

Darlington Borough Council

Report to those charged with governance

Government and
Public Sector

26 September 2013

Report to the Audit Committee of the authority on the audit for the
year ended 31 March 2013 *(ISA (UK&I)) 260*

Contents

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.

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Executive summary

An audit of the Statement of Accounts 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. 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 2 to this report.

Background

This report tells you about the significant findings from our audit. We presented our plan to you in March 2013; we have reviewed the plan and concluded that it remains appropriate.

Audit Summary

- At the date of drafting this report, we have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts on 26 September 2013.
- The key outstanding matters, where our work has commenced but is not yet finalised, are:
 - review of the final detailed disclosures in the Statement of Accounts;
 - approval of the Statement of Accounts and letters of representation;
 - receipt of outstanding bank confirmations;
 - completion of the work assessing the valuations of property, plant and equipment and investment properties; and
 - completion procedures including subsequent events review.

We will provide a verbal update to the Audit Committee with regard to these matters at the meeting on 26 September 2013.

- The Audit Committee need to confirm the proposed treatment of uncorrected misstatements listed in Appendix 1.
- Details of the key findings and matters arising from our work are summarised from page 6 of this report.

We also need to complete our work on the Whole of Government accounts although this is separate to our responsibilities on the Statement of Accounts.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 26 September 2013. Attending the meeting from PwC will be Simon Clegg.

We performed our audit in line with the audit plan which was presented to you in March 2013. We have set out the audit approach and the procedures performed to address the key risks identified as part of this plan.

Audit approach

Smart People

We continue to deploy our best people on your audit, supported by a substantial investment in training and in our industry programme.

We have always strove to provide a depth of continuity within your audit team. While a new engagement leader has been introduced for 2012/13, we have maintained a high level of continuity at other senior levels including the engagement manager, junior manager and incharge. The team therefore have a good knowledge of the Council which has ensured a smooth and effective audit.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013 the work included testing manual journals through data analytics, so we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.

We will also continue to explore ways to extend our use of smart technology and data into other areas where we see an opportunity to add value, as well as for quality and efficiency.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

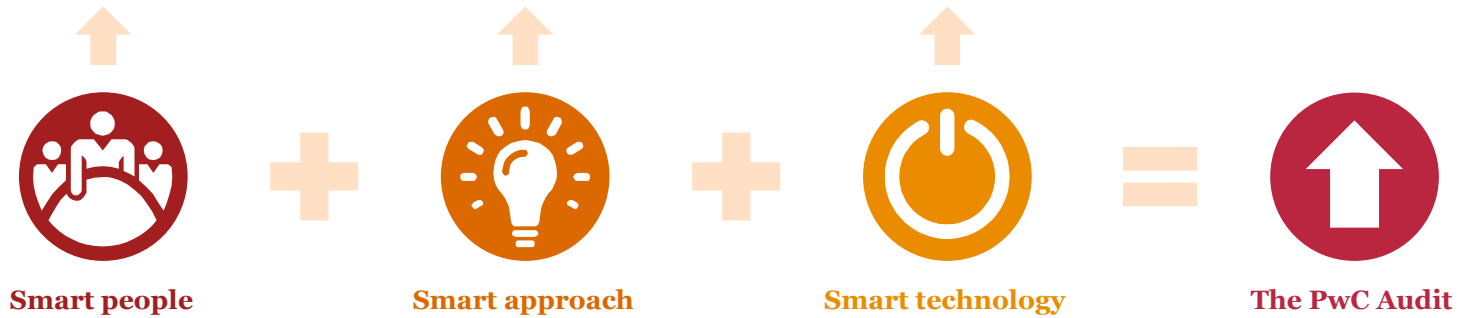
Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the Statement of Accounts.

Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities. Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key local government audit cycles.



We have summarised below the significant risks we identified in our audit plan and the audit approach we took to address them.

Risk	Categorisation	Audit approach
Management override of controls	Significant risk	<p>We have:</p> <ul style="list-style-type: none"> gained an understanding of and where relevant evaluated internal control processes and procedures as part of our planning work; designed and performed procedures in relation to the business rationale for significant transactions. Our audit procedures also included an unpredictable element that varies year on year; reviewed the appropriateness of manual journals processed during the year. In doing so we used Computer Assisted Audit Techniques which helped us identify riskier journals; ensured that recognition criteria was met for any material provisions and that the value of the liability recognised is appropriate. We have had discussions with the Authority's legal and HR teams to ensure that all provisions have been accounted for; we carefully considered any management estimates and assessed whether they were subject to bias; and reviewed controls around the capitalisation of expenditure and performed detailed testing on capital additions in year. <p>No issues were noted in our testing performed.</p>

Risk	Categorisation	Audit approach
<p>Recognition of income and expenditure</p>	<p>Significant risk</p>	<p>During the audit we have:</p> <ul style="list-style-type: none"> • understood and evaluated internal control processes and procedures and tested key controls to ensure they are operating effectively; • reviewed the Council's budget monitoring processes to identify areas of concern; • considered the accounting policies adopted by the Authority and subjected income and expenditure to the appropriate level of detailed testing to identify any material misstatement; • performed focused and risk based detailed testing on the year-end adjustments to ensure income and expenditure is recorded in the correct period and that cut-off procedures have been appropriately applied; • as part of our value for money work, we considered the Authority's savings plans and considered their robustness; and • met with key finance staff to discuss their progress in delivering the MTFP as well as the future direction for the Authority. <p>The conclusion of our work has been that the Authority has appropriately recognised both income and expenditure within the Statement of Accounts.</p>
<p>Capital developments and valuation of property plant and equipment</p>	<p>Significant risk</p>	<p>During the audit work we have:</p> <ul style="list-style-type: none"> • audited additions, disposals, and impairments and considered the accounting treatment of PFI services as part of our audit work; • used our own valuations specialists to support us in assessing the assumptions used by the valuer and in concluding whether these are reasonable and appropriate; • tested a sample of those assets valued in the year to ensure the assumptions are appropriately and have been properly reflected in the treatment in the Statement of Accounts; and • worked with the Authority in determining the appropriate treatment for assets where the carrying value may not be appropriate. In particular we have discussed how the Authority can ensure that the impact of valuation movements is considered across the whole portfolio of assets, and not simply those subject to specific valuation in year. <p>The response to this risk has been summarised in more detail on page 6 below.</p>

Risk	Categorisation	Audit approach
<p>Impact of service redesign and transition to delivering more services through externally commissioned providers</p>	<p>Elevated risk</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed significant contracts that have been taken out during the year to ensure that these have been correctly accounted for; and • performed a review of the capital projects management process, including reviewing the PFI contracts in place to assess how the local authority has ensured value for money is obtained. <p>The conclusion of our work is that significant contracts have been correctly accounted for and that the systems and process used to monitor and manage significant contracts (including capital contracts) demonstrate extensive improvement.</p>
<p>Accounting for potential liabilities arising from ongoing claims / contractual disputes</p>	<p>Elevated risk</p>	<p>We have:</p> <ul style="list-style-type: none"> • continued to discuss the position of ongoing claims and contractual disputes with management, the in-house legal team and the finance team; and • reviewed the status of all claims and considered legal advice sought with regard to the likely outcomes; and • reviewed appropriate supporting evidence to justify the levels of any liabilities held on the balance sheet or, where not liability is held, that this is appropriate. <p>The conclusion of our work is that the Statement of Accounts appropriately reflects the position with regard to all pending and settled legal claims.</p>

Auditing standards require us to tell you about relevant matters related to the audit of the financial statement sufficiently promptly for you to take appropriate action. This section contains such items.

Significant audit and accounting matters

Accounts

We have completed our audit, subject to the following outstanding matters:

- review of the detailed disclosures in the Statement of Accounts;
- approval of the Statement of Accounts and letters of representation;
- receipt of outstanding bank confirmations;
- completion of the work assessing the valuations of property, plant and equipment and investment properties; and
- completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval of them we expect to issue an unqualified audit opinion.

As part of our work on the Statement of Accounts we have also examined the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

Accounting issues

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.

To assess the reasonableness of the valuation of property plant and equipment at year end, the following procedures were performed:

- we reviewed the key assumptions used in the valuation of the Council's properties and tested the application of these in detail for a sample of properties. In doing so we reviewed the supporting working papers to reach the valuation for each property. We utilised our internal valuation experts to assess the reasonableness of these assumptions;
- we reviewed the accounting entries made on the revaluation of property plant and equipment; and
- we assessed whether the Authority has considered the impact of valuation movements across the whole portfolio of assets.

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.

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 however at the time of writing this report we have not formally concluded our work in this area. We are still finalising the views of our own valuation expert and will report our conclusions verbally to the Audit Committee.

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 13.

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 transaction in 2013/14 and beyond.

Pensions liability

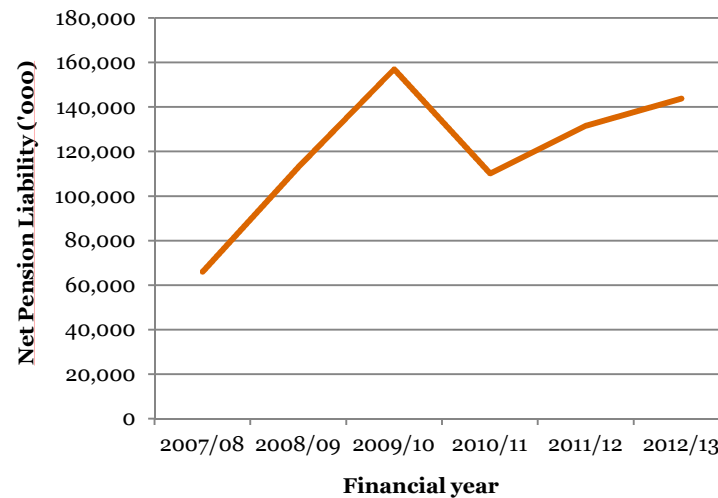
The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Durham County Council pension fund. Your net pension liability at 31 March 2013 was £143.8 million (2012 - £131.6 million).

The 2013 triennial valuation is yet to be concluded and will be reflected in the 2013/14 Statement of Accounts. The deficit for the Local Government Pension Schemes as a whole is expected to have increased from £38bn to £80bn since 2010.

Although assets increased in value in this period by 20%, the value of the liabilities has increased by more than 40% as these are linked to gilt prices which are at an all time high.

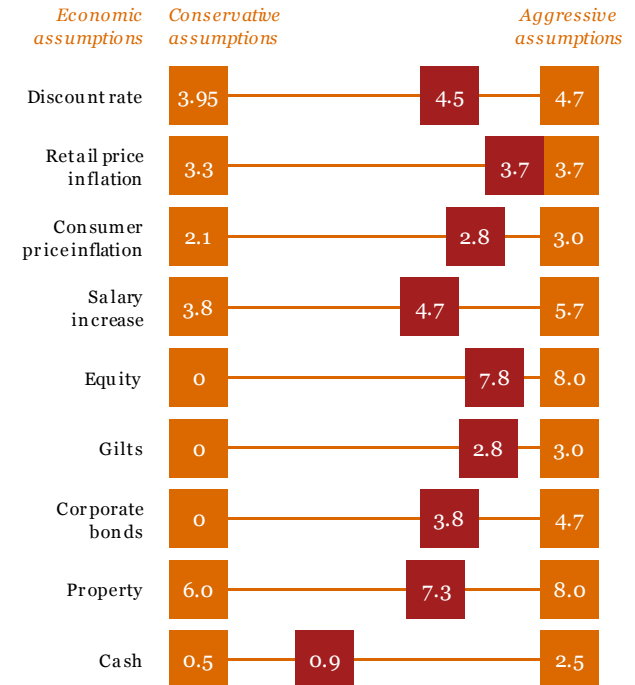
The chart below shows the significant movement in your net pension liability over the last few years.

Council Pension Liability between 2007/08 and 2012/13



We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

Analysis of the assumptions being used by other actuaries



Changes to IAS 19: Employee Benefits

From 2013/14 there will be changes to the accounting for defined benefit schemes and termination benefits. For defined benefit schemes the net finance cost will be used. The net scheme liabilities/assets will be unwound using the discount rate for the pension liability and the costs of administering the scheme will be recognised directly in expenses.

The definition of termination benefits has changed and does not now include liabilities where there is a future service element. They do not include any 'voluntary' element.

The 2012/13 accounts need to include disclosure of standards issued but not adopted and estimates of their likely financial effect. As a result, estimates of the impact of IAS 19 (Revised) have been obtained from the actuary. The impact on the Authority in the 2012/13 accounts is £2.1m.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. See Appendix 1.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered.

Judgments and accounting estimates

The following significant judgments or accounting estimates were used in the preparation of the Statement of Accounts in the following areas:

- Pension Liability;
- Revaluation and impairment;
- Provisions, including the provision for doubtful debts; and
- Depreciation expense.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 3.

Related parties

We have not identified any issues in performing our related party work which needs to be brought to your attention.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers' teams.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2013 is included on page 14. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors or senior management.

Rotation

It is the Audit Commission's policy that auditors at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve auditors for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Cabinet, senior management or staff.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit is subject to internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has undertaken the following other work for the Council:

Support provided by PwC	Value	Threats to independence and safeguards in place
Audit of Darlington Grants	Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance within the Grants Report to Management in relation to 2012/13 grants.	<p>Self Review - The advice does not involve the preparation of information subject to audit by PwC. In addition, the services are delivered by a separate team from the audit engagement team.</p> <p>Self Interest - The total fee level is not deemed to be material to the Council or PwC. The work undertaken is not paid on a contingency basis.</p> <p>Management - The work does not involve making any decisions on behalf of management.</p> <p>Advocacy - The work does not involve advocating the Council to third parties.</p> <p>Familiarity - Work is not deemed to give rise to a familiarity threat in that a separate team from audit team is used.</p> <p>Intimidation - The nature of the work does not give rise to any intimidation threat.</p>
Taxation support – to advise the Council in preparing a claim for a possible VAT rebate	£2,000	<p>Self Review - The advice does not involve the preparation of information subject to audit by PwC. In addition, the services are delivered by a separate team from the audit engagement team.</p> <p>Self Interest - The fee level is not deemed to be material to the Council or PwC. The work undertaken is not paid on a contingency basis.</p> <p>Management - The work does not involve making any decisions on behalf of management.</p> <p>Advocacy - The work does not involve advocating the Council to third parties.</p> <p>Familiarity - Work is not deemed to give rise to a familiarity threat in that a separate team from audit team is used.</p> <p>Intimidation - The nature of the work does not give rise to any intimidation threat.</p>

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government” framework.

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

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes 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.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. In 2012/13 our approach has included consideration (limited to the scope of our work) of the following:

1. Consideration of sector specific risks identified by the Audit Commission;
2. Review of the performance of the Council against the financial analysis tool;
3. Review of the outputs from the VFM tool produced by the Audit Commission;
4. Review and consideration of findings from minute review of council meetings and consideration of any news articles from local and national press;
5. Consideration of financial resilience, financial planning and financial control. This has also been enhanced by our going concern review in relation to the Council, of which comments are included below; and
6. Consideration of resources provided and improving efficiency and productivity.

We anticipate issuing an unqualified value for money conclusion.

Targeted audit work – where relevant

In our planning risk assessment we identified the following areas for detailed review:

- Review of Contract management processes; and
- Review of PFI arrangements.

Separate reports have been prepared setting out our findings from these reviews.

We are required to report to management and those charged with governance any significant deficiencies in internal control that we have identified during the audit.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

Summary of internal control deficiencies

Deficiency	Recommendation	Management's response
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.

Risk of fraud

We discussed with you your understanding of the risk of fraud and corruption and any reported instances when presenting our plan.

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Fees update

We reported our fee proposals in our plan.

Our actual fees were in line with our proposals.

Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance within the Grants Report to Management in relation to 2012/13 grants.

Appendices

We are required to report to you all unadjusted misstatements which we have identified during the course of the audit, other than those of a trivial nature. These have been summarised here.

Appendix 1: Summary of uncorrected misstatements

We found the following errors during the audit that have not been adjusted by management. You are requested to consider these formally and determine whether you would wish the accounts to be amended. If the misstatements are not adjusted we will need a written representation from you explaining your reasons for not making the adjustments.

No	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
		Dr	Cr	Dr	Cr
1	Dr Debtors Cr Creditors Being an adjustment to reclassify debit balances offset against creditors to debtors		F	189,017	189,017
Total uncorrected misstatements		0	0	189,017	189,017

Appendix 2: Audit reports issued in 2012/13

The following reports have been issued during 2012/13:

- Review of the Capital Contracts process
- Review of the PFI arrangements
- Audit report for 2012/13 Statement of Accounts

Appendix 3: Letter of representation

89 Sandyford Road
Newcastle
NE1 8HW

Dear Sirs

Representation letter – audit of Darlington Borough Council’s (the Authority) Statement of Accounts for the year ended 31 March 2013

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2013 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13.

I acknowledge my responsibilities as Chief Financial Officer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the Service Reporting Code of Practice 2012/13; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.

- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements is attached to this letter.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
 - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the Statement of Accounts.
-
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
 - all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

I confirm that we have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the Statement of Accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the Statement of Accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Bank accounts

I confirm that I have disclosed all bank accounts to you.

Provisions

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the Statement of Accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the Statement of Accounts.

Other specific items

Other than the following projects:

- Education Village; and
- Harrowgate Hill Primary School,

the Authority does not have plans to enter into any further Private Finance Initiative schemes which might affect the Statement of Accounts for 2012/13.

The Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework, including any voluntary sums over and above the Minimum Revenue Provision.

The Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of Single Status provisions on the General Fund balance.

The Authority has assessed the impact of using the Major Repairs Allowance as an estimate for depreciation of Authority dwellings in the Housing Revenue Account and is satisfied that this amount is a reasonable estimate of the amount of depreciation charge for these assets.

The Authority holds an investment in Durham Tees Valley Airport. The valuation of this investment reflects an appropriate market value and this value is reflected in the Statement of Accounts.

The Authority has considered its interests in other entities and is satisfied that group accounts do not need to be prepared in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Using the work of experts

I agree with the findings of our internal valuer, experts in evaluating the useful economic life and fair value of our property, plant and equipment, and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

- The authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- The authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The authority has satisfactory title to all assets and there are no liens or encumbrances on the authority's assets, except for those that are disclosed in the Statement of Accounts.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year end have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.

Disclosures

- Where appropriate, the following have been properly recorded and adequately disclosed in the Statement of Accounts:
 - The identity of, and balances and transactions with, related parties.
 - Losses arising from sale and purchase commitments.
 - Agreements and options to buy back assets previously sold.

- Assets pledged as collateral.
- The authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
- The authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the Statement of Accounts all guarantees that we have given to third parties, including oral guarantees made by the authority on behalf of an affiliate, member, officer or any other third party.

Retirement benefits

All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in Authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and accounted for and/or disclosed.

All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

Rate of Inflation *RPI)	3.70%
Rate of Inflation (CPI)	2.80%
Rate of general long-term increase in salaries	4.70%
Rate of increase to pensions in payment	2.80%
Rate for discounting scheme liabilities	4.50%

The Authority participates in the Teachers' Pension Scheme that is a defined benefit scheme. We confirm that Authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

Litigation

I am not aware of any pending or threatened litigation, proceedings, hearing or claims negotiations which may result in significant loss to the Authority. The Statement of Accounts include a provision for equal pay claims to the value of £2.059M and this is deemed to be an accurate assessment of any probable liability.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the Statement of Accounts or in the notes thereto.

As minuted by the Audit Committee at its meeting on 26 September 2013

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Chief Financial Officer
For and on behalf of Darlington Borough Council

Date

Appendix 1 – Uncorrected misstatements

Uncorrected misstatements	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr	Cr	Dr	Cr
Debtors	-	-	189,017	
Creditors				189,017
Being an adjustment to reclassify debit balances offset against creditors to debtors				
Net effect	-	-	189,017	189,017



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.

This document has been prepared only for Darlington Borough Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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