

Darlington Borough Council

Annual Audit Letter

2012/13

Government and
Public Sector

October 2013

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

In April 2010 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.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2012/13 audit work for members of the Authority .

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Audit opinion for the 2012/13 financial statements, incorporating opinion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report 2011/12 (to those charged with governance).

The matters reported here are the most significant for the Authority

Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued in April 2013 and is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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We met our responsibilities as follows:

Audit Responsibility	Results
<p><i>Perform an audit of the accounts in accordance with the Auditing Practice Board’s International Standards on Auditing (ISAs (UK&I)).</i></p>	<p>We performed the audit of the Council’s statement of accounts in July and August 2013. We issued an unqualified audit opinion on 30 September 2013 which confirmed that in our opinion the Statement of Accounts:</p> <ul style="list-style-type: none"> • gives a true and fair view of the state of the Authority’s affairs as at 31 March 2013 and of the Authority’s income and expenditure and cash flows for the year then ended; and • has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13.
<p><i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i></p>	<p>The Council was required to complete a Whole of Government Accounts (WGA) return which was subject to audit. We tested the WGA as part of our audit procedures however the Council falls below the threshold for a full component audit and therefore only limited procedures were required. We were therefore only required to review the sections of the WGA on pensions and Property, Plant and Equipment.</p> <p>We have issued a Short form assurance statement confirming that the above areas are consistent with the accounts. No issues were identified from our work.</p>

Audit Responsibility	Results	Audit Responsibility	Results
<p><i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i></p>	<p>In line with Audit Commission requirements, our conclusion was based on two criteria:</p> <ul style="list-style-type: none"> the organisation has proper arrangements in place for securing financial resilience; and the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. <p>We issued an unqualified conclusion in respect of the two criteria above.</p> <p>To reach our conclusion, we carried out a programme of work that was based on our risk assessment. In our planning risk assessment we identified the following areas for detailed review:</p> <ul style="list-style-type: none"> Review of Contract management processes; and Review of PFI arrangements. <p>In performing our work on these areas we identified positive improvements in the systems and process being adopted by the Council and found no matters which would compromise our conclusion on economy, efficiency and effectiveness.</p>	<p><i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i></p>	<p>Based on the results of our audit of the Council, no matters have come to our notice that have required reporting in the public interest.</p>
<p><i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i></p>	<p>The Council's Annual Governance Statement was reviewed and considered against our understanding of the Council from meetings with management, attendance at the Audit Committees, review of minutes and audit work performed. No inconsistencies or data gaps were noted. We did not find any instances of non-compliance with the CIPFA/SOLACE guidance.</p>	<p><i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i></p>	<p>No matters have come to our notice that requires action to be taken in relation to our responsibilities under the Audit Commission Act.</p>
		<p><i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i></p>	<p>On 30 September 2013 we certified that we have completed the audit of the statement of accounts of the Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.</p>

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2013.

Accounting matters

Valuation of property plant and equipment

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally by the Authority's valuation team who will bring in the support of external valuers as required.

The outcome of the valuation exercise in 2012/13 has meant the Council has recognised revaluation and impairment losses of £9.2m in the Statement of Accounts in relation to its land and buildings. This was substantially due to a fall in the value of the Council's housing dwellings.

We discussed the valuation process in detail with management prior to the audit commencing. In line with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code), assets are required to be held at fair value which involves assessing all assets within the Authority's portfolio to ensure they are materially accurate. As such, where the Authority adopts a rolling programme of valuations (assessing all assets at least once in a 5 year cycle) the factors considered in arriving at these valuations are considered across all assets, not just those revalued in the year.

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Where factors arise which may cause the valuation of an asset being valued to be amended, any other assets which are valued on the same or a similar basis should be reviewed to determine where they are affected, and their valuation changed when they are. Equally the principles of componentisation are now applied to all assets. This involves splitting assets into their component parts (where applicable) and attributing a useful life to each individual component which accurately reflects its individual expected lifespan.

We have reviewed the accounting entries of a sample of revalued assets and have considered the appropriateness of assumptions that have been applied in determining valuations. For example, we have held discussions with the Authority's internal valuer, consulted external guidance available and have agreed data used in valuation calculations to third party sources. We have also confirmed the appropriateness of key assumptions with PwC's valuation experts.

From the procedures performed above, we have not identified any misstatements in relation to property plant and equipment.

One internal control recommendation has been raised in relation to the working papers provided to support the valuation of properties. This is set out on page 5.

Academy schools

A number of schools have converted to Academy status in the year. On conversion these schools are no longer held on the balance sheet of the Council and as such are written out with the carrying value being treated as a loss on disposal. The result has been a reduction in the Council's Property Plant and Equipment line and an associated loss on disposal of £48m. We have reviewed the accounting treatment for these transactions and have no issues to report.

Further schools are likely to convert to Academy status in future years and therefore Members can expect to see similar transactions in 2013/14 and beyond.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether you had in place, for 2012/13, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment described above.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. We found no areas of concern to report in this context.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2011/12 to those charged with governance in March 2013. We certified five claims worth £85 million. In one case a qualification letter was required to set out the issues arising from the certification of the claim. We will issue the Annual Certification Report for 2012/13 in January 2014.

In our report to those charged with governance (ISA260) we set out a number of control recommendations. These were discussed with management throughout the audit and responses were agreed.

Here we set out a summary of the most significant recommendations made to the Council at the Audit Committee on 30 September 2013.

Summary of Recommendations

Title	Recommendation	Agreed Target Implementation Date
Post-audit manual adjustments ▶	Post-audit manual adjustments can be made to certain items on the ledger each year so that movements are posted to the correct reserve in line with the Local Government Code of Accounting Practice. This prevents Agresso automatically posting all movements to the general fund, which would not be in line with the Code. However it was noted during this testing that one posting was made into 2011/12 in error during the period that the ledger remained open for the manual adjustments. It is therefore recommended that post-audit manual adjustments to the ledger should only be made by authorised staff members in order to prevent similar errors occurring in future, and there is appropriate segregation of duties between posting and authorising journals.	Agreed – Process in place for 12/13 post audit.
Valuation of property plant and equipment – supporting working papers ▶	When performing procedures around the valuation of property plant and equipment, at times it proved difficult to obtain supporting working papers to support the valuation techniques used and assumptions applied. This resulted in additional queries being raised of the valuer. Although we received responses in full to support the valuations reached, this resulted in additional work required to reach a conclusion.	Agreed – Process and Procedures to be put in place by March 2014.

Final Fees

Final Fees for 2012/13

We reported our fee proposals in our audit plan. Our actual fees were in line with our proposals. Our fees charged were therefore:

	2012/13 outturn	2012/13 fee proposal	2011/12 final outturn
Audit work performed under the Code of Audit Practice	£123,282	£123,282	£205,470
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Certification of Claims and Returns	See below	£11,150	£35,000
TOTAL	See below	£134,432	£240,470

Our fee for certification of claims and returns is yet to be finalised for 2012/13 and will be reported to those charged with governance within the 2012/13 Annual Certification Report.

Our fees for other non-audit services provided are as follows:

- Taxation support – to advise the Council in preparing a claim for a possible VAT rebate - £2,000

During the year we have also received and responded to queries raised by Members. An additional fee will be discussed and agreed with the Council on completion of this work.



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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