

# Darlington Borough Council

## 2006/07 Report to those charged with governance



The Audit Committee  
Darlington Borough Council  
Town Hall  
Feethams  
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17 September 2007

Ladies and Gentlemen

**2006/07 Report to those charged with governance**

We are pleased to present this report on the results of our audit work for 2006/07. We hope that the contents will provide a useful source of reference for the Committee.

Yours faithfully

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Encs

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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 audit work from our 2006/07 audit of the accounts of Darlington Borough Council ("the Council").

It includes 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 on 'Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in accordance with the joint Audit and Inspection Plan presented to the Audit Committee on 12 July 2006 and the updated Audit Plan that we presented to you on 28 June 2007. We have issued a number of reports during the audit years detailing the findings from our work and making recommendations for improvement where appropriate. A list of these reports is included at Appendix A which also details the audit work that is currently on-going.

We have set out below the most important issues and recommendations that we have discussed with you in 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 14 September 2007. Any significant issues arising after this date but before the conclusion of the audit will be raised with the Council as appropriate.

Our audit work has identified a small number of proposed adjustments to the draft financial statements approved by Members on 28 June 2007. A number of these adjustments have been agreed with Strategic Finance and will be reflected in the final, audited, financial statements. There remain a small number of unadjusted misstatements which should be considered by the Audit Committee.

The most significant unadjusted errors arising from the 2006/07 audit are:

- General Fund - When testing unrecorded liabilities we identified an error of £4,000. We have extrapolated the identified error over the remaining untested balance which gives a proposed adjustment of £164,000 in the accounts.
- General Fund - When testing sundry debtors we identified an error of £14,000. We have extrapolated the identified error over the remaining untested balance which gives a proposed adjustment of £108,000 in the accounts.

The net impact of all of the unadjusted errors is as follows:

- A debit to the General Fund of £280,000 (note that this includes projected misstatements of £272,000);
- A credit to the Housing Revenue Account of £3,000; and
- A credit to the balance sheet of £277,000.

A provision has been made in the accounts for £370,000 in relation to known and quantifiable equal value claims. No provision has been raised for further equal value claims since officers are currently unable to quantify this potential liability.

### **Financial standing**

We have no issues to note on the financial standing of the Council. The General Fund Reserve balance has increased from £11,999,000 to £13,100,000 whilst earmarked departmental reserves have decreased from £838,000 to £517,000 in the year.

### **Electors' questions on the accounts**

During the year several matters have been raised to our attention by electors - particularly in relation to the Pedestrian Heart Scheme. However, there have been no formal objections to the 2006/07 accounts.

### **Use of Resources**

We expect to issue an unqualified conclusion on our Use of Resources work. Further details are set out in the Use of Resources section below.

# Financial statements

## Accounts

We have completed the audit of the Council's accounts in line with the Code of Audit Practice and Auditing Standards. We anticipate issuing an unqualified audit opinion on the financial statements.

## Adjusted misstatements

We bring to your attention, in Appendix B, the misstatements that have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities. The draft accounts approved by Council on 28 June 2007 have been adjusted for the following significant items, although it should be noted that none of these have any impact on the General Fund year-end position.

### *Internal Recharges*

Internal recharges made to departments for borrowing costs of £1,049,000 had been included as a cost within the Net Cost of Services and the associated income had been included in Investment Income. Internal recharges should not be included in the accounts and an adjustment was made to remove these elements.

### *NIAL Holdings*

During the year the Council was in receipt of a dividend from NIAL holdings of £1,870,000 arising from the refinancing of Newcastle Airport's debt

structure. The Statement of Recommended Practice (SORP) requires that dividends receivable should be classified below the Net Cost of Services line in Interest and Investment Income. An adjustment was made to meet the SORP requirements.

In addition, the valuation of the Council's investment in NIAL Holdings has fallen, based on the net assets position in the latest audited accounts of the Company. The value of the investment in the Council's accounts has therefore been revalued downwards by £685,000 with a corresponding reduction in reserves.

### *Capital Debtors*

Capital debtors of £908,000 were incorrectly classified as prepayments. The balance was reclassified on audit recommendation.

### *PFI Schemes*

The PFI long term debtor was overstated by £414,000 due to the incorrect inclusion of the land element. This has been corrected by management.

### *Landfill Allowance Trading Scheme (LATS)*

We noted that the LATS debtors and creditor figures included in the accounts were the gross balances over two years. The liability from the

2005/06 accounts had not been reversed against the LATS asset bought forward from the prior year. The total amount of this adjustment is a reduction in both Debtors and Creditors of £1,474,000.

### **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. These misstatements are set out in Appendix C to this report.

### **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. We will issue a separate report on the control weaknesses that we have identified as part of our audit.

### **Accounting practices**

We are also required to report to you our view on qualitative aspects of the Council's accounting practices and financial reporting. There are two issues that we wish to draw to your attention in this context:

- In our review of the Cash Flow Statement we have identified two balances that could not be fully substantiated by the Council. The balances in question are 'Payments for Capital Schemes' and a balance included within 'Cash flow notes'. The Council should introduce procedures to ensure that all of the figures can be substantiated for future years' accounts.
- A provision has been made in the accounts for £370,000 in relation to known and quantifiable equal value claims. No provision has been raised for further equal value claims since officers are currently unable to quantify this potential liability.

### **Electors' questions on the accounts**

During the year several matters have been raised to our attention by electors – particularly in relation to the Pedestrian Heart Scheme. We are

continuing a review of the circumstances surrounding the delays and overspend on this project.

There have been no formal objections to the 2006/07 accounts.

The electors' questions that delayed the completion of the audit of the 2005/06 accounts has been resolved and a closure certificate has been issued to the Council.

# Use of resources

## 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

## Use of Resources conclusion

Under the Code of Audit Practice we are required to provide a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Council's arrangements against a set of criteria issued by the Audit Commission. Our conclusion is based on the use of resources assessment undertaken in 2006 and 2007 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.

## Data Quality work

We performed the mandatory data quality review work in relation to the 2006/07 accounts during the summer of 2006. We issued a report to the Council in December 2006 that concluded that the Council was "performing well". This report included a number of recommendations around the management arrangements in relation to data quality.

## Statement on Internal Control

Local Authorities are required to produce a Statement on Internal Control (SIC) consistent with guidance issued by CIPFA/SOLACE. A SIC was included with the financial statements.



We reviewed the SIC to consider whether it complied with the CIPFA/SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern.

### **Best Value Performance Plan**

Our work on the 2006/07 Best Value Performance Plan (BVPP), issued by the Council in June 2006, noted no significant issues. Our audit report on the BVPP was issued in December 2006 and concluded that there were no matters to report.

Our work on the 2007/08 BVPP forms part of our 2007/08 audit work that we are currently undertaking on behalf of the Audit Commission.

# Audit plans and fee update

## Audit Plan 2006/07

We presented our initial Audit Plan for 2006/07 to the Audit Committee on 12 July 2006 and provided an updated plan to the Audit Committee on 28 June 2007.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2006/07. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

## Audit fees update for 2006/07

We reported our fee proposals as part of the Audit Plan for 2006/07.

Our actual fees were in line with our proposals.

	2006/07 Outturn	2006/07 Fee proposal
Accounts	£144,000	£144,000
Use of Resources	£ 31,000	£ 31,000
<b>Total</b>	<b>£175,000</b>	<b>£175,000</b>

The fees set out above include an amount recharged by the Audit Commission.

The fees above do not include the amounts payable for the audit of grant claims. The amount charged during 2006/7 (the majority of which related to claims audited in the autumn of 2006) was £75,000. We envisage that a similar amount will be charged for grants this autumn.

# Appendix A: Audit reports issued in relation to the 2006/07 audit year

The following audit reports have already been issued to management in relation to the 2006/07 audit year:

- Report on IT general controls
- Data quality 2006/07
- Use of Resources 2006

On-going work to be reported on:

- Internal Control Recommendations
- Data quality 2007/08
- Use of Resources 2007

# Appendix B: Summary of adjusted misstatements

We also identified the following material misstatements during our audit which management have corrected, but which we consider should be communicated to you to assist you in fulfilling your governance responsibilities:

Adjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<i>Dr Investment Income</i> <i>Cr Income and Expenditure</i>  <i>Being the adjustment to remove the departmental interest from the Income and Expenditure account.</i>	1,049	1,049		
<i>Dr Statement of Movement in General Fund Balance</i> <i>Cr Investment Income</i>  <i>Being the adjustment to include the dividends received within Investment Income.</i>	1,870	1,870		
<i>Dr Airport Reserve</i> <i>Cr Airport Investment</i>  <i>Being the adjustment required for the reduction in the valuation of the Airport.</i>			685	685

Adjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<i>Dr Sundry Debtors</i> <i>Cr Prepayments</i>  <i>Being the adjustment to reclassify capital prepayments to capital debtors.</i>			908	908
<i>Dr Income and Expenditure Education Services</i> <i>Cr Long Term Debtors</i>  <i>Cr Statement of movement on General Fund</i> <i>Dr Capital Financing Account</i>  <i>Being the adjustment to correct the PFI debtor.</i>	414	414	414	414
<i>Dr LATS Creditors</i> <i>Cr Government Debtors</i> <i>Cr LATS Assets</i>  <i>Being the adjustment to correct overstatement of Landfill Allowance Trading Scheme (LATS) entries.</i>			1,474	494 980
<i>Dr Housing Income</i> <i>Cr Housing Expenditure</i>  <i>Being the adjustment to remove the non HRA income and expenditure included in the housing line in the Income and Expenditure Account.</i>	51	51		

Adjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<i>Dr Debtors</i> <i>Cr Income in advance</i> <i>Cr creditors</i>  <i>Being the grossing up of netted housing rent balances.</i>			179	175 4
<i>Dr Usable Capital Receipts</i> <i>Cr Sundry Debtors</i>  <i>Being the adjustment to correct the VAT included within Usable Capital Receipts.</i>			120	120
<i>Dr Income and Expenditure</i> <i>Cr Debtors</i>  <i>Being the adjustment to correct the overstatement of sundry debtors.</i>	64			64
<b>Net effect</b>	<b>3,448</b>	<b>3,384</b>	<b>3,780</b>	<b>3,844</b>

## Housing Revenue Account - adjusted misstatements

Adjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<i>Cr HRA Income and Expenditure</i> <i>Dr Statement of movement on the HRA</i>  <i>Being the adjustment to include the gain on the disposal of HRA assets.</i>	94	94		
<i>Current Year Figures:</i>  <i>Cr Charges for services and facilities</i> <i>Cr Contribution to expenditure</i>  <i>Dr Repairs and maintenance</i> <i>Dr Supervision and Management</i>  <i>Being the adjustment to gross up the income and expenditure where they have been incorrectly netted off.</i>  <i>Prior Year Comparatives:</i>  <i>Cr Charges for services and facilities</i> <i>Cr Contribution to expenditure</i>  <i>Dr Repairs and maintenance</i> <i>Dr Supervision and Management.</i>	90 30	3 117		
<b>Net effect</b>	<b>292</b>	<b>292</b>	<b>0</b>	<b>0</b>

# Appendix C: 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 are 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	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<i>Cr Usable Capital Receipts</i> <i>Dr General Fund</i>  <i>Being the adjustment to correct the accounting treatment of the disposal costs.</i>	6			6
<i>Actual misstatements</i>  <i>Cr Creditors</i> <i>Dr Income and Expenditure</i>  <i>Projected misstatement</i>  <i>Cr Creditors</i> <i>Dr Income and Expenditure</i>  <i>Being the adjustment to correct the unrecorded liabilities</i>	4			4
<i>Dr Income and Expenditure</i> <i>Cr Sundry Creditors</i>  <i>Being the adjustment to correct an under accrual in Sundry Creditors.</i>	3			3



Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<p><i>Actual misstatements:</i></p> <p><i>Cr Debtors</i> <i>Dr Income and Expenditure</i></p> <p style="text-align: right;">14</p>				14
<p><i>Projected misstatement:</i></p> <p><i>Cr Debtors</i> <i>Dr I and E</i></p> <p style="text-align: right;">108</p> <p><i>Being the adjustment to correct the overstatement of sundry debtors.</i></p>				108
<p><i>Cr Bad debt provision</i> <i>Dr Income and Expenditure</i></p> <p style="text-align: right;">25</p> <p><i>Being the adjustment for the under provision of bad debts at the year end.</i></p>				25
<p><i>Cr Income in Advance</i> <i>Dr Income</i></p> <p style="text-align: right;">11</p> <p><i>Being the adjustment to correct income received for 07/08 which has not been included as income in advance.</i></p>				11
<p><i>Cr Expenditure</i> <i>Dr Prepayments</i></p> <p style="text-align: right;">16</p> <p><i>Being the adjustment to correct expenditure relating to 07/08 which has not been included in prepayments.</i></p>		16	16	

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<i>Cr Income</i>		39		
<i>Dr Government debtors</i>			39	
<i>Being the adjustment to correct an understatement in the estimated Council Tax Subsidy Debtor shown in the accounts..</i>				
<b>Net effect</b>	<b>335</b>	<b>55</b>	<b>55</b>	<b>335</b>

## Housing Revenue Account - unadjusted misstatements

Unadjusted Misstatement	Housing Revenue Income and Expenditure Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<p><i>Cr HRA Subsidy Payable</i> <i>Dr HRA Reserve</i></p> <p><i>Being the adjustment to correct the rounding of the consolidated rate of interest and thus the HRA Subsidy Payable.</i></p>		3	3	
<p><i>Dr HRA Interest Payable</i> <i>Cr HRA Reserve</i></p> <p><i>Being the adjustment to correct the incorrect rounding of the consolidated rate of interest and thus the Interest Payable.</i></p>	2			2
<p><i>Cr HRA Interest receivable</i> <i>Dr HRA Reserve</i></p> <p><i>Being the adjustment to correct the HRA interest receivable due to the incorrect interest rate being used in the calculation.</i></p>		5	5	
<p><i>Cr Depreciation</i> <i>Cr FA Depreciation</i> <i>Dr Income and Expenditure in GF</i></p> <p><i>Being the adjustment to correct the depreciation charge in the HRA.</i></p>	15	12		3
<b>Net effect</b>	<b>17</b>	<b>20</b>	<b>8</b>	<b>5</b>

# Appendix D: 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.

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	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.	LG DQ Stage 1	N/A	Adequate
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	3	Adequate

Code Criteria	Description	Associated KLoE	CPA Score	Use of Resources Conclusion
7	The body has put in place arrangements to manage and improve value for money.	5.2	3	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	3	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	3	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

