
Government and Public Sector

***Darlington Borough
Council***

Annual Audit Letter

2011/12 Audit

December 2012



Introduction

The purpose of this letter

This letter is a public document which summarises the results of our 2011/12 audit for members of the Authority and other stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit report for the 2011/12 Statement of Accounts, incorporating the value for money conclusion
- Report to those charged with Governance (ISA (UK&I) 260)

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 2011/12 audit work has been undertaken in accordance with the Audit Plan that we issued on 23 March 2012 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.

We met our responsibilities as follows:

Audit responsibility	Result
<i>Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i>	We reported our findings to the Audit Committee on 28 September 2012 in our 2011/12 <i>Report to those charged with governance (ISA (UK&I) 260)</i> . On 28 September 2012 we issued an unqualified audit opinion.
<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>	We reported our findings to the National Audit Office on 5 October 2012.
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	On 28 September 2012 we issued an unqualified value for money conclusion.
<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>	There were no issues to report in this regard.
<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>	There were no issues to report in this regard.

Audit responsibility	Result
<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	There were no issues to report in this regard.
<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>	We issued our completion certificate on 5 October 2012.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 28 September 2012.

We identified the following key issues from our audit of accounts:

Component accounting

One aspect of the transition to International Financial, Reporting Standards ('IFRS') is the componentisation of property, plant and equipment. In order to calculate materially accurate depreciation figures, the Authority has broken up major assets into their component parts where these have substantially different useful lives.

The Authority's depreciation policy has been updated to reflect the treatment of assets which have been componentised.

We have discussed component accounting with the Authority and have gained an understanding of the components used and their associated useful lives. We have also reviewed calculations performed by the Authority and have not identified any issues.

Valuation of property, plant and equipment and accounting for Academy schools

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.

We discussed the valuation process in detail with management prior to the audit commencing. In line with the requirements of the IFRS 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 specifically valued. Where factors arise which may cause the fair value to be misstated, the carrying value of affected assets should be adjusted. 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.

Discussions with the finance team and the valuer meant an appropriate approach has been developed to ensure the above principles are applied. 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.

In addition to the above, management have also ensured that the asset lives of all assets have been reviewed to ensure they are appropriate and reflect the actual period of expected future usage of those assets. This did lead to adjustments to lives in some instances with the asset register amended to reflect these changes. Our audit work did identify a limited number of errors in the posting of the revised lives to the register; the associated adjustment has been made however this was not material.

Equal pay and other claims

The Authority has received and continue to receive claims for unequal pay. Whilst some claims remain disputed, certain cases have progressed and are reaching a point where settlements may be imminent, and indeed in many cases have been made. The Authority has appropriately provided within the Statement of Accounts for the likely cost of settlement of those claims where legal advice suggests a liability is likely. The cost of settlement on the General Fund has been deferred until that settlement is actually made.

Local Authority Housing Finance

As Members will be aware, changes to the financing arrangement for the Housing Revenue Account ('HRA') mean that responsibility is now devolved to local authorities to manage themselves. This process is known as Self-Financing of Authority Housing Services. A debt settlement has therefore occurred in year which will replace the former Housing Subsidy arrangements and for Darlington was calculated to be an additional £33m of borrowings. This has been presented separately on the face of the Comprehensive Income and Expenditure Statement as well as the HRA in line CIPFA guidance.

Unadjusted misstatements

There were a small number of adjustments which remained uncorrected in the final version of the Statement of Accounts. These adjustments totalled £677,719. The level of these adjustments is not material for the purposes of our audit and therefore the Audit Committee were content that these items remained uncorrected.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Audit Commission guidance specifies the criteria for our value for money conclusion:

- 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.

We determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We issued an unqualified value for money conclusion.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 5 October 2012. We found no areas of concern to report as part of this work.

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.

Summary of recommendations

We are required to report to management and those charged with governance any deficiencies in internal control that we have identified during the audit. From our audit work performed, there have been no significant deficiencies in internal control identified which require reporting to the Audit Committee.

Targeted audit work – contract management

As Members are aware, we performed a review of the Darlington Schools PFI project to assess contract management arrangements which are in place to address the risk of fraud. This identified a number of recommendations which continue to be actioned by the Council. The former Head of Educational Services within the People group had developed an action plan, including appropriate timescales, to address the issues raised in order to support the establishment of an effective, robust, integrated contract monitoring regime.

We have again followed up this recommendation during a meeting with the Head of School & Pupil Support Services within the People group. In 2011 it was clear that improvements had been made in terms of contract monitoring processes and procedures. In addition the process of communication between the Authority, the School and the Operator had improved leading to a reduced number of disputes, improved reporting and more effective challenge from the Authority.

There have been developments in the current year. It has been noted that many of the updated processes are still being embedded and relationships between all parties are still developing. There have also been staffing changes in this area as well as investment in specialist support provided by North Tyneside Council. Further, the Education Village has achieved Academy status and therefore many of the aspects of the management of the scheme (for instance utility costs) will become their responsibility. A dedicated role is in place at the schools to manage the interaction between the relevant parties.

These updates are expected to deliver positive outcomes however we appreciate that the management of this contract remains a key challenge for the Council. As such, we have held detailed discussions with the Head of Corporate Assurance and plan to perform a joint piece of work in following up the progress of these actions in early 2013.

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

In March 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.

Other Matters

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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