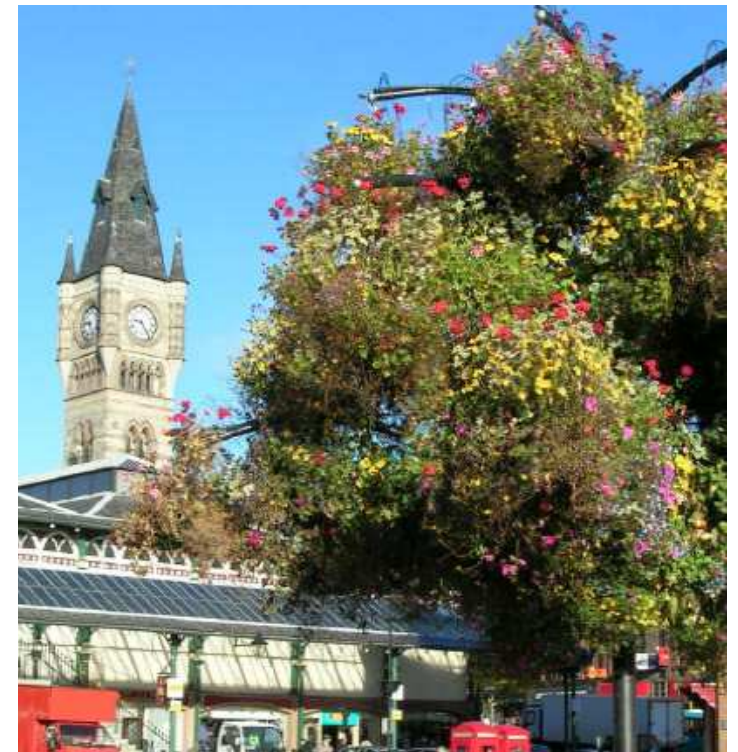


Darlington Borough Council 2003/04 Audit and Inspection Letter





The Members
Darlington Borough Council
Town Hall
Darlington
DL1 5QT

16 December 2004

Ladies and Gentlemen

We are pleased to present our audit and inspection letter for 2003/04. We hope that the information contained in this report provides a useful source of reference for Members.

Yours faithfully

A handwritten signature in black ink, appearing to read "Sarah Diggle".

Sarah Diggle
Audit Commission

A handwritten signature in black ink, appearing to read "Paul Woolston".

Paul Woolston
PricewaterhouseCoopers

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

PricewaterhouseCoopers perform the audit in accordance with the Audit Commission's Code of Audit Practice (the Code), which was last issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies (the Statement), which was last issued in April 2000. 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. PricewaterhouseCoopers' audit reports are prepared in the context of the Statement and in accordance with the Code. Audit and inspection letters are prepared by relationship managers and auditors and addressed to Members and officers. They are prepared for the sole use of audited and inspected bodies and no responsibility is taken by the Audit Commission or its auditors to any Member of officer in their individual capacity, or to any third party.

Executive summary

The purpose of this report

PricewaterhouseCoopers are required, under the Audit Commission's Code of Audit Practice (the Code), to issue an annual audit letter to Darlington Borough Council (the Council) on completion of the audit, demonstrating that the Code's objectives have been addressed and summarising all issues of significance arising from the audit.

This audit and inspection letter incorporates the annual audit letter but also includes a summary of the inspection work undertaken during the year by the Audit Commission in accordance with its responsibilities under section 10 of the Local Government Act 1999.

The joint reporting of audit and inspection work in this format recognises the steps taken by the Audit Commission to integrate more closely audit and inspection regimes, whilst recognising and maintaining their separate statutory responsibilities. The Audit Commission has appointed 'relationship managers' for all local authorities to co-ordinate planning and delivery of inspection work alongside the statutory audit work.

The key messages arising from the audit and inspection work undertaken during the year are set out opposite. A number of more detailed audit and inspection reports were issued during the year and a list of these reports is included at Appendix A.

We would like to take this opportunity to thank those officers and Members who assisted us during the course of our work.

Key messages

The Council recorded the following significant achievements during the year:

- Concluding the LGR dispute with Durham County Council;
- Negotiating a settlement with staff arising from single status employment claims and starting work on a new pay strategy;
- Improving the performance of social services resulting in the Council's star rating increasing from one to two;
- Continuing to make progress with the organisational development strategy "Striving for Excellence" resulting in continued improvements in service planning and the performance management framework;
- Improving the local economy, in particular the key role played by the Council in mitigating the impact of the closure of the BAT plant but also the progress of the Morton Palms development;
- Reaching financial close on the Education Village PFI scheme; and
- Earning a positive report on the transport services inspection which judged it to have excellent prospects for improvement.

However the Council needs to:

- Demonstrate value for money across all of its services by developing a more strategic approach to procurement and the consideration of alternative forms of service delivery; and
- Address the issues raised in the housing repairs and maintenance inspection report.

Council performance

Key messages

Corporate assessment – the Audit Commission carried out a corporate assessment of the Council in October 2004. The result is subject to review at the council's request.

Housing repairs and maintenance inspection – the service was scored as fair with uncertain prospects for improvement. Issues for the Council to address included customer focus and the involvement of tenants, value for money and procurement.

Transport inspection – the service was scored as fair with excellent prospects for improvement. The 'excellent' judgement was a result of the fact that the Council has plans or arrangements in place to address the weaknesses in the service (e.g. project management).

Performance management arrangements – considerable progress has been made with the development of the performance management framework with key successes around the implementation of *PerformancePlus* in the year.

Best value performance plan – the best value performance plan met all of the statutory requirements and we were able to issue an unqualified audit opinion.

Best value performance indicators – the Council's arrangements to collect, record and publish its best value performance indicators are adequate.

CPA scorecard

The Council has made improvements in social care, benefits and the local economy over the last year. Social care for adults and children has improved significantly. The benefits service has improved once more. The Council has worked with others to attract businesses and create jobs, and has established new services in the most deprived areas of the borough. Local people's satisfaction with the Council's services is high and people feel safer. There have been improvements in educational attainment but performance at GCSE level fell

this year. The Council has continued to improve the systems it uses to prioritise its work, measure its performance and develop its staff. Based on the Council's plans, it is well placed to continue to improve the way it works and the services it provides to local people.

Element	Assessment
Overall	Good*
Current performance:	Out of 4
Education	3
Housing	3
Use of Resources	4
Social care (children)	3
Social care (adults)	2
Benefits	4
Environment	3
Libraries and leisure	3
Capacity to improve	3 out of 4*

* scores subject to review at the council's request

Corporate assessment

The Audit Commission carried out a corporate assessment of the Council in October 2004. The result is subject to review at the council's request.

Other Audit Commission inspections

Housing repairs and maintenance

The Council's housing repairs and maintenance service was judged to be "fair". Strengths included the detailed consultation that was undertaken with tenants on the housing stock options, the low number of non-decent properties, the planned works programme which completes five properties per week and generally does not suffer from slippage and gas servicing (99 per cent of properties were found to have an up to date gas-servicing certificate). Weaknesses included limited tenant involvement in service planning and setting the overall aims and objectives for the service, a lack of customer focus on improving service delivery, an ineffective appointments system, limited involvement of external contractors or partners in the delivery of the planned maintenance programme and responsive repairs service and the schedule of rates, variation order system and bonus system which mitigate against value for money.

The service was judged to have uncertain prospects for improvement due to the absence of any form of best value review of the service and the lack of a clear ambition for the service that is challenging and realistic, and reflects users' views.

Transport

The Council's transport service was also judged to be "fair". Strengths included service plans linked to the community strategy and underpinned by challenging targets in most instances, a good local transport plan (LTP) with objectives that are consistent with national policy, good partnership working with community groups, public transport operators and transport users and a high level of public satisfaction in areas such as street lighting and car parking. Weaknesses included a lack of focus on monitoring the outcomes from LTP schemes, not yet effectively addressing the emerging congestion problem in some areas of the town, an inconsistent approach to project planning and management that has resulted in poor delivery on the ground of a number of LTP schemes and a low level of public satisfaction with highways maintenance despite recent improvements.

The service was judged to have excellent prospects for improvement because there was a strong focus on improving transport, additional resources are being allocated for the service through the local public service agreement and external funding (e.g. 'Darlington – town on the move'), staff capacity is being increased with five new posts in transport policy and a new member of staff taking

responsibility for programme management and the service can demonstrate a record of improvement in key priority areas.

Working with other inspectorates and regulators

An important aspect of the role of the Audit Commission's relationship manager is to work with other inspectorates and regulators which also review and report on the Council's performance. These include:

- Ofsted;
- Adult Learning Inspectorate (ALI);
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Local Government Office contact.

We share information and seek to provide "joined up" regulation. During the last year the Council has received the following assessments from other inspectorates:

- **CSCI** – an improved performance in Social Services which resulted in the CSCI rating increasing from one to two stars. More specifically, the judgement for children's services was 'serving most people well with promising capacity for improvement' and the judgement for adult services was 'serving some people well with promising capacity for improvement'.
- **ALI** – the quality of family learning provision was judged to be outstanding and visual and performing arts were judged to be satisfactory, but leadership and management and the quality of provision in ICT, English, languages and communication were judged to be unsatisfactory.

Performance management arrangements

The Council has continued to make progress with the development of its performance management framework during the year. This has been achieved primarily through the implementation of *PerformancePlus*, a corporate performance management system that will allow the monitoring and reporting of performance on a real-time basis at both service and corporate levels.

PricewaterhouseCoopers have monitored the implementation of the new system during the year and are pleased to report that considerable progress has been made.

Best value performance plan

Under the Local Government Act 1999 the Council is required to comply with the general duty of best value which is defined as making arrangements to secure continuous improvement in the way in which their functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Council is required to publish annually a best value performance plan (BVPP) which summarises the Council's assessment of its position in relation to best value. The Council is also responsible for the information and assessments that are set out within the BVPP and the assumptions and estimates on which they are based. The Council is also responsible for putting in place the performance management system from which the information and assessments in the BVPP are derived. In order to assess how the Council met its responsibilities PricewaterhouseCoopers:

- reviewed the BVPP for compliance with the 1999 Act (including an assessment of the adequacy of the systems put in place to capture specified performance information); and
- followed up the action taken by the Council in response to last year's audit of the BVPP.

The principal conclusions arising from this work are:

- an unqualified audit opinion on the BVPP;
- no statutory recommendations on the procedures to be followed in relation to the BVPP; and
- no recommendation for referral to the Audit Commission or Secretary of State.

Best value performance indicators

It is the responsibility of the Council to put in place proper arrangements to collect, record and publish performance information, in the form of best value performance indicators (BVPIs), as specified each year by the Audit Commission.

PricewaterhouseCoopers are required to audit these BVPIs and we worked jointly with the Council's Internal Audit team to do this for the 2003/04 BVPIs. On the basis of the work carried out, PwC concluded that the Council's arrangements to collect, record and publish its BVPIs are adequate.

Accounts

Key messages

Audit opinion – PricewaterhouseCoopers have completed their audit work on the 2003/04 statement of accounts and were pleased to be able to issue an unqualified audit opinion.

Retirement benefits – the Council's disclosure in respect of retirement benefits in the 2003/04 statement of accounts fully complied with the requirements.

Statement on internal control – the statement on internal control published with the statement of accounts complied with relevant guidance.

Prudential framework – the prudential framework for capital investment was implemented from 1 April 2004. We are pleased to report that the Council has put in place sound arrangements to manage this new development.

Accounts

It is the Council's responsibility to prepare a statement of accounts that presents fairly the financial position of the Council.

PricewaterhouseCoopers undertook a risk-based audit of the accounts, placing reliance on management controls over revenue and capital income and expenditure. As a result of the work undertaken, PricewaterhouseCoopers were pleased to issue an unqualified opinion on the Council's statement of accounts. PricewaterhouseCoopers would like to commend the Council on the quality of the working papers supporting the statement of accounts and its adherence to a challenging closedown timetable. This enabled the statement of accounts to be certified by 30 September 2004, two months before the current statutory deadline.

Targeted audit work

Retirement benefits

2003/04 was the first year of full implementation of Financial Reporting Standard Number 17 on retirement benefits. The FRS is concerned with identifying the real

underlying financial position with regard to the Council's participation in pension schemes. The Council participates in two pension schemes:

- Local government pension scheme; and
- Teachers' pension scheme.

Preparation of the disclosures has required the Council to commission expert advice from actuaries and present information about the Council's longer-term financial position than required under previous accounting treatments. On the basis of the audit work undertaken, PricewaterhouseCoopers are satisfied that appropriate adjustments have been made in the statement of accounts and that the new FRS has been followed.

Statement on internal control

The Accounts and Audit Regulations 2003 include a requirement that the Council's 2003/04 statement of accounts includes a statement on internal control (SIC) which covers the entire system of internal control (i.e. financial and non-financial). The Council is also required to conduct annual reviews of the effectiveness of the system of internal control, which provides the findings to support the SIC.

PricewaterhouseCoopers have reviewed the SIC published with the 2003/04 statement of accounts and concluded that it is compliant with relevant guidance.

Prudential framework

From 1 April 2004, the Council has been able to plan its capital expenditure under the new prudential framework, which focuses on the Council's ability to afford the consequences of capital expenditure decisions from future years' revenue budgets and allows it to set its own limits on the borrowing needed to achieve an affordable capital strategy.

PricewaterhouseCoopers have reviewed the steps the Council took to prepare for the implementation of the prudential framework, including the processes for

setting limits and indicators under CIPFA's prudential code, and are pleased to report that the Council has followed all of the relevant requirements in implementing the prudential framework.

Auditors' scored judgements

As part of the Audit Commission's refresh of the comprehensive performance assessment scores, PricewaterhouseCoopers were required to update the auditors' scored judgements. In relation to the accounts, the updated score was 4 (out of 4). This represented an improvement on 3 scored in 2003/04 and reflected improvements made in the supporting documentation and compliance with accounting guidance.

Future developments

2004 Statement of Recommended Practice (SORP)

A new SORP has been published which will apply to the Council's 2004/05 statement of accounts. The main change relates to the accounting treatment of companies in which the Council hold shares. PricewaterhouseCoopers will work with the Council to establish the impact of this and other new requirements on the 2004/05 statement of accounts.

Whole of government accounts

The introduction of whole of government accounts will result in earlier deadlines for accounts preparation in 2004/05. The Council's statement of accounts will have to be signed and approved by Cabinet by 31 July 2005 (compared to 31 August 2004) and audited and published by 31 October 2005 (compared to 30 November 2004). However, given the Council's history of early closing in recent years, our view is that these targets should be easily met.

Changes to the Audit Commission's Code of Audit Practice

The Audit Commission's Code of Audit Practice (the Code) is in the process of being revised. The changes will apply from the 2005/06 audit of accounts. The most important changes in relation to the accounts are:

- A new form of two part audit opinion in which an explicit assurance will be provided (rather than implicitly as at present) on an authority's arrangements to secure value for money;
- A recognition of the central role of the statement on internal control as a source of assurance on controls over financial and corporate management, which together redefine the concept of "value for money";

- The identification of a set of criteria (outside the Code itself), which represent a satisfactory standard of financial and corporate management. Auditors will need to ensure that these criteria are met at each audited and inspected body and report in the audit opinion where they are not;
- Recognition of the new international standards on auditing (ISAs), which will converge with UK standards. The relatively stronger guidance on compliance with laws and regulations, on fraud, on systems and on going concern mean that the four components of financial aspects of corporate governance will be reintegrated into the audit of the statement of accounts although the current levels and standard of work undertaken will continue. Thus, the three part audit (i.e. accounts, financial aspects of corporate governance and performance) will become two parts (i.e. accounts and value for money) which will be brought together in the statement on internal control; and
- A requirement for an enhanced report to those charged with governance at the Council prior to the signing of accounts, containing key points on value for money as well as on the accounts.

Governance

Key messages

Financial standing – the arrangements that the Council has implemented to ensure that its financial position is soundly based are adequate.

System of internal financial control – the Council's arrangements for ensuring the effective operation of its system of internal financial control are adequate.

Standards of financial conduct and the prevention/detection of fraud and corruption – the Council's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent fraud and corruption are adequate.

Legality of financial transactions – the procedures that the Council have put in place to ensure that its financial affairs are conducted in accordance with the law and relevant regulations are adequate.

Introduction

PricewaterhouseCoopers' detailed findings and recommendations in this area were included in a report which was agreed with officers during the year (see Appendix A). Overall, PricewaterhouseCoopers were impressed with the Council's arrangements to manage the financial aspects of corporate governance and did not find any significant weaknesses.

Financial standing

It is the responsibility of the Council to conduct its financial affairs and to put in place proper arrangements to ensure that its financial standing is soundly based. As a result of the work undertaken, PricewaterhouseCoopers concluded that the Council's arrangements to ensure that its financial position is soundly based are adequate.

General fund



In 2003/04, the amount to be met from government grants and local taxpayers was £107.2m and the resources available to the Council from central government and taxpayers was £104.0m. This gave rise to a general fund deficit of £3.2m which was due mainly to the creation of a £3.2m provision for the settlement of single status claims.

The balance of the general fund decreased from £5.8m as at 31 March 2003 to £4.9m as 31 March 2004 as shown below:

Description	£m
Balance on the general fund at 31 March 2003	5.8
General fund deficit for the year	(3.2)
Transfer from Durham County Council – LGR dispute	1.5
Rates refund	0.8
Balance on the general fund at 31 March 04	4.9

The aggregate balance on the general fund at 31 March 2004 equates to 4.6% of the budgeted total resources for 2004/05.

In 2004/05, the Council set a budget totalling £105.7m based on a Council tax rise of 7.9%. The budget assumed that contributions from general fund balances would be nil. The position at September 2004, based on the Council's routine budget monitoring reports, is that a projected underspend of around £1.1m is expected which is due mainly to lower than anticipated financing costs.

Other general fund reserves increased from £2.2m at 31 March 2003 to £4.9m at 31 March 2004 as illustrated below:

Description	31 March 2003 (£m)	31 March 2004 (£m)

Revenue contribution to capital outlay	0.7	0.6
Schools revenue balances	0.9	1.1
Insurance fund	0.3	0.3
Pensions contribution reserve	0.2	0.6
Other	0.1	0.3
Total	2.2	2.9

The Council's trading operations generated an internal trading surplus of £1.6m on a turnover of £32.4m (excluding FRS17 adjustments), compared to a surplus of £1.2m on a turnover of £29.3m in 2002/03. The average net profit margin therefore increased from 4.1% in 2002/03 to 4.9% in 2003/04.

Pension fund

The full implementation of FRS 17 in the 2003/04 statement of accounts has made the Council's position in respect of the local government pension scheme more transparent. The table below sets out the value of the Council's share of the assets and liabilities of the scheme:

Description	31 March 2003 (£m)	31 March 2004 (£m)
Value of liabilities	(179.5)	(194.0)
Value of assets	93.4	120.4
Net deficit	(86.1)	(73.6)

These figures are based on an update to the full actuarial valuation conducted as at 31 March 2001. They indicate that net liabilities have diminished slightly in the past two years. A new valuation as at 31 March 2004 is currently underway and the Council, along with other local authorities, is predicting a worsening position that would require an increase in contribution rates in the future.

Housing revenue account (HRA)

The Council planned to reduce the HRA surplus by £0.4m during 2003/04, however, due to greater council house sales than anticipated during the year, balances were reduced by a further £0.2m. This reduced the balance carried

forward on the HRA as at 31 March 2004 to £0.5m. The level of balances at 31 March 2004 equates to 3.6% of the budgeted level of expenditure on the HRA for 2004/05. This balance is deemed adequate by the Director of Corporate Services.

In 2004/05, the Council budgeted to make a small surplus on the HRA based on an average rent increase of 3.61%. The position at September 2004 indicated that the Council was on target to achieve the budgeted position.

Capital programme

The Council's capital programme for 2003/04 totalled £23.3m. This was fully funded as follows:

Description	£m
Basic credit approvals	5.6
Supplementary credit approvals	2.7
Capital grants	11.3
Capital/revenue contributions	0.4
HRA – capital receipts	1.4
General Fund – capital receipts	1.9
TOTAL	23.3

The total capital resources available for the year was £36.1m. £6.1m of these resources was applied to the repayment of debt and the balance of the available funding is to be applied to projects that have slipped from 2003/04 into 2004/05.

Collection fund

The total income on the collection fund for 2003/04 was £55.4m against expenditure of £55.6m. This led to a deficit of £0.2m. The following table sets out the Council's performance at collecting Council Tax and National Non-Domestic Rates (NDR) in 2002/03 and 2003/04 and compares the 2003/04 results with the average for all English unitary authorities:

	The Council – 2002/03	The Council – 2003/04	All unitary authorities – 2003/04
Council Tax	96.7%	97.2%	95.5%

NNDR	98.2%	99.1%	97.8%
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From the table above it is clear that not only have collection rates improved when compared to 2002/03 but they are also significantly above the average for all English unitary authorities. This is a commendable performance.

Systems of internal financial control

It is the responsibility of the Council to develop and implement systems of internal control, including systems of internal financial control, and to put in place proper arrangements to monitor their adequacy and effectiveness in practice, covering:

- The overall control environment, including internal audit;
- The identification, evaluation and management of operational and financial risks; and
- Documentation of control procedures.

PricewaterhouseCoopers have reviewed these arrangements and have concluded that they are adequate.

IT environment

Our detailed findings and recommendations in this area were included in a report which was agreed with officers during the year (see Appendix A). Overall we concluded that the operation of the Council's systems was sufficient to support our planned audit approach.

Standards of financial conduct and the prevention/detection of fraud and corruption

It is the responsibility of the Council to ensure that its affairs are managed in accordance with proper standards of financial conduct and to prevent and detect fraud and corruption. Therefore, appropriate arrangements should be put in place to:

- implement and monitor compliance with appropriate standards of corporate governance;
- articulate and promote appropriate values and standards;
- develop, promulgate and monitor compliance with codes of conduct;
- develop, promulgate and monitor compliance with standing orders and financial regulations;
- develop and implement strategies to prevent and detect fraud and corruption;

and

- receive and investigate allegations of breaches of proper standards of financial conduct and fraud and corruption.

PricewaterhouseCoopers have reviewed these arrangements and have concluded that they are adequate.

Members should be aware that this does not mean that fraud within the Council is impossible: even the best internal control systems can be overridden through collusion and/or management override of controls.

Legality of financial transactions

It is the responsibility of the Council to act within the law and to put in place proper arrangements to ensure that its financial affairs are conducted in accordance with the law and relevant regulations.

PricewaterhouseCoopers have reviewed these arrangements and have concluded that they are adequate.

Auditors' scored judgements

As part of the refresh of the comprehensive performance assessment scores, PwC have updated the auditors' scored judgements. The updated scores are shown below with the prior-year scores in brackets:

- Financial standing 4 (3);
- System of internal financial control 3 (3);
- Standards of financial conduct 4 (4); and
- Legality 4 (4).

Looking forward

Future audit and inspection work

We have sought to ensure, wherever possible, that our audit and inspection work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for next year. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Audit Commission's Code of Audit Practice (the Code)

The Audit Commission has consulted on a revised Code which will apply from the 2005/06 audit of accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the audit and inspection plan for 2005/06.

Comprehensive Performance Assessment (CPA)

The Audit Commission is currently consulting on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- Rationalisation of service blocks;

- 'Achievement' assessment element of corporate assessment to be driven by review of community strategy and shared priority themes;
- Move away from rigid numerical model, to one based on rules;
- Corporate assessments to be undertaken on rolling programme, integrated with joint area reviews of children and young people;
- Stronger focus on service delivery for users and customers; and
- More robust and explicit view of value for money and cost-effectiveness.

Audit fees

PricewaterhouseCoopers reported their audit fee proposals as part of the audit service plan for 2003/04. The actual fees were in line with those set out in the 2003/04 audit service plan as shown below:

	2003/04 actual (£k)	2003/04 plan (£k)
Accounts	65	65
Governance	40	40
Performance	25	25
Audit Commission 'top slice'	15	15
Total	145	145

Inspection fees

The inspection fee for 2003/04 was £54,890. This included £5,000 for a regular performance assessment of housing which was not carried out; the fee for this was carried forward and set against the Audit Commission fee for 2004/05. These figures are net of ODPM grant.

Appendix A – reports issued during the year

The following audit and inspection reports were issued during the year:

- Regular performance assessment of environment (April 2004)
- Audit opinion for 2003/04 financial statements (September 2004)
- SAS 610 report (September 2004)
- Audit clearance issues summary (September 2004)
- Housing repairs and maintenance inspection (November 2004)
- Transport inspection (November 2004)
- Financial aspects of corporate governance (November 2004)
- Review of the IT environment (November 2004)
- Performance management (December 2004)
- BVPP opinion (December 2004)