

Darlington Borough Council

2005/06 Report to those charged with governance



The Audit Committee
Darlington Borough Council
Town Hall
Feethams
Darlington
Co Durham
DL1 5QT

15 September 2006

Gentlemen

2005/06 Report to those charged with governance

We are pleased to present our report on the results of our audit work on the Statement of Accounts and the Use of Resources Conclusion for 2005/06. We hope that the information contained in this report provides a useful source of reference for Members.

Yours faithfully

PricewaterhouseCoopers LLP

Encs

PricewaterhouseCoopers LLP

89 Sandyford Road
Newcastle Upon Tyne
NE1 8HW
Telephone +44 (0) 191 232 8493
Facsimile +44 (0) 191 269 3244

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

In March 2005 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of 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 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 Member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this report

This report summarises the results of our 2005/06 audit of Darlington Borough Council.

It covers the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken under the Code of Audit Practice in forming our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our work during the year was performed in line with the Audit Plan that we presented to you on 12 July 2006. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this report.

We have set out below the most important issues that have arisen during the course of our work.

Financial Statements

At the time of writing, our audit of the financial statements is nearing completion. This report sets out the findings up to 15 September 2006. Any

significant issues arising before the conclusion of the audit will be raised with the Council as appropriate.

As a result of our audit, a number of adjustments were made to the draft financial statements that were approved by the Council on 26 June 2006.

There are also a number of misstatements that have not been adjusted by management. The net error arising from these is an overstatement in charges in the consolidated revenue account of £349,000 and an overstatement of liabilities in the balance sheet of £349,000.

Use of Resources

Under the new Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

We intend to issue an unqualified use of resources conclusion.

Financial statements

ISA 260 - "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 of the entity, sufficiently promptly to enable them to take appropriate action. We have agreed with you that these matters should be communicated to Members through this report.

Audit opinion

We are in the process of completing our audit of the Council's accounts in line with the Code of Audit Practice and Auditing Standards.

We have received a formal objection to the 2005/06 accounts. The objection is based on the legality of specific items of expenditure charged by the Council to the Hackney Carriage Licensing Account. If we cannot resolve this matter before the 30 September we will be unable to formally close the accounts and our audit report will reflect this. However, in view of the relatively low value of the sums that are the subject of the objection, we will be able to issue our opinion on the financial statements and we anticipate that this will be unqualified.

Unadjusted misstatements

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature (i.e. items less than £1,000 in value). These misstatements are set out in Appendix B to this report. The net error arising from these is an overstatement in charges in the consolidated revenue account of £349,000

and an overstatement of liabilities in the balance sheet of £349,000.

We are also required to bring to your attention misstatements that have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities. There are no such misstatements that we wish to bring to your attention:

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. At the time of writing our audit work is nearing completion and we will issue a separate report to management setting out any significant controls issues identified during the audit. In addition, we have reported relevant issues to the Council in our report "Review of the IT Control Environment" (August 2006).

Accounting practices

We are also required to report to you our view on significant qualitative aspects of the Council's accounting practices and financial reporting. There are no such issues that we wish to report here.

Use of Resources conclusion

Work performed

In accordance with the Code of Audit Practice, we have performed work to conclude on the Council's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment for CPA;
 - Financial Reporting;
 - Financial Management;
 - Financial Standing;
 - Internal Control;
 - Value for Money;
- Mandatory Data Quality Review work;
- Review of the Statement on Internal control;
- Audit of the Best Value Performance Plan; and
- Targeted audit work (see Appendix A).

Use of Resources Conclusion

Under the new Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. Our conclusion is based on the use of resources assessment undertaken in Autumn 2005 as part of the CPA process and updated as necessary, our Local Government data quality work, and other information that came to our attention during the course of our audit work.

We intend to issue an unqualified use of resources conclusion.

Details of our conclusion for each of the criteria specified by the Code of Practice are set out in Appendix C.

Data Quality work

Under the new Audit Commission guidance, we are currently finalising our audit work in this area. The work involved a consideration of the data quality management arrangements in place and a detailed review of a sample of performance indicators specified by the Audit Commission.

We will issue a formal report on data quality when our audit work has been finalised, but at this stage, as is reflected in the use of resources conclusion, we consider that the management arrangements are adequate.

Statement on Internal Control

We have reviewed the Statement on Internal Control (SIC) in accordance with our audit responsibilities. There are no matters to bring to your attention in relation to the SIC.

Best Value Performance Plan

Our work on the 2005/06 Best Value Performance Plan (BVPP), issued by the Council in 2005, did not identify any issues. Our audit report on the BVPP was issued in November 2005.

Our work on the 2006/07 BVPP forms part of our 2006/07 audit work.

CPA 2006

Our audit work is continuing on this element of the use of resources work. We expect to finalise the audit work in early-October and will report our findings via the procedures specified by the Audit Commission.

Audit fee update

We reported our fee proposals as part of the Audit Plan for 2005/06, as presented to the Audit Committee on 12 July 2006.

The Audit Commission has developed a framework for calculating the 2005/06 audit and inspection fee. The formula is based on the level of expenditure, CPA category and potential risks. Based on the Council's gross expenditure and the risks identified in this audit plan, the fee has been agreed at £175,485 excluding VAT and grant claims. This may be broken down as follows:

	2005/06 (£)	2004/05 (£)
Accounts	144,885	122,000
Use of Resources	30,600	50,500
Total	175,485	172,500

Our fee for use of resources work includes the following:

- Assessment of the Council against the use of resources criteria contained within the Code of Audit Practice;
- Audit of your 2005/06 BVPP;
- Audit of performance indicators included in the 2005/06 BVPP; and
- Follow up of previous work.

Our actual audit fee is in line with our estimated fee.

Appendix A: Audit reports issued in relation to the 2005/06 audit year

The following audit reports have been issued in relation to the 2005/06 audit year:

- Review of Performance Management (November 2005);
- Review of the IT Control Environment (August 2006); and
- Audit clearance agenda (August 2006).

The following work is on-going:

- Governance arrangements related to the Local Area Agreement.

Appendix B: Summary of unadjusted misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee is requested formally to consider the listed unadjusted errors and determine whether the accounts should be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Consolidated Revenue Account (£000)		Balance Sheet (£000)	
	Dr	Cr	Dr	Cr
Dr Bad Debt Provision Cr CRA Being the adjustment for the over-provision for bad debts at the year end.		(235)	235	
Dr LAT Creditor Cr CRA Being the adjustment to correct the overstatement of the LAT Creditor		(7)	7	
Dr CRA Cr Provision Being the adjustment to correct the understatement of the Constant Rate LOBO provision.	33			(33)

Unadjusted Misstatement	Consolidated Revenue Account (£000)		Balance Sheet (£000)	
	Dr	Cr	Dr	Cr
Dr Deferred Capital Receipts Reserve Cr CRA Being the write off of an unexplained GF reserve balance at the year end.		(30)	30	
Dr HRA reserve Cr Interest on notional cash balances Being the adjustment for interest on notional cash balances.		(3)	3	
Dr HRA Reserve Cr Rent Rebate Subsidy Limitation Being the adjustment for RRSLS to correct the client's calculation using the correct rental income received.		(4)	4	
Dr Income in Advance Cr Income Being the adjustment for incorrectly accrued income in advance.		(23)	23	
Dr Income in Advance Cr Income Being the adjustment for incorrectly accrued income in advance.		(80)	80	

The net effect of these misstatements is an overstatement in charges in the consolidated revenue account of £349,000 and an overstatement of liabilities in the balance sheet of £349,000.

Appendix C: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources.

Several of these Code criteria are linked to the CPA and Data Quality Review Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment of "adequate" for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below.

Code Criteria	Description	Associated KLoE	2005 CPA Score	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to Members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to Members.	Data quality KLoEs	N/A	Adequate

Code Criteria	Description	Associated KLoE	2005 CPA Score	Use of Resources Conclusion
5	The body has put in place arrangements to maintain a sound system of internal control	4.2	3	Adequate
6	The body has put in place arrangements to manage its significant business risks.	4.1	2	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	2	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	3	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	2	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	2	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	3	Adequate

In the event that, pursuant to a request which Darlington Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Darlington Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Darlington Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Darlington Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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