

# **Darlington Borough Council**

*SAS 610 Report – ‘Communication of relevant audit matters to those charged with governance’*

*September 2004*

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### Statement of Responsibilities of Auditors and Audited Bodies

In April 2000, the Audit Commission issued a revised version of the Statement of Responsibilities of Auditors and Audited Bodies. It is available from the Chief Executive of each audited body.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports to management and management letters are prepared in the context of this statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any director or officer in their individual capacity, or to any third party.

## 1 Introduction

Statement of Auditing Standard (SAS) 610: ‘Communication of audit matters to those charged with governance’ requires us to communicate relevant matters relating to the audit of the financial statements to those charged with governance. As we set out in the Audit Service Plan in April 2004, we have assumed that ‘those charged with governance’ at Darlington Borough Council are the Members of the Cabinet.

SAS 610 specifically requires us to communicate the following matters to those charged with governance:

- expected modifications to the auditors' report;
- unadjusted misstatements;
- material weaknesses in the accounting and internal control systems identified during the audit;
- views on the qualitative aspects of the entity's accounting practices and financial reporting;
- matters specifically required by other auditing standards to be communicated to those charged with governance; and
- any other relevant matters relating to the audit.

With regard to the individual points noted above, Cabinet should give consideration to the issues contained in this report prior to the sign-off of the accounts by the Director of Corporate Services.

More detail on the major issues outlined here will be included in the Audit and Inspection letter that will be issued in due course.

## 2 Status of the audit

The audit fieldwork for the financial statements is substantially complete. The main elements that are outstanding are as follows:

- to substantiate the cash/overdraft balance and associated disclosures in the cash flow statement; and
- to review the provision for teachers’ early retirement benefits.

We aim to complete the work so that the audit opinion can be signed before the end of September 2004.

### **3 Expected moderations to the audit report**

Subject to satisfactory completion of the outstanding work referred to above, we anticipate giving an unqualified audit report on the 2003/04 accounts.

### **4 Unadjusted misstatements**

The appendix to this report sets out the unadjusted misstatements that we have identified in the course of our audit work. None of the items raised are material in the context of the Statement of Accounts as a whole and will not prevent us providing an unqualified opinion.

Item 1 in the appendix is the most significant issue by value. The Council has incurred £447,253 in preliminary expenditure on the Darlington East Transport Corridor. The debtor included in the accounts represents the amount that officers consider will be made available from external sources to meet the expenditure incurred. Our view is that no external body has made a commitment to meet these costs so the debtor should be written out of the accounts.

Members of the Cabinet are requested to formally consider the unadjusted errors listed in the appendix and determine whether they would wish the accounts to be amended.

### **5 Weaknesses in the accounting and internal control systems identified as part of the audit**

We identified a number of control weaknesses during the course of our audit. The most significant of these has been the Council's difficulties in reconciling the year-end bank statements to the cash figure in the ledger. This is a fundamental control which establishes that all of the cash transactions made in the year have been accurately recorded in the Council's ledger. We are continuing to work with officers to understand the nature of the problems that have arisen and to review their proposals for remedying the situation.

## **6 Our views on qualitative aspects of the Authority's accounting practices and financial reporting**

The working papers produced by the Authority were prepared to a good standard and appropriate explanations were given in response to our queries. We would like to take this opportunity of thanking the Director of Corporate Services and his team for the co-operation we received during the course of the audit.

## **7 Matters required to be communicated by other auditing standards and any other matters relating to the audit**

There are no issues that we wish to draw to Cabinet's attention under this heading.

## Appendix: Summary of unadjusted misstatements

Item	Description <i>Note: all debits are positive; all credits are negative (in brackets)</i>	Consolidated Balance Sheet Impact (£'s)		Consolidated Revenue Account Impact (£'s)
		Assets	Liabilities	
1	Dr CRA  Cr Debtors  Reversal of road scheme debtor where there is insufficient vidence to support the existence that the income will be obtained from external sources	(447,253)		447,253
2	Dr Provisions  Cr CRA  Reversal of an element of the s117 provision where there is insufficient evidence to support the liability.		8,000	(8,000)
3	Dr Provisions  Cr CRA  Reversal of an element of the frozen holiday provision where there is insufficient evidence to support the liability.		33,000	(33,000)
4	Dr Creditors  Cr CRA  Reversal of expenditure accrual raised in error.	1,845		(1,845)
	<b>Totals</b>	<b>(445,408)</b>	<b>41,000</b>	<b>404,408</b>

The impact of the adjustments required is a net credit to the balance sheet of £404,408 and a net debit to the CRA of £404,408. These adjustments are not material in the context of the Statement of Accounts as a whole.