revalued was identified by management as up to £33,000. We reviewed the basis for this estimation and concluded that it was reasonable. Management’s view is that this understatement is not material to the Council’s accounts. As the potential estimation uncertainty is below our materiality threshold we have accepted this judgement.
## Significant findings – audit risks

### Valuation of the pension fund net liability

<table>
<thead>
<tr>
<th>Risks identified in our Audit Plan</th>
<th>Commentary</th>
</tr>
</thead>
</table>
| 4 Valuation of the pension fund net liability | We have:  
  - updated our understanding of the processes and controls put in place by management to ensure that the Authority’s pension fund net liability is not materially misstated and evaluated the design of the associated controls;  
  - evaluated the instructions issued by management to their management expert (Hymans Robertson) for this estimate and the scope of the actuary’s work;  
  - assessed the competence, capabilities and objectivity of the actuary who carried out the Authority’s pension fund valuation;  
  - assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;  
  - tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;  
  - undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report; and  
  - obtained assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. |

At the time of drafting this report our audit work was still in progress. Our audit to date has identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement. This is considered under section “Significant findings – other issues” at page 8.
## Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Commentary</th>
</tr>
</thead>
</table>
| **Impact of the McCloud judgement**       | The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.  
Our Grant Thornton view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation.  
The Government applied to the Supreme Court for leave to appeal this ruling, but this was rejected in late June 2019. The case will now be remitted back to employment tribunal for remedy.  
The legal ruling has implications for pension schemes where transitional arrangements have been implemented, including the Local Government Pension Scheme (LGPS).  
This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote below confirms that remedies will need to be applied to the LGPS and hence supports the Authority’s stance in the recognition of increased liabilities:  
“As ‘transitional protection’ was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members.”  
The Council had included a contingent liability in its draft statement in relation to the McCloud ruling. The Council has requested a full revised IAS 19 report from its actuary to estimate the potential impact of the McCloud ruling and GMP equalisation, this also considered actual investment returns for the period. The actuary’s estimate was that this would result in an overall increase of £1.556m to the net defined liability at 31 March 2019.  
Management have amended the financial statements to reflect the actuarial review of the impact  
We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.  
Our audit procedures have confirmed the relevant adjustments have been made to the financial statements in regard to the LGPS. |
# Significant findings – key judgements and estimates

## Accounting area

<table>
<thead>
<tr>
<th>Summary of management’s policy</th>
<th>Audit Comments</th>
<th>Assessment</th>
</tr>
</thead>
</table>
| **Provisions for NNDR appeals** | The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required and refer to data provided by Analyse Local to inform their estimate. The calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has increased by £2,713k in 2018/19. | We have:  
- Reviewed the appropriateness of the underlying information used to determine the estimate  
- Considered the reasonableness of increase/decrease in estimate. This has increased notably in the period as a result of appeals from NHS bodies, town centre shops and ATM providers  
- Confirmed the adequacy of disclosure of estimate in the financial statements | Green |

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious
## Significant findings – key judgements and estimates

<table>
<thead>
<tr>
<th>Summary of management’s policy</th>
<th>Audit Comments</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land and Buildings</strong></td>
<td>We have</td>
<td>Audit work not concluded</td>
</tr>
<tr>
<td>Other land and buildings comprises specialised assets, which are required to be valued at</td>
<td>• Undertaken an assessment of management’s expert,</td>
<td></td>
</tr>
<tr>
<td>depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent</td>
<td>• Reviewed the completeness and accuracy of the underlying information used</td>
<td></td>
</tr>
<tr>
<td>asset necessary to deliver the same service provision.</td>
<td>to determine the estimate</td>
<td></td>
</tr>
<tr>
<td>The remainder of other land and buildings are required to be valued at existing use in value</td>
<td>• Reviewed the impact of any changes to valuation method</td>
<td></td>
</tr>
<tr>
<td>(EUV) at year end.</td>
<td>• Agreed the reasonableness of increase in estimate</td>
<td></td>
</tr>
<tr>
<td>The Council engaged Lambert Smith Hampton to complete the valuation of properties as at 31</td>
<td>• Reviewed the adequacy of disclosure of estimate in the financial statements</td>
<td></td>
</tr>
<tr>
<td>March 2019 on a cyclical basis. 85% of land and buildings were revalued during 2018/19. The</td>
<td></td>
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<tr>
<td>revaluation of properties resulted in a net increase of £1.2m in the carrying value of land</td>
<td></td>
<td></td>
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<tr>
<td>and buildings</td>
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</tr>
<tr>
<td>Management have considered the carrying value of land and buildings not revalued to determine</td>
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<tr>
<td>whether there are indications of a material change in the total value of these properties.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management have concluded that there are no indications material change to these property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>values – see page 6 for further information</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Significant findings – key judgements and estimates

<table>
<thead>
<tr>
<th>Summary of management's policy</th>
<th>Audit Comments</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net pension liability</strong></td>
<td>We have</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Undertaken an assessment of management’s expert</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reviewed and assessed the actuary’s roll forward approach taken,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary</td>
<td></td>
</tr>
<tr>
<td><strong>Assumption</strong></td>
<td>Actuary Value</td>
<td>PwC range</td>
</tr>
<tr>
<td><strong>Assumption</strong></td>
<td>Actuary Value</td>
<td>PwC range</td>
</tr>
<tr>
<td>Discount rate</td>
<td>2.4%</td>
<td>2.4% - 2.5%</td>
</tr>
<tr>
<td>Pension increase rate</td>
<td>2.5%</td>
<td>2.4% - 2.5%</td>
</tr>
<tr>
<td>Salary growth</td>
<td>2.9%</td>
<td>Scheme and employer specific</td>
</tr>
<tr>
<td>Life expectancy – Males currently aged 45 / 65</td>
<td>24.1/ 22.1</td>
<td>23.7 – 24.4/ 21.5 – 22.8</td>
</tr>
<tr>
<td>Life expectancy – Females currently aged 45 / 65</td>
<td>26.4 – 24.4</td>
<td>26.2 – 26.9/ 24.1 – 25.1</td>
</tr>
</tbody>
</table>

We have reviewed:
- Completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Council's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue. Hymans Robertson have not made any allowance for (GMPs). We have estimated an impact of 0.1% of gross pension liabilities. We do not consider this to be material.

At the time of drafting the completion of our audit work is subject to obtaining and considering information for benefits paid in the period and agreement of source data provided to the actuary.
Significant findings - Going concern

Our responsibility
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process
Management have assessed the Council as a going concern on the basis that:
• There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Fund’s ability to continue as a going concern. This extends but is not limited to at least twelve months from the reporting date.
• The Authority are required by statute to produce an annual balanced budget, this is supplemented by the MTFP which currently covers the period to 31 March 2022
• The Authority, has a strong balance sheet as at 31 March 2019

Auditor commentary
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Management's assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary.

Management assessment has concluded that no material uncertainty in respect of going concern exists.

In addition based on our own review of the Council, we are aware that the Council has set an "approved budget" for 2019/20 and has a longer term financial plan.

As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.

Work performed
• Detailed audit work performed on management’s assessment

Auditor commentary
• Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
• The reported position of the council at 31 March 2019 per the draft financial statements shows that they have total current assets of £33.4m compared to £12.6m current liabilities, £17.3m and £13m of total current assets are cash and short term investments respectively and are therefore highly liquid.
• The council has no borrowings
• The council will remain a going concern throughout the life of the MTFP however this will entail transfer of amounts from working balances to support the budget. Overall, reserves are anticipated to stay above the minimum required.

Concluding comments

Auditor commentary
• We are satisfied that the preparation of the financial statements using the going concern principal is reasonable
• Based on the above comments, we anticipate being able to issue an unmodified opinion.
Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Matters in relation to fraud</td>
<td>• We have previously discussed the risk of fraud with the Audit and Accounts Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures</td>
</tr>
<tr>
<td>2 Matters in relation to related parties</td>
<td>• We are not aware of any related parties or related party transactions which have not been disclosed</td>
</tr>
<tr>
<td>3 Matters in relation to laws and regulations</td>
<td>• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work</td>
</tr>
<tr>
<td>4 Written representations</td>
<td>• A letter of representation has been requested from the Council, which is included in the Audit and Accounts Committee papers</td>
</tr>
<tr>
<td>5 Confirmation requests from third parties</td>
<td>• We requested from management permission to send confirmation request(s) to various banking providers, other financial institutions with whom an investment deposit is held and various lenders. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</td>
</tr>
<tr>
<td>6 Disclosures</td>
<td>• Our review found no material omissions in the financial statements</td>
</tr>
<tr>
<td>7 Audit evidence and explanations/significant difficulties</td>
<td>• All information and explanations requested from management was provided.</td>
</tr>
</tbody>
</table>
## Other responsibilities under the Code

<table>
<thead>
<tr>
<th>Issue</th>
<th>Commentary</th>
</tr>
</thead>
</table>
| 1 Other information | • We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.  

No inconsistencies have been identified |
| 2 Matters on which we report by exception | We are required to report on a number of matters by exception in a numbers of areas:  
• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit  
• If we have applied any of our statutory powers or duties  

We have nothing to report on these matters |
| 3 Specified procedures for Whole of Government Accounts | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council does not exceed the threshold no detailed procedures are required. |
| 4 Other powers and duties | We received a letter of objection on 12 July 2019. After considering this letter we decided not to accept this as it did not meet the requirements of a valid objection. |
| 5 Certification of the closure of the audit | We intend to certify the closure of the 2018/19 audit of Stafford Borough Council in the audit opinion, as detailed in Appendix D. |
Value for Money

Background to our VFM approach
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO’s Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:

Risk assessment
We carried out an initial risk assessment in February 2019 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.
Value for Money

Our work
AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements in relation to financial sustainability and delivery of the Corporate Business Plan. In arriving at our conclusion, our main considerations were:

• Outturn in the period to planned budget
• Ability to set a balances budget for the 2019/20 financial period
• Plans for future and how these are incorporated in the MTFP; and
• Progress made against the recommendations raised through the LGA peer review

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on page 17.

Overall conclusion
Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.
## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Findings</th>
<th>Conclusion</th>
</tr>
</thead>
</table>
| **Delivery of financial plans** | In 2018/19:  
  • the overall revenue account position shows a favourable variance in net expenditure of £135,000 compared to budget agreed by Council for 2018/19.  
  • Income from business rates dropped by £1,214,000 in the year as a result of specific increases in business rates appeals following reviews undertaken by the VOA (this corresponds to an increase in the provision per the balance sheet at 31 March 2019).  
  Overall, £707,000 has been transferred to the working balance in line with budgeted contribution of £704,000.  
  • The performance of the Council is reported to Cabinet on a monthly basis and quarterly to Scrutiny.  
  The 2019/20 budget process:  
  • The Council has set a balance budget of £14,004m for 2019/20. This includes transfer to working balance of £796k.  
  • The assumptions in the 2019/20 budget appear reasonable and in line with our expectation  
  MTFP:  
  • The Council are able to set a balanced budget throughout the lifetime of the MTFP  
  • We note that this will entail transfer from working balances of £645k in 2021/22 however the overall level of working balances is forecast to remain above the minimum required by a comfortable margin  
  • the level of uncertainty in the funding regime beyond 2020 is significant, particularly in relation to business rates retention. As noted in the MTFP this may have a material impact on council finances (£3.36m) depending on the intention for future retention of growth | Auditor view  
We are satisfied that the Council has adequate arrangements in place to deliver on financial plans as demonstrated by the month 12 outturn, the appropriate level of oversight is provided to ensure monitoring and reporting is fit for purpose.  
In addition to this, the Council have robust arrangement in place to formulate a prudent and measured MTFP which is reflective of the current environment and information currently available.  
While we believe that management has sufficient measures in place to forecast reasonably (a supporting paper is provided as an appendix to the budget on robustness of assumptions), the future models of funding in Local Government are uncertain and these are prevalent in the financial plans prepared by management. The authority faces significant challenge in the medium term and therefore we will continue to monitor this risk closely going forward. |
## Key findings
We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Findings</th>
<th>Conclusion</th>
</tr>
</thead>
</table>
| **Corporate Business Plan delivery** | • We have obtained the most recent version of the Corporate Peer Challenge Action plan as at July 2019 in order to assess progress made against these recommendations

  • Review of the tracker confirms that the council have either made tangible changes as a result of recommendations or work is scheduled for this calendar year.

  The key areas of this include:

  • Development of a communications strategy which will be implemented in September 2019

  • Business flow which leadership team review on a monthly basis and is a standing agenda item. This facilitates timely decision making and scrutiny

  • Mapping of the organisational workforce development strategy and linkage of this to the wider business plan; and

  • Significant work around succession planning, skills reviews, visions and values and learning and development |
| **Auditor view**                      | Overall, we are satisfied that the Council have adequately responded to peer review recommendations and while these are not mandated as the process is voluntary, the organisation have adopted a positive outlook to the constructive critical points raised. |
|                                      | The Council should ensure progress continues to be tracked and timescales are set for closedown of recommendations |

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Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council’s Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council’s Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

<table>
<thead>
<tr>
<th>Fees £</th>
<th>Threats identified</th>
<th>Safeguards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit related</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certification of Housing Benefits subsidy claim</td>
<td>9,500</td>
<td>Self-Interest (because this is a recurring fee)</td>
</tr>
</tbody>
</table>

These services are consistent with the Council’s policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.
Follow up of prior year recommendations

We identified the following issues in the audit of Stafford Borough Council’s 2017/18 financial statements, which resulted in five recommendations being reported in our 2017/18 Audit Findings report.

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Issue and risk previously communicated</th>
<th>Update on actions taken to address the issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔️</td>
<td>Publication of the draft Annual Governance Statement Management need to ensure that the draft annual governance statement is published on their website alongside the draft financial statements by 31st May 2019.</td>
<td>The Council published their Annual Governance Statement in line with the stipulated deadline in 2018/19</td>
</tr>
<tr>
<td>✔️</td>
<td>Assets with a net book value of zero Management need to ensure that as part of the fixed asset procedures they consider/ review any assets with a net book value of zero for applicability and use.</td>
<td>A review of assets was undertaken at year end and assets with nil NBV were written out where they were no longer providing service or the useful economic life revised. There are no assets with a net book value of zero at 31 March 2019</td>
</tr>
<tr>
<td>❌</td>
<td>IT Administrator access Management need to control the use of generic system administrator accounts in the Open Revenues platform as this undermines the principle of accountability. It was also noted that those performing financial reporting processes or controls has security administration access</td>
<td>No change has been made to address this issue. Management response As stated last year the council understands the concern raised, however due to the number of users who could run controls within Open Revenues and the need for these controls to be accessed easily by a number of users – the report user is an acceptable way of achieving this. The report user is not used for reports or system jobs which in anyway update Open Revenues and access to it is limited to two users within the Systems and Control team.</td>
</tr>
<tr>
<td>✔️</td>
<td>Journal authorisation Management need to ensure that all journals over their designated £50k limit as set out in their internal process document are reviewed by the appropriate member of staff and authorised accordingly prior to posting within the general ledger.</td>
<td>As a result of audit procedures performed, we have not identified any issues in regard to journal authorisation in the period</td>
</tr>
<tr>
<td>❌</td>
<td>Surplus asset valuation Although not material, management need to ensure that surplus assets are reviewed on an annual basis to ensure valuation is appropriate and no events or conditions have changed which may result in a movement in the fair value of these assets.</td>
<td>We note on review of the financial statements that surplus assets have not been revalued in 2018/19 on the grounds that management determine their fair value to not have changed materially. Management response The operational surplus assets category relates to 13 separate sites. These all relate to areas land for which there is no significant market despite being held at fair value. The assets are taken into account in the overall review of council assets and the council is not aware of any events or conditions which would have resulted in a movement in the fair value of the assets.</td>
</tr>
</tbody>
</table>
Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements
All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

<table>
<thead>
<tr>
<th>Detail</th>
<th>Comprehensive Income and Expenditure Statement £’000</th>
<th>Statement of Financial Position £’000</th>
<th>Impact on total net expenditure £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Adjustment to the Local Government pension scheme in respect of the McCloud judgement, GMP equalisation and return on investment assets</td>
<td>1,556</td>
<td>(1,556)</td>
<td>Nil</td>
</tr>
<tr>
<td>Overall impact</td>
<td>£1,556</td>
<td>(£1,556)</td>
<td>£Nil</td>
</tr>
</tbody>
</table>

It should be noted that the above adjustment had an impact on a number of notes and disclosures in the accounts however for ease of reference we have outlined the net impact on the pension fund liability

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

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>Auditor recommendations</th>
<th>Adjusted?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrative Report</td>
<td>We proposed that the narrative was enhanced to bridge the gap between portfolio spend and net revenue spend per the general fund</td>
<td>✓</td>
</tr>
<tr>
<td>Accounting Policies</td>
<td>Following the transition to IFRS 9 (Financial Instruments) and IFRS 15 (Revenue) we proposed in line with Code requirements that the accounting policies reflect accounting treatment under the old and new standard as the comparative information presented was stated under the old standard. Management have determined that this adjustment will not be made on the basis that it could be misleading for the reader of the accounts and would not add significant value to the disclosure</td>
<td>✗</td>
</tr>
</tbody>
</table>
Fees

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

Audit Fees

<table>
<thead>
<tr>
<th>Council Audit – fee proposed per fee letter</th>
<th>£40,186</th>
</tr>
</thead>
</table>

Proposed fee variation

- Pensions and PPE valuation - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 and PPE valuations needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 and PPE valuations this year.
  
- Assessing the impact of the McCloud ruling - The Government’s transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December and the Supreme Court refused the Government’s application for permission to appeal this ruling. As part of our audit we have carried out additional work considering the impact on the financial statements along with any audit reporting requirements.

<table>
<thead>
<tr>
<th>Final fee – 2018/19 audit</th>
<th>£44,686</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final fee – 2017/18 audit</td>
<td>£52,189</td>
</tr>
</tbody>
</table>

The fee proposed per fee letter reconciles to the financial statements

The proposed fee variation has been discussed with the Head of Finance, but not agreed. It is also subject to agreement with PSAA Limited.

Non Audit Fees

<table>
<thead>
<tr>
<th>Fees for other services</th>
<th>Fees £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit related services:</td>
<td></td>
</tr>
<tr>
<td>• Certification of Housing Benefits subsidy claim</td>
<td>9,500</td>
</tr>
</tbody>
</table>

| £9,500 |
Appendix D

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Stafford Borough Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Stafford Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Income and Expenditure Account and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements and Notes to the Collection Fund Statement. 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 the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
• have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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. We are independent of the Authority 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 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 Head of Finance’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
• the Head of Finance 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.

Other information

The Head of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement and the Annual Report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 of the Authority 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
Audit opinion (continued)

Matters on which we are required to report by exception
Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- 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 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.
- We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Deputy Managing Director and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities set out on page 23, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Finance. The Head of Finance 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/LASAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Accounts Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority
The Authority is responsible for putting in place proper arrangements for securing 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 review of the Authority's arrangements for securing 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 be satisfied that the Authority has made 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.

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 in November 2017, as to whether in all significant respects the Authority 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 Authority 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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate
We certify that we have completed the audit of the financial statements of Stafford Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.
Appendix D

Audit opinion (continued)

Use of our report
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Percival, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

31 July 2019
AUDIT AND ACCOUNTS COMMITTEE
30 JULY 2019
Financial Statements Audit 2018/19 - Management Representation Letter

1 Purpose of Report

1.1 To present the Management Representation Letter for 2018/19.

2 Recommendation

2.1 That the letter of representation be endorsed.

3 Key Issues and Reasons for Recommendation

3.1 To present to the Committee the Management Representation Letter relating to the 2018/19 Financial Statements Audit.

4 Relationship to Corporate Priorities

4.1 The financial statements are an important part of the Council’s corporate governance arrangements which cut across all corporate priorities.

5 Report Detail

5.1 The audit of the Council’s Statement of Accounts for 2018/19 is substantially complete.

5.2 As part of the formal conclusion process, the responsible Financial Officer is required to submit the attached Management Representation Letter (APPENDIX) to the Appointed External Auditor having consulted with the Leadership Team and obtained acknowledgement by the Audit and Accounts Committee.
6   Implications

<table>
<thead>
<tr>
<th></th>
<th>Financial</th>
<th>Legal</th>
<th>Human Resources</th>
<th>Human Rights Act</th>
<th>Data Protection</th>
<th>Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

6.2  Equality and Diversity

<table>
<thead>
<tr>
<th></th>
<th>Equality and Diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:- Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.</td>
</tr>
</tbody>
</table>

Previous Consideration - Nil

Background Papers - File available in Financial Services
Dear Sirs,

Stafford Borough Council
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Stafford Borough Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council’s financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of...
any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent
b. none of the assets of the Council has been assigned, pledged or mortgaged
c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes.

xi. We have considered the unadjusted disclosure change schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these changes brought to our attention as we are of the opinion that this would not enhance the users understanding of the accounts and may be misleading.

The financial statements are free of material misstatements, including omissions.
xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council’s needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Council’s related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council’s risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council’s financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit and Accounts Committee at its meeting on 30 July 2019.

Yours faithfully

Name......................................

Position..................................

Date....................................

Name......................................

Position..................................

Date....................................

Signed on behalf of the Council
Appendix A – unadjusted disclosure changes

Misclassification and disclosure changes

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

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>Auditor recommendations</th>
<th>Adjusted?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Policies</td>
<td>Following the transition to IFRS 9 (Financial Instruments) and IFRS 15 (Revenue) we proposed in line with Code requirements that the accounting policies reflect accounting treatment under the old and new standard as the comparative information presented was stated under the old standard. Management have determined that this adjustment will not be made on the basis that it could be misleading for the reader of the accounts and would not add significant value to the disclosure.</td>
<td>X</td>
</tr>
</tbody>
</table>
AUDIT AND ACCOUNTS COMMITTEE
30 JULY 2019
Statement of Accounts 2018/19

1 Purpose of Report

1.1 To present the audited Statement of Accounts for 2018/19 to the Audit and Accounts Committee for approval.

2 Recommendation

2.1 That the audited Statement of Accounts for 2018/19 be approved.

3 Key Issues and Reasons for Recommendations

3.1 The Accounts and Audit Regulations 2015 require that the Council’s Statement of Accounts be approved by the Audit and Accounts Committee.

4 Relationship to Corporate Priorities

4.1 The financial statements are an important part of the Council’s corporate governance arrangements, which cut across all corporate priorities.

5 Report Detail

5.1 Members of Audit and Accounts Committee are required to approve the Council’s audited Statement of Accounts for 2018/19 by 31 July 2019, in accordance with the Accounts and Audit Regulations 2015.

5.2 The “Audit Findings Report for Stafford Borough” which summarises the results of our external auditors’ work for the year is presented elsewhere on the agenda.
5.3 The purpose of the Council’s published Statement of Accounts circulated as a **SEPARATE BOOKLET** is to give electors, those subject to locally levied taxes and charges, members of the Council, employees and other interested parties clear information about the Council’s finances. It should answer such questions as:-

- What did the Council’s services cost?
- Where did the money come from?
- What were the Council’s assets and liabilities at the year-end?

5.4 The Narrative report on pages 3 – 22 of the **SEPARATE BOOKLET** is presented as a foreword to the Statement of Accounts to fulfil a similar purpose to a directors’ report in company accounts. This has been revised this year to include greater detail of the Council itself, both financial and non financial performance, future issues facing the Council and an explanation of the financial statements.

5.5 The following comprise the key financial statements that are set out in the Statement of Accounts 2018/19:-

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement
- Collection Fund

5.6 **Comprehensive Income and Expenditure Statement (page 25)**

5.6.1 This statement shows the **accounting cost** in the year of providing services in accordance with generally accepted accounting practices, rather than the true cost of services to be funded from taxation. The Council raises Council Tax to cover expenditure in accordance with regulations; however this may be different from the accounting cost.

5.6.2 Therefore, accounting costs which are properly recorded within the Comprehensive Income and Expenditure Statement (e.g. notional charges such as depreciation and adjustments to pensions costs required by International Financial Reporting Standards) are excluded from the Council’s Final Accounts because the Final Accounts Portfolio spending only reports the amounts that are required to be met from Council Tax. Regulation prohibits notional charges such as depreciation being met from Council Tax.

5.6.3 In practice this means that there is a difference of £2,990 million between the bottom line reported in Portfolio spending (£13.516 million) and the bottom line of the cost of services reported in the Comprehensive Income and Expenditure Statement (£16.506 million) which principally relates to the complex notional accounting adjustments required by International Financial Reporting Standards and adjustments for reserves. Further details are provided in the Expenditure and Funding analysis in note 6 and 7 on pages 45 to 46 of the **SEPARATE BOOKLET**.
5.6.4 The Comprehensive Income and Expenditure Statement on page 25 reveals a reduction in the net cost of services year on year of £0.453 million (2018/19 £16.506 million and 2017/18 £16.959 million). This is primarily as a result of reduced waste contract costs £0.216 million, leisure management contract costs £0.351 million, grant received for Meecebrook Community garden £0.750 million, partly offset by additional capital charges £0.778 million. A detailed analysis of the variations is contained in note 5 page 42 of the Statement of Accounts.

5.6.5 Other Comprehensive Income and Expenditure Account transactions include a surplus (£1.294 million) on the revaluation of Plant, Property and Equipment assets as contained in the Balance Sheet together with a re-measurement of the net defined benefit liability (£2.996 million) in relation to the pension reserve. Both transactions relate to the Unusable Reserves classification of the accounts and hence have no overall impact upon the financial position of the Council.

5.6.6 Overall, an increase in Other Comprehensive Income and Expenditure of £10.901 million was recorded in 2018/19 (2018/19 deficit of £1.702 million) and 2017/18 surplus of (£9.199 million) reflecting in the main the changes in the valuation of Property, Plant and Equipment of £5.615 million and the re-measurement on the Pension assets and liabilities of £5.270 million (2018/19 loss of £2.996 million, 2017/18 gain of (£2.274 million). The 2018/19 figure relates principally to a slight reduction in the discount factor from 2017/18, also in addition there has been an impact on past service cost liabilities of £0.576 million as a result of court judgement cases on age discrimination in relation to other Public Sector schemes which have impacted on pension fund liabilities. The 2017/18 figure reflected a slight increase in the discount rate.

5.7 Movement in Reserves Statement (pages 26 - 27)

5.7.1 The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves such as the Capital Adjustment Account and the Pensions Reserve. The (surplus)/deficit on the provision of services shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement on page 25 of the SEPARATE BOOKLET.

5.7.2 The Movement in Reserves Statement shows that the Council’s total usable reserves reduced from £20.395 million on 31 March 2018 to £17.905 million on 31 March 2019, a reduction of £2.490 million. Usable reserves have reduced primarily as a result of reductions in earmarked reserves £1.529 and capital receipts reserve £1.187 million reflecting planned funding of capital and revenue projects.
5.8 Balance Sheet (page 28)

5.8.1 There has been a reduction in net assets of £3.302 million (2018/19 £11.877 million net assets, 2017/18 £15.179 million net assets). The reduction reflects an increase in long term liabilities partly offset by an increase in long term assets. The pension deficit has increased by £6.333 million which is largely due to the changes in financial assumptions on discount, pension interest rates and the impact of court judgements in relation to overall liabilities. Whereas the amount set aside for provisions has increased by £2.713 arising from an increase in business rate appeals. The biggest change to report in relation to Long Term assets relates to the £7.423 million increase in the Council’s Property, Plant & Equipment. This relates primarily to increases in Assets under construction which is due to the new Stone Leisure Centre which opened on the 5 April 2019.

5.8.2 In addition although no material variance exists in relation to current assets there has been a change in investment classifications. Short Term Investments have reduced by £3.512 million; offset by an increase in Cash & Cash Equivalents of £3.851 million. Further details of changes are provided in Page 20 of the narrative report in the SEPARATE BOOKLET.

5.9 Cash Flow Statement (page 29)

5.9.1 The Cash Flow Statement summarises flows of cash in and out of the Council’s bank accounts. The change in the value of cash and cash equivalents year on year (£3.851 million) is primarily due to the movement in short term investments as per 5.8.2. Further details are provided in notes 29, 30 and 31 on pages 67 and 68 of the SEPARATE BOOKLET.

5.10 Collection Fund (page 85)

5.10.1 As a billing authority, the Council is required to provide the Collection Fund Income and Expenditure Account which summarises the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates.

5.10.2 The net position on the Collection Fund in respect of council tax for the year was a deficit of £0.183 million (this included a redistribution of surplus during the year of £0.522 million). After taking account of previous years’ accumulated surpluses of (£1.836 million) this provides a cumulative surplus of £1.653 million (of which £0.172 million relates to this Council). The surplus will be taken into account within the Council Tax calculations for 2020/21.

5.10.3 The net position on the Collection Fund in respect of National Non-Domestic Rates for the year is a deficit of £4.219 million which after taking account of brought forward surpluses of (£0.461 million) leaves a net deficit of £3.758 million (of which £1.503 million relates to this Council). The in year deficit is principally due to increases in the provision for business rates appeals.
### 6 Implications

#### 6.1 Financial

<table>
<thead>
<tr>
<th>Legal</th>
<th>Nil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>Nil</td>
</tr>
<tr>
<td>Human Rights Act</td>
<td>Nil</td>
</tr>
<tr>
<td>Data Protection</td>
<td>Nil</td>
</tr>
</tbody>
</table>

#### 6.2 Community Impact Assessment Recommendations

The main risk associated with the publication of the Statement of Accounts is the impact on the audit opinion. An adverse audit opinion could cause significant damage to the Council’s reputation.

The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

---

**Previous Consideration - Nil**

**Background Papers - Available in Financial Services**
AUDIT AND ACCOUNTS COMMITTEE
30 JULY 2019
Annual Treasury Management Report 2018/19

1 Purpose of Report

1.1 To update members on treasury management activity and performance during the 2018/19 financial year.

2 Recommendation

2.1 To note the annual treasury management report for 2018/19;

2.2 To approve the actual 2018/19 prudential and treasury indicators as set out in APPENDIX 1.

3 Key Issues and Reasons for Recommendations

3.1 Treasury management activity and performance during the 2018/19 financial year.

4 Relationship to Corporate Priorities

4.1 Treasury management and investment activity link in with all of the Council’s priorities and their spending plans.

5 Report Detail

Background

5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury
Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

5.2 During 2018/19 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

5.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by members.

5.4 The submission of the above reports to the Audit and Accounts Committee to give prior scrutiny before they were reported to the full Council ensures that this Council complies with the codes requirement. Training has been undertaken by members of the Audit and Accounts Committee and further training will be arranged as required.

The Council’s Capital Expenditure and Financing

5.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council’s borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.6 The actual capital expenditure forms one of the required prudential indicators. This is detailed in the appendix.

The Council’s Overall Borrowing Need

5.7 The Council’s underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

5.8 Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only applied for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in
advance of its immediate capital needs in 2018/19. The table in the appendix highlights the Council’s gross borrowing position against the CFR. The Council has complied with this prudential indicator.

5.9 **The authorised limit** - the authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table in the appendix demonstrates that during 2018/19 the Council has maintained gross borrowing within its authorised limit.

5.10 **The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

5.11 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

**Treasury Position as at 31 March 2018**

5.12 At the beginning and the end of 2018/19 the Council’s treasury, (excluding borrowing by PFI and finance leases), position was as follows:

<table>
<thead>
<tr>
<th>Table 1</th>
<th>31 March 2018 Principal</th>
<th>Rate/Return</th>
<th>Average Life (yrs.)</th>
<th>31 March 2019 Principal</th>
<th>Rate/Return</th>
<th>Average Life (yrs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt (PWLB)</td>
<td>£0m</td>
<td></td>
<td></td>
<td>£0m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CFR</td>
<td>£4.0m</td>
<td></td>
<td></td>
<td>£5.1m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over / (under) borrowing</td>
<td>(£4.0m)</td>
<td></td>
<td></td>
<td>(£5.1m)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total investments</td>
<td>£28.90m</td>
<td>0.42%</td>
<td>0.39</td>
<td>£30.0m</td>
<td>0.69%</td>
<td>0.21</td>
</tr>
<tr>
<td>Short term borrowing</td>
<td>£0.0m</td>
<td></td>
<td></td>
<td>£0.0m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investments</td>
<td>£28.90m</td>
<td></td>
<td></td>
<td>£30.0m</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The following table sets out the Council’s investments held at 31 March 2019:

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>Start Date</th>
<th>End Date</th>
<th>Value (£)</th>
<th>Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santander UK</td>
<td>95 Day Notice</td>
<td></td>
<td>6,000,000</td>
<td>0.85</td>
</tr>
<tr>
<td>Aberdeen GBP Liquidity Fund</td>
<td>Money Market Fund</td>
<td></td>
<td>6,000,000</td>
<td>0.79</td>
</tr>
<tr>
<td>Federated Prime Fund Class 3</td>
<td>Money Market Fund</td>
<td></td>
<td>6,000,000</td>
<td>0.79</td>
</tr>
<tr>
<td>Bank of Scotland</td>
<td>15/01/2019</td>
<td>15/07/2019</td>
<td>2,000,000</td>
<td>1.00</td>
</tr>
<tr>
<td>Kingston Upon Hull City Council</td>
<td>30/11/2018</td>
<td>31/05/2019</td>
<td>2,000,000</td>
<td>0.95</td>
</tr>
<tr>
<td>Blackpool Council</td>
<td>31/10/2018</td>
<td>30/04/2019</td>
<td>3,000,000</td>
<td>0.85</td>
</tr>
<tr>
<td>Thurrock Borough Council</td>
<td>14/03/2019</td>
<td>14/06/2019</td>
<td>5,000,000</td>
<td>1.00</td>
</tr>
</tbody>
</table>

| Total                                     |                  |                | 30,000,000 |        |

5.13 All investments in the portfolio have a maturity of less than 1 year.

**Investment strategy and control of interest rate risk**

5.14 Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that Bank Rate would rise from 0.50% to 0.75% in November 2018. The flow of generally positive economic statistics after the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, from 0.5% to 0.75%. Investment interest rates after a disappointing start to the year were therefore on a gently rising trend in the first half of the year, in anticipation that the MPC would raise Bank Rate in August. During this period, investments were, therefore, kept shorter term in anticipation that rates would be higher later in the year.
It was not expected that the MPC would raise Bank Rate again during 2018-19 in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

Borrowing strategy and control of interest rate risk

During 2018-19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. In particular the Council has avoided a “cost of carry”. This arises if any new long-term borrowing is not immediately used to finance capital expenditure, resulting in a temporary increase in cash balances with a subsequent revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

However, the policy is subject to continual review, since the council would suffer a financial detriment if new borrowing was required to finance capital expenditure and interest rates were increasing.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Head of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), and a capital borrowing requirement had arisen, then any potential long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an
acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.22 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2018/19 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period.

5.23 Since PWLB rates peaked during October 2018, most PWLB rates have been on a general downward trend, though longer term rates did spike upwards again during December, and, (apart from the 1 year rate), reached lows for the year at the end of March. There was a significant level of correlation between movements in US Treasury yields and UK gilt yields -which determine PWLB rates. The Fed in America increased the Fed Rate four times in 2018, making nine increases in all in this cycle, to reach 2.25% -
2.50% in December. However, it had been giving forward guidance that rates could go up to nearly 3.50%. These rate increases and guidance caused Treasury yields to also move up. However financial markets considered by December 2018, that the Fed had gone too far, and discounted its expectations of further increases. Since then, the Fed has also come round to the view that there are probably going to be no more increases in this cycle. The issue now is how many cuts in the Fed Rate there will be and how soon, in order to support economic growth in the US. But weak growth now also looks to be the outlook for China and the EU so this will mean that world growth as a whole will be weak. Treasury yields have therefore fallen sharply during 2019 and gilt yields / PWLB rates have also fallen.

Borrowing Outturn

5.24 **Borrowing** - Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

Investment Outturn

5.25 **Investment Policy** - the Council’s investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 30/01/2018. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

5.26 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5.27 **Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

<table>
<thead>
<tr>
<th>Balance Sheet Resources (£m)</th>
<th>31 March 2018</th>
<th>31 March 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earmarked Fund balances / reserves</td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td>Unallocated Reserves</td>
<td>14,588</td>
<td>11,556</td>
</tr>
<tr>
<td>Capital receipts</td>
<td>3,883</td>
<td>2,696</td>
</tr>
<tr>
<td>Provisions</td>
<td>2,647</td>
<td>2,647</td>
</tr>
<tr>
<td>Other</td>
<td>3,073</td>
<td>2,945</td>
</tr>
<tr>
<td>Total</td>
<td>24,503</td>
<td>20,156</td>
</tr>
</tbody>
</table>

5.28 **Investments held by the Council**

- The Council maintained an average balance of £42.0m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.69%.
• The comparable performance indicator is the average 7-day LIBID rate, which was 0.51%.
• Total investment income was £0.290m compared to a budget of £0.275m.

Please refer to **APPENDIX 2**.

6 Implications

<table>
<thead>
<tr>
<th>6.1 Financial</th>
<th>Included in the report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal</td>
<td>Nil</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Nil</td>
</tr>
<tr>
<td>Human Rights Act</td>
<td>Nil</td>
</tr>
<tr>
<td>Data Protection</td>
<td>Nil</td>
</tr>
<tr>
<td>Risk Management</td>
<td>Included in the report</td>
</tr>
</tbody>
</table>

6.2 Community Impact Assessment Recommendations

The Borough Council considers the effect of its actions on all sections of our community and has addressed all of the following Equality Strands in the production of this report, as appropriate:-

- Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, sexual orientation.

Previous Consideration - Nil

Background Papers - Available in Financial Services
### 1. PRUDENTIAL INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2018/19</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Estimate</td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
<td>£'000</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>2,660</td>
<td>10,245</td>
<td>9,633</td>
</tr>
<tr>
<td>Ratio of financing costs to net revenue stream</td>
<td>-0.9%</td>
<td>-1.3%</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Gross borrowing requirement</td>
<td>1,285</td>
<td>2,784</td>
<td>2,553</td>
</tr>
<tr>
<td>Gross debt</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Capital Financing Requirement as at 31 March</td>
<td>3,982</td>
<td>3,869</td>
<td>5,142</td>
</tr>
<tr>
<td>Annual change in Cap. Financing Requirement</td>
<td>-113</td>
<td>-113</td>
<td>1,160</td>
</tr>
</tbody>
</table>

### 2. TREASURY MANAGEMENT INDICATORS

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2018/19</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised Limit for external debt -</td>
<td>7,285</td>
<td>7,284</td>
<td>7,284</td>
</tr>
<tr>
<td>Operational Boundary for external debt</td>
<td>7,285</td>
<td>4,284</td>
<td>4,284</td>
</tr>
<tr>
<td>Actual external debt</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

#### Maturity structure of fixed rate borrowing during 2018/19

<table>
<thead>
<tr>
<th></th>
<th>upper limit</th>
<th>lower limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>under 12 months</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>10 years and above</td>
<td>100%</td>
<td>0%</td>
</tr>
</tbody>
</table>
AUDIT AND ACCOUNTS COMMITTEE
30 JULY 2019
Annual Treasury Management Report 2018/19

The following table sets out an analysis of investments held at 31 March 2019 (together with a comparator at 31 March 2018).

<table>
<thead>
<tr>
<th>INVESTMENT PORTFOLIO</th>
<th>Actual 31.3.18</th>
<th>Actual 31.3.18 %</th>
<th>Actual 31.3.19</th>
<th>Actual 31.3.19 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds</td>
<td>£8.4m</td>
<td>29%</td>
<td>£12.0m</td>
<td>40%</td>
</tr>
<tr>
<td>Banks</td>
<td>£16.0m</td>
<td>55%</td>
<td>£8.0m</td>
<td>27%</td>
</tr>
<tr>
<td>Building Societies</td>
<td>£2.0m</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CD’s</td>
<td>£2.5m</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local authorities</td>
<td></td>
<td></td>
<td>£10.0m</td>
<td>33%</td>
</tr>
<tr>
<td>TOTAL TREASURY INVESTMENTS</td>
<td>£28.9m</td>
<td>100%</td>
<td>£30.0m</td>
<td>100%</td>
</tr>
</tbody>
</table>
AUDIT AND ACCOUNTS COMMITTEE
30 JULY 2019
Work Programme - Audit and Accounts Committee

1 Purpose of Report

1.1 The purpose of this report is to present the Audit and Accounts Committee’s Work Programme.

2 Recommendation

2.1 That the Audit and Accounts Committee consider and comment upon their Work Programme.

3 Key Issues and Reasons for Recommendation

3.1 The Committee will continue to consider its normal programme of business and will include provision to address any areas of concern raised by Members.

3.2 An up-to-date copy of the Audit and Accounts Committee’s Work Programme is provided for Members to consider and comment upon.

4 Relationship to Corporate Priorities

4.1 The work of the Audit and Accounts Committee is most closely associated with all of the Council’s Corporate Priorities.
5 Report Detail

5.1 At each scheduled meeting of the Audit and Accounts Committee, an up-to-date copy of the Work Programme will be provided for Members to consider and comment upon.

5.2 Accordingly the Audit and Accounts Committee’s current Work Programme is attached as an APPENDIX.

6 Implications

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1 Financial</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Legal</td>
<td>Nil</td>
<td></td>
</tr>
<tr>
<td>Human Resources</td>
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Previous Consideration - Nil

Background Papers - File available in Law and Administration
## TUESDAY 10 DECEMBER 2019 AT 6.30PM

**Minutes of Last Meeting:** 30 July 2019  
**Officer Items by:** Monday 25 November 2019  
**Agenda Despatch on:** Monday 2 December 2019

### Officer Reports
- **Annual Audit Letter for SBC**  
  Grant Thornton
- **Audit Progress Report and Sector Update**  
  Grant Thornton
- **Treasury Management Strategy, Minimum Revenue Provision Policy, Annual Investment Strategy and Capital Strategy**  
  Head of Finance
- **Annual Governance Statement Progress Report**  
  Head of Governance
- **Internal Audit Quarterly Report**  
  Chief Internal Auditor
- **Risk Management Report**  
  Head of Governance
- **Work Programme**  
  Interim Head of Law and Administration

## TUESDAY 17 MARCH 2020 at 6.30pm

**Minutes of Last Meeting:** 10 December 2019  
**Officer Items by:** Monday 2 March 2020  
**Agenda Despatch on:** Monday 9 March 2020

### Officer Reports
- **Certification work for SBC for the Year Ended 31 March 2019**  
  Grant Thornton
- **Audit Progress Report and Sector Update**  
  Grant Thornton
- **External Audit Plan - Year Ended 31 March 2019**  
  Grant Thornton
- **Internal Audit Quarterly Report**  
  Chief Internal Auditor
- **Internal Audit Plan for 2020-21**  
  Chief Internal Auditor
- **Work Programme**
<table>
<thead>
<tr>
<th>FUTURE ITEMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Annual Governance Statement Progress Reports</td>
</tr>
<tr>
<td>• Internal Audit Progress Reports</td>
</tr>
<tr>
<td>• Risk Management Progress Reports</td>
</tr>
</tbody>
</table>