

# *Darlington Borough Council*

*Report to those charged with governance*

Report to the Audit Committee of the authority on the audit for the  
year ended 31 March 2014 (*ISA (UK&I) 260*)

Government and  
Public Sector

September 2014

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# 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.*

<b>Executive summary</b>	<b>1</b>
<b>Audit approach</b>	<b>2</b>
<b>Significant audit and accounting matters</b>	<b>7</b>
<b>Internal controls</b>	<b>13</b>
<b>Risk of fraud</b>	<b>15</b>
<b>Fees update</b>	<b>17</b>
<b>Appendices</b>	<b>18</b>
<b>Appendix 1: Summary of uncorrected misstatements</b>	<b>19</b>
<b>Appendix 2: Letter of representation</b>	<b>21</b>

*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.*

## **Executive summary**

### **Background**

This report tells you about the significant findings from our audit. We presented our plan to you in March 2014; we have reviewed the plan and in the majority it remains appropriate.

Since March, we have received additional guidance from the Financial Reporting Council (“FRC”) with regards to their consideration of risk regarding the financial resilience of Local Authorities. Consideration of the financial resilience of the Darlington Borough Council (“the Authority”) forms part of our Value for Money conclusion. The FRC considered that in cases where medium term budgets include savings which, at the time of the audit, have not been fully planned, then the risk should be considered to be significant.

As a result of this, we have concluded that it is appropriate to change the risk presented in our audit plan from “Elevated” to “Significant”.

### **Audit Summary**

- 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 2014.
- The key outstanding matters, where our work has commenced but is not yet finalised, are:
  - Testing of a sample of assets which have been valued during the year;
  - review of the detailed disclosures in the Statement of Accounts;
  - approval of the Statement of Accounts and letters of representation; and

- completion procedures including subsequent events review.
- There are two key judgments which require the Audit Committee/those charged with governance's attention – further details are set out commencing on page 8.
- The Audit Committee need to confirm the proposed treatment of unadjusted misstatements listed in Appendix 1.

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 2014. Attending the meeting from PwC will be Simon Clegg.

# Audit approach

Our audit approach was set in our audit plan which we presented to you in March 2014. We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Risk	Categorisation	Audit approach	Results of work performed
<b>Management override of controls</b>	Significant risk	<p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. This includes consideration that management may therefore be in a position to manipulate the Statement of Accounts. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p> <p>For our audit of the Authority's Statement of Accounts for the year ended 31 March 2014, we performed the following procedures in order to address this risk:</p> <ul style="list-style-type: none"> <li>• gained an understanding of and evaluated internal control processes and procedures as part of our planning work;</li> <li>• designed and performed procedures in relation to the business rationale for significant transactions. 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;</li> <li>• 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;</li> <li>• we carefully considered any management estimates and assessed whether they were subject to bias;</li> <li>• reviewed controls around the capitalisation of expenditure and performed detailed testing on capital additions in year; and</li> <li>• performed unpredictable procedures including testing immaterial balances.</li> </ul>	<p>No issues have been noted in our testing performed so far, however we are currently in the process of reviewing evidence to support manual journal entries.</p>

Risk	Categorisation	Audit approach	Results of work performed
<p><b>Risk of fraud in revenue and expenditure recognition, including the ongoing financial position</b></p>	<p>Significant risk</p>	<p>Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.</p> <p>We rebutted the significant risk in relation to revenue recognition for a number of the Authority's income streams, such as government grant income, since we considered that the Authority has limited ability, opportunity or incentive to misstate these income streams. This is as a result of the value of grants being publicly available as a result of being published online, amounts being paid to the Authority by the Government during the financial year and due to the nature of, and accounting for, these items not being complex.</p> <p>During the audit we have:</p> <ul style="list-style-type: none"> <li>• Understood and evaluated internal control processes and procedures and tested key controls to ensure they are operating effectively;</li> <li>• Reviewed the Authority's budget monitoring processes to identify areas of concern;</li> <li>• Considered the accounting policies adopted by the Authority and subjected income and expenditure to the appropriate level of testing to identify any material misstatement;</li> <li>• As part of our value for money work, we have considered the Authority's savings plans and consider their robustness; and</li> <li>• We have met with key finance staff to discuss their progress in delivering the MTFP as well as the future direction for the Authority.</li> </ul>	<p>No issues have been noted so far from work performed.</p>

Risk	Categorisation	Audit approach	Results of work performed
<p><b>Valuation of property plant and equipment</b></p>	<p>Significant</p>	<p>Property, plant and equipment is the largest figure on the Authority's Balance Sheet.</p> <p>The Authority owns different categories of PPE and measures its properties using a number of methods in line with the Code. This involves a range of assumptions and the use of internal valuation expertise, provided by the Asset Management team.</p> <p>We have performed detailed testing of the revaluations performed in the year across the Authority's asset portfolio by Asset Management including the valuation of Council dwellings and assets of a specialist nature, such as schools and leisure centres.</p> <p>Our audit work involved testing the inputs into the valuations used by Asset Management to supporting evidence, such as third party evidence of property sales in the Borough during the year, and considering the reasonableness of the assumptions used in the valuations through using other third party evidence and our internal valuations experts where such evidence was not available.</p> <p>During the audit work we have:</p> <ul style="list-style-type: none"> <li>• Audited additions and impairments;</li> <li>• Reviewed the working papers which support the valuations and tested a sample of assets valued during the year by the Authority's internal valuer. We have reviewed, understood and tested the key assumptions which have been used in the valuations, and utilised our own internal valuation experts to assess the reasonableness of these assumptions;</li> <li>• 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. This work is currently ongoing.</li> </ul>	<p>No significant issues were identified throughout our work so far. One misstatement has been identified which has been summarised in Appendix 1.</p>

Risk	Categorisation	Audit approach	Results of work performed
<b>Accounting for potential liabilities arising from ongoing claims/contractual disputes</b>	Elevated	We have: <ul style="list-style-type: none"> <li>continued to discuss the position of any ongoing claims and contractual disputes with management, the in-house legal team and the finance team; and</li> <li>reviewed the status of all claims and consider legal advice sought with regard to the likely outcomes.</li> </ul>	No issues have been noted from the work performed so far.
<b>Financial resilience</b>	Significant	<p>Financial resilience was identified as an elevated risk within our audit plan. As noted above, following additional guidance we have changed this to be a significant risk. The risk was identified as major budgetary cuts to the level of funding received from central government which is already causing significant changes to how local authorities operate are set to continue in the near future. Increased expectations on what savings authorities can make on increasingly reduced funding has led to difficulties across the country for several councils. However we do note that the Authority has achieved a better than expected outturn this year, enabling contributions back to reserves to be made during 2013/14.</p> <p>Even so, further savings are required in future financial years for the Authority to continue to achieve a balanced budget. Additionally, future funding changes are likely to adversely affect the levels of income the Authority receives. As a result, the financial resilience of the Authority and the ability to achieve its savings plans was considered to remain a risk.</p> <p>In forming our conclusion on economy, efficiency and effectiveness, we have reviewed the Authority's Medium Term Financial Plan (MTFP) 2014-19. In particular, we focussed on:</p> <ul style="list-style-type: none"> <li>how the Authority has managed their 2013/14 savings programme;</li> <li>the key assumptions included in the MTFP, comparing these assumptions with best practice and those used by other local authorities;</li> <li>the prioritisation of resources as part of the MTFP;</li> <li>the arrangements to review the value for money which the Authority's services provide; and</li> <li>the adequacy of the Authority's planned level of reserves and contingencies against the stated policy and the level of future risk in delivering the MTFP.</li> </ul>	

*We are satisfied that the Authority's MTFP is sufficiently robust and that savings are monitored on an ongoing basis and actions are taken to respond to cost pressures identified during the financial year.*

### *Intelligent scoping*

In our audit plan presented to you in March 2014 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality changed only to reflect the final results in the Statement of Accounts for 2013/14.

Our revised materiality levels are as follows:

	<b>£'000</b>
Overall materiality	3,639
Clearly trivial reporting de minimis	100

Overall materiality was set at 2% of total expenses for the year ended 31 March 2014.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Audit Committee at its meeting in March 2014.



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# *Significant audit and accounting matters*

## *Accounts*

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

- Testing of a sample of assets which have been valued during the year;
- review of the detailed disclosures in the Statement of Accounts;
- approval of the Statement of Accounts and letters of representation; 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*

### *Related party disclosures*

During testing performed on the disclosures of related party transactions, it was noted that in a small number of cases the register of Members interests, used to produce the related party disclosures in the notes to the financial statements were not up-to-date. An internal control recommendation has been raised in relation to this finding, and the appropriate disclosures in the notes to the financial statements have been updated.

### *Valuation of property plant and equipment (PPE)*

The Authority uses fair value in most cases to value PPE, with council dwellings valued using the beacon methodology applied per DCLG guidance (also stated in the LG Code guidance notes).

To assess the reasonableness of the valuation of PPE in these ways at year end, our audit work involved testing the inputs into the valuations used by Asset Management to supporting evidence, such as third party evidence of property sales in the Borough during the year, and considering the reasonableness of the assumptions used in the valuations through using other third party evidence and our internal valuations experts where such evidence was not available.

A misstatement was identified through testing performed on the depreciated cost of assets, which arose due to errors noted in the valuation working papers (see Appendix 1). An internal control recommendation has also been raised (see page 13) as a result of this error in relation to the working papers provided to support the valuation of properties.

### *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 2014 was £106.77 million (2013 - £143.77 million).

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

We utilised the work of actuarial experts to assess the assumptions applied by the Authority and no issues were noted from work performed.

### *Changes to IAS 19: Employee Benefits*

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected in the Authority's financial statements. From our work performed on the financial statements, we concluded there were no issues noted in relation to the accounting applied in relation to defined benefit schemes and termination benefits.

### *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. From our work performed, there have been no issues in relation to the accounting principles and policies adopted.

### *Judgments and accounting estimates*

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

- Property, Plant and Equipment – Valuation;
- Property, Plant and Equipment – Depreciation;
- Bad Debt Provision;
- Provisions; and
- Valuation of net pension liability.

Based on our work performed the judgements and accounting estimates applied appear to be reasonable.

### *Management representations*

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

### *Financial standing*

From our work performed, we have identified no events and conditions that may cast significant doubt on the Authority's financial standing. However, we are aware that the Authority will need to continue to make significant efficiency savings going forward in addition to the savings already delivered by the Authority. As part of our work, we reviewed the budgeting processes in place at the Authority, and assessed the processes in place to promote financial resilience and are

operating with economy, efficiency and effectiveness. We will continue to understand and monitor the financial position of the Authority going forward.

### *Related parties*

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

Further information has been included on page 7, and internal control recommendation has been raised on page 13.

### *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.

### *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.

Darlington Borough Council

### *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.

### *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 also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Authority on grants claims and returns. The follow threats and safeguards in place in relation to this service have been summarised below:

**Self-Review Threat:** The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors.

There is no self-review threat as we are certifying management completed grant returns and claims.

**Self Interest Threat:** As a firm, we have no financial or other interest in the results of the Authority.

We have concluded that this work does not pose a self-interest threat.

**Management Threat:** PwC is not required to take any decisions on behalf of management as part of this work.

**Advocacy Threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.

**Familiarity Threat:** Work complements our external audit appointment and does not present a familiarity threat.

**Intimidation Threat:** We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism

#### *Fees*

The analysis of our audit and non-audit fees for the year ended 31 March 2014 is included on page 17. 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, senior management.

#### *Rotation*

It is the Audit Commission's policy that engagement leaders 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 engagement leaders 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.

#### *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”.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE “Delivering Good Governance in Local Government” 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. During 2013/14 this involved looking both at the proposed MTFP 2014-19 planned savings and critically assessing them for reasonableness as well as reviewing previous planned savings to check whether these were met, and if they weren't what compensatory savings were made.

The review of the previous savings targets showed high results of the council meeting its budgets and strong financial

Darlington Borough Council

monitoring; so the Authority was aware and could implement alternative schemes where initial saving plans either fell through or didn't deliver in the way they were originally expected to.

As significant savings are expected from the Authority in the next few years our audit testing focused on reviewing the reasonableness of future ventures for savings and the calculation of the projected monetary savings or income to be produced. Six areas within the MTFP were focused on which covered large and smaller areas of planned savings. Explanations for the planned savings were reviewed, along with budgets for the savings, performance against these targets at audit date, contracts for project groups and benchmarking results against which the expected savings were set.


We anticipate issuing an unqualified value for money conclusion.

## *Localisation of Business Rates*

As of 1 April 2013, changes introduced by the Government regarding Business Rates came into effect.

Rather than all Business Rates gathered being payable to the Government and a formula-driven grant being received, the Authority now retains a share of business rates it collects, receiving a lower level of grant in return. This has resulted in a fall in National Non-Domestic Rate income recognised by the Authority in the Statement of Comprehensive Income and Expenditure of £6.082m.

In addition to this, the Authority is also now responsible for recognising on its Balance Sheet a provision for its share of Business Rates which are under appeal and which may need to be repaid. The total value of Business Rates under appeal as at 31 March 2014 was c£11.082m with the Authority recognising a provision of £1.310m This was calculated based on a success rate of previous appeals of (11.82%). The likely



outcome of the appeals on an appeal by appeal basis has been assessed but this has not affected the percentage applied this year.

We reviewed the reasonableness of the provision in place and, we are comfortable that the provision is not materially misstated. The calculation performed by management to estimate the provision is rational, being based on known historical factors and looking at worse case scenarios, however it could be further refined to consider appeals on a case by case basis rather than applying uniform percentages.

# 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.

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 significant internal control deficiencies

Deficiency	Recommendation	Management's response
A full listing of related parties have not been identified	<p>During testing performed on the disclosures of related party transactions, it was noted that the register of members interests used to produce the related party disclosures in the notes to the financial statements were not updated regularly.</p> <p>It is recommended that the processes developed to ensure the register of members interests remain current are reviewed.</p>	<p>There is significant compliance with the register of interests by Members. All Members have completed register of interest forms and these are published on the Council's website. Members are reminded to check and update their register of interests annually. All members will be further advised about the obligations in respect of interests and any individual issues followed up with the Members concerned.</p>
Errors noted in calculations of valuations of property	<p>It was noted during testing performed on valuations, that there was an error in the calculation of the Depreciated Replacement Cost (DRC) due to the incorrect remaining asset life being recorded. The valuations are documented in spreadsheets which may result in human error.</p> <p>It is recommended that all working papers are reviewed by the finance team to ensure they are accurate.</p>	<p>It is agreed that all working papers will be reviewed by the finance team to ensure accuracy</p>
Incorrect posting of invoices	<p>It was noted during testing performed that a purchase made from a supplier had been entered onto the Agresso system as a sale, therefore a debtor balance was recorded. The error was discussed with management and it was noted that the error is as a result of human error with the invoice being mistaken for a</p>	<p>The incorrect posting of invoices is noted and although there are already processes in place to mitigate this, further checks will be put in place to minimise the risk of it reoccurring.</p>

supplier invoice. The value of the error was £2.2k therefore not reported below.

It was also noted that the invoice dates for two debtor invoices were entered incorrectly on the system resulting in the ageing of the invoices being recorded incorrectly.



# *Risk of fraud*

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

## *Auditors' responsibility*

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

## *Management's responsibility*

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

## *Responsibility of the Audit Committee*

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

## *Your views on fraud*

In our audit plan presented to the Audit Committee March 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

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.

## Conditions under which fraud may occur

**Management or other employees have an incentive or are under pressure**

Incentive / pressure

**Why  
commit  
fraud?**

### **Opportunity**

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

### **Rationalisation/attitude**

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

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# ***Fees update***

## *Fees update for 2013/14*

We reported our fee proposals in our plan.

	<b>2013/14 fee proposal</b>
<b>Statement of Accounts (including whole of government accounts)</b>	123,282
<b>Grants</b>	16,000
<b>TOTAL</b>	<b>139,282</b>

There may be a variation on the scale fee for the certification work based on the actual time incurred however any additional cost above the scale fee will be communicated on completion of this work.

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# *Appendices*

# Appendix 1: Summary of uncorrected misstatements

We found the following misstatements 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 (F), Judgemental (J), Projected (P)	Income statement		Balance sheet	
		Dr	Cr	Dr	Cr
1	<b>Reclassification of debtor balances</b> Being the reclassification of debit balances offset against creditors, to debtors		F		
	Dr Debtors			154	
	Cr Creditors				154
2	<b>Calculation of Depreciated Replacement Cost ('DRC') amounts</b> Overstatement of the depreciation amounts against DRC assets		F		
	Dr Accumulated depreciation			330	
	Cr Depreciation expense		330		
	Dr General Fund Balance			330	
	Cr Capital Adjustment Account				330



## ***Appendix 2: Letter of representation***

5<sup>th</sup> and 6<sup>th</sup> Floors  
Central Square South  
Orchard Street  
Newcastle Upon tyne  
NE1 3AZ

Dear Sirs

### **Representation letter – audit of Darlington Borough Council’s (the Authority) Statement of Accounts for the year ended 31 March 2014**

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 2014 and of its surplus 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 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as Director of Neighbourhood Services and Resources for preparing the Statement of Accounts as set out in the Statement of Responsibilities. 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 2013/14 supported by the Service Reporting Code of Practice 2013/14; 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 2013/14 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 (Appendix 2).

### ***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 the attached appendix to this letter is a complete list of the Authority's related parties (Appendix 1). All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

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 2013/14.

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 2013/14.

### ***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***

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 Unequal Pay 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.

### ***Transactions with Directors***

- No transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 have been entered into.

### ***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.

### ***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 £0.951M and this is deemed to be an accurate assessment of any probable liability.

### ***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)	3.40%
Rate of Inflation (CPI)	2.40%
Rate of general long-term increase in salaries	3.90%
Rate of increase to pensions in payment	2.40%
Rate for discounting scheme liabilities	4.30%

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.

### ***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.

***Additional written representations about the Statement of Accounts***

The selection and application of accounting policies are appropriate.

The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the statement of accounts, including non-compliance.

***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.

.....

Director of Neighbourhood Services and Resources

For and on behalf of Darlington Borough Council

Date .....

## **Appendix 1 - Related parties**

Groundwork North East Board  
Evolution  
Darlington & District Youth and Community Association  
Durham Police Authority  
Family Help Organisation  
Darlington Credit Union  
Darlington Citizens Advice Bureau  
YMCA  
Association of North East Councils (ANEC)  
Local Government Association  
Firthmoor & District Community Association  
North East Regional Employers Organisation  
Darlington College Board  
Parking and Traffic Regulations outside London (PATROL)  
Tees Valley Limited  
Darlington Community Carnival Committee  
Northern Housing Consortium  
Darlington Town Twinning Association  
North East Highways Training Centre – Management Committee  
Association of Councillors  
Skerne park Youth & Community Centre  
Cruse Bereavement  
Maidendale Nature and Fishing Reserve  
National Society for Clean Air  
Sadberge Village Hall Association  
Willow Road Community Centre  
700 Club  
Combined Fire Authority

## Appendix 2 - Uncorrected misstatements

No	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
		Dr	Cr	Dr	Cr
<b>1</b>	Reclassification of debtor balances				
	Being the reclassification of debit balances offset against creditors, to debtors				
	Dr Debtors			154	
	Cr Creditors				154
<b>2</b>	Calculation of Depreciated Replacement Cost (“DRC”) amounts				
	Overstatement of the depreciation amounts against DRC assets				
	Dr Accumulated depreciation			330	
	Cr Depreciation expense		330		
	Dr General Fund Balance			330	
	Cr Capital Adjustment Account				330



<b>3</b>	Understatement of liabilities	F			
	Being the understatement of creditor balances relating works carried out before year end				
	Dr Assets under construction			898	
	Cr Accounts payable				898
	<b>Total uncorrected misstatements</b>		<b>0</b>	<b>330</b>	<b>1,712</b>
					<b>1,382</b>



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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