

# *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 2015 (*ISA (UK&I) 260*)

Government and  
Public Sector

September 2015

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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.*

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*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.*

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# **Executive summary**

## **Background**

This report tells you about the significant findings from our audit. We presented our plan to you in March 2015; we have reviewed the plan and the only change has been to change the elevated risk in our audit plan around financial sustainability to a significant risk following guidance issued by the Financial Reporting Council. This is considered in more detail on page 15.

## **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 by 30 September 2015. However, we expect to have to modify our opinion on VfM as a consequence of the Ofsted report issued on 1 September 2015.
- The key outstanding matters, where our work has commenced but is not yet finalised, are:
  - receipt of the pensions assurance letter from Mazars;
  - 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 10.

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 25 September 2015. Attending the meeting from PwC will be Greg Wilson and Nicola Brown.

# Audit approach

Our audit approach was set out in our audit plan which we presented to you in March 2015.

We have summarised below the significant and elevated 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
<p><b>Management override of controls</b></p> <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.</p> <p>Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	Significant	<p>We performed procedures to:</p> <ul style="list-style-type: none"> <li>Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li> <li>Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus;</li> <li>Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);</li> <li>Evaluate the business rationale underlying significant transactions outside the normal course of business; and</li> <li>Perform unpredictable procedures targeted on fraud risks.</li> </ul>	We have not noted any issues from work performed to date.

Risk	Categorisation	Audit approach	Results of work performed
<p data-bbox="633 215 875 363"><b>Risk of fraud in revenue and expenditure recognition including the ongoing financial position</b></p> <p data-bbox="633 403 893 499">Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p data-bbox="633 507 887 608">We extend this presumption to the recognition of expenditure in local government.</p> <p data-bbox="633 632 893 826">There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported financial position.</p> <p data-bbox="633 850 893 1332">The Authority continues to experience increased pressures on many of its budgets as economic conditions have worsened and funding for local authorities is squeezed. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes. Local government bodies continue to be expected to make significant efficiency savings over the coming years, on top of those of those already delivered.</p>	<p data-bbox="981 215 1077 239">Significant</p>	<p data-bbox="1176 215 1603 239">We performed the following audit procedures:</p> <ul data-bbox="1176 263 1630 662" style="list-style-type: none"> <li data-bbox="1176 263 1630 343">• Obtained an understanding of revenue and expenditure controls to confirm that they are operating effectively;</li> <li data-bbox="1176 343 1630 486">• Evaluated and tested the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting;</li> <li data-bbox="1176 486 1630 582">• Performed detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk;</li> <li data-bbox="1176 582 1630 662">• Reviewed the Authority's budget monitoring processes to identify any areas of concern.</li> </ul> <p data-bbox="1176 710 1630 805">As part of our value for money work, as well as our work on financial standing, we considered the Council's savings plans and consider their robustness.</p> <p data-bbox="1176 829 1630 901">We also considered the impact of the efficiency challenge on the recognition of both income and expenditure.</p>	<p data-bbox="1653 215 2107 287">We have not noted any issues from work performed to date in our work around the risk of fraud in revenue and expenditure recognition.</p>

## Valuation of Property, Plant & Equipment

Property, Plant and Equipment is the largest figure on the Authority's Balance Sheet. Economic conditions continue to be uncertain, which has a potential impact upon the valuation of your property, plant and equipment.

Whilst you are only required to re-value your assets at least once every 5 years, there is a requirement to assess the carrying value of your assets for impairment every year.

ISAs (UK&I) 500 and 540 require us to undertake certain procedures on the use of external expert valuers, processes and assumptions underlying fair value estimates.

Specific areas of risk include:

- The accuracy and completeness of detailed information on assets.
- Whether the Authority's assumptions underlying the classification of properties are appropriate
- The valuer's methodology, assumptions and underlying data, and our access to these.

## Significant

We audited additions, disposals, and impairments and also considered the accounting treatment of PFI services as part of our work.

We extended our procedures to include a deeper focus on the nature of your estimation techniques and the evidence for them which included the involvement of one of our valuation specialists.

As part of year-end procedures we reviewed management's working papers which supported adjustments to the carrying value of fixed assets. This will included considering the result of any impairment review performed and its implications to the wider estate.

During testing performed on the valuation of council properties, it was noted that the number of properties subject to valuation was overstated by 127, resulting in an overstatement of the valuation of property plant and equipment.

As a result, management performed a full reconciliation between Orchard housing rents system, which contains data in relation to each property, through to the valuation in order to establish the value of the overstatement. Following this exercise it was established that there was an overstatement of £2.97m.

We performed testing on the reconciliation performed to ensure the adjustment was appropriate. For a sample of properties we ensured that the correct value had been assigned to each property. We noted no issues from the testing performed.

A control recommendation has been included within Appendix 1 of this report that going forward there should be a full reconciliation performed between the housing system and the number and type of council properties which are to be valued to ensure the valuation of the properties is accurate.

**Medium Term Financial Plan**

Auditors should consider the risk that failure to set a realistic Medium Term Financial Plan (MTFP) and achieve its savings plan may indicate that the Authority is unable to demonstrate its financial resilience.

The Authority has further challenging savings targets to achieve over the MTFP period which are combined with changes in the way the Council is funded, in particular in relation the Business Rates.

The Council has had to utilise its reserves in previous years in order to achieve a balanced budget position.



**Significant**

In forming our conclusion on economy, efficiency and effectiveness, we reviewed the Authority's MTFP. In particular, we focussed on:

- how the Authority has managed its 2014/15 savings programme;
- the key assumptions included in the MTFP, comparing these assumptions with best practice and those used by other local authorities;
- the prioritisation of resources as part of the MTFP;
- the arrangements to review the value for money which the Authority's services provide; and
- 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.

The Council has faced significant challenges in recent years due to a requirement to significantly reduce expenditure, whilst ensuring that services are delivered effectively. The council has reduced expenditure by around £33.7m since 2010, and has plans in place to further reduce expenditure levels by £10.3m over the next two years. It is expected that by 2020 government funding will have been reduced by around £50m in real terms. The council have set the MTFP for 2014/15 using various assumptions in order to project expected future income and expenditure levels into the future.

The Council has put in place and approved the MTFP for through to 2019/20, and within this they have set out plans on how they expect to reduce costs over this period, and how gap between expected expenditure and projected income will be bridged. Currently the council proposes that they will need to utilise revenue reserves over the next two years (2015/16 and 2016/17) in order to bridge the gap. After this however, the council will need to source additional savings in order to meet expected income. The Council has previously accurately forecast expenditure and income in the short term, with the local authority meeting budget or coming under budget in previous years. This indicates that the council have robust budget setting processes in place. In addition, the council have been successful in identifying and implementing expenditure reductions within its services.

In 2013/14, the Council identified a strategy to order to ensure statutory services can be delivered, whilst ensuring that discretionary services can be continued to come extent. They identified that savings of £13.7m were required over the three year period to 2016/17. £3.6m of this has been delivered in 2014/15. The MTFP sets out various initiatives that have been considered of ways in which future expenditure can be reduced, for example, by re-designing the way that services are delivered.

Management have used various assumptions in its future estimates, for example, the expected value of government revenue grants each financial year and future levels of demand for the Council's services. It is noted that in the short term there is more certainty over these assumptions, however in the medium term,

these assumptions become more uncertain. For example, changes to government policy may result in reductions to grant funding received. However as part of our work we have considered the reasonableness of the assumptions made and concluded that based on current information they appear reasonable.

As part of our work, we have assessed the procedures in place to manage the savings programme in 2014/15, considered how future savings plans have been developed including considering assumptions used within this assessment, and how resources are prioritised. We noted that management have arrangements in place to identify future savings in order to reach required levels of savings until 2016/17, and have noted that historically management have been successful in delivering savings plans in line with the MTFP. We consider the assumptions used within the MTFP to be reasonable.

We have also carried out procedures as part of our value for money work to assess arrangements in place to secure the economy, efficiency and effectiveness of resources. It should be noted that in the medium term the council will face increased pressures on services in order to deliver future savings plans and to identify future savings.

The Council was subject to an Ofsted inspection of its Children's Services in June/July 2015, with the final results being published on 1 September 2015. This resulted in the Council being provided with an overall "inadequate" rating. Having considered the matters identified in this report, and discussed the Ofsted report with senior executives, we believe that the report highlights that Children's Services has not been delivered effectively and consequently our opinion will be modified in this respect. We are currently working with management to ensure that the Ofsted report and the Authority's subsequent actions are appropriately disclosed within the annual report and governance statement.

Other than the issue identified above, we have not noted any other issues in relation to the arrangements in place to secure the economy, efficiency and effectiveness during the period.



Risk	Categorisation	Audit approach	Results of work performed
<p><b>Valuation of pensions liability</b></p> <p>The value of the pension liability is calculated by reference to actuarial assumptions for items such as discount rates and life expectancy. There are a range of assumptions which can be used by actuaries depending upon the individual circumstances of the scheme, and a change of a percentage point in the assumptions can have a significant financial impact.</p>	Elevated	<p>We performed procedures to:</p> <ul style="list-style-type: none"> <li>Consider the assumptions applied by the actuaries in their valuation of the pension scheme, and whether these are consistent with industry norms.</li> <li>Assess where assumptions fall outside our range of expectations then we will discuss with management why these have been used and assess the impact on the financial statements.</li> </ul>	We have not noted any issues in our work to date.

Risk	Categorisation	Audit approach	Results of work performed
<p><b>Accounting for Voluntary Aided (VA) and Voluntary Controlled (VC) schools</b></p> <p>The Authority has a portfolio of three VA/VC schools which are owned by religious organisations but occupied by local authority controlled schools. These assets are not currently held on the Authority's balance sheet.</p> <p>In December 2014 CIPFA issued LAAP bulletin 101 (Accounting for Non-Current Assets used by Local Authority Maintained Schools). The aim of this bulletin was to provide additional guidance to help clarify the accounting arrangements for VA/VC schools.</p> <p>The main factor in determining whether the schools off the Authority's balance sheet is the level of "control" that the Authority has over these assets.</p>	Elevated	We discussed the Authority's proposed approach for accounting for VA and VC schools and reviewed the initial assessment provided by management and correspondence with the diocese.	<p>The CIPFA bulleting confirms that where an authority holds a "mere license" then the risks and rewards of ownership are not deemed to have transferred to the authority and therefore the schools should not be recognised on balance sheet.</p> <p>The Authority has received confirmation from the diocese that the VA/VC schools are deemed to be operating on a "mere license" and it is therefore deemed appropriate that these schools remain off balance sheet.</p>

### *Intelligent scoping*

In our audit plan presented to you in March 2015 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality varied because we updated our calculations based on the actual results included in the draft statement of accounts presented for audit.

Our revised materiality levels are as follows:

	£
Overall materiality	3,520,139
Clearly trivial reporting de minimis	100,000

Overall materiality has been set at 2% of actual expenditure for the year ended 31 March 2015.

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 2015.

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# *Significant audit and accounting matters*

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action. We have set out below the most significant matters that we identified as part of our audit

## *Valuation of Council Dwellings*

During the course of our audit work, we identified that the number of Council dwellings included in the valuation portfolio, exceeded the number of properties retained in Orchard (the housing rental system) by 127. Management subsequently performed a reconciliation between the properties included in the valuation and Orchard and identified that the total valuation of Council Dwellings was overstated by 127 of properties which meant that the draft accounts were overstated by £2.970m and this has been amended in the final version of the accounts.

## *Capital grants unapplied account*

A project is being undertaken in conjunction with the other Tees Valley local authorities to deliver capital projects in relation to road infrastructure, funded by grant income from the Department for Transport (DfT). The Council has incurred approximately £3.5m expenditure on the project to date (£3.2m of which was incurred in 2014/15); however the grant income has not yet been received from DfT.

The Council recognised £3.2m of grant income in the capital grants unapplied (CGU) account; however as the grant income has not actually been received this is resulting in an understatement of the CGU balance as it is offsetting against other unrelated grants (where grant income has been received but not yet spent).

Management has performed an exercise and identified that an amount of £3.5m has been incorrectly offset against unrelated accounts and this has been amended in the final version of the accounts.

## *Revenue expenditure funded by capital under statute*

The Council incurs expenditure on adaptations to non-council properties for adaptations to homes. This is Revenue Expenditure Funded by Capital Under Statute (REFCUS) and has been funded by grant income.

The grant income was accounted for as a capital grant in the draft accounts when in fact it should be recorded as a revenue grant, and therefore credited to the associated service lines. Management has amended the final draft of the accounts to reclassify £0.8m of REFCUS as revenue grant income in 2014/15 and restate the 2013/14 comparative values by reclassifying £4.4m of REFCUS to revenue grant income.

## *Children's Services Ofsted inspection*

The Council was subject to an Ofsted inspection of its Children's Services in June/July 2015, with the final results being published on 1 September 2015. This resulted in the Council being provided with an overall "inadequate" rating. Having considered the matters identified in this report, and discussed the Ofsted report with senior executives, we believe that the report highlights that Children's Services has not been delivered effectively and consequently our opinion will be modified in this respect. We are currently working with management to ensure that the Ofsted report and the Authority's subsequent actions are appropriately disclosed within the AGS.

## *Accounts*

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

- receipt of the pensions assurance letter from Mazars;
- 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 on the financial statements.

As the expenditure of the Council is below the threshold specified by the NAO for the work Whole of Government Accounts schedules submitted to the Department for Communities and Local Government we have not been required to perform any work in this area.

## *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. Management have corrected all misstatements identified as part of our audit.

We bring to your attention the misstatements set out in Appendix 1 to this report which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

## *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. We did not identify any inappropriate accounting policies or inappropriate application of accounting policies as part of our work.

## *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 (see page 5); and
- Pensions liabilities (see page 8).

We have set out our work performed in these areas in the ‘Audit Approach’ section of this report and our conclusions on these judgments is that the assumptions used by management are reasonable and in line with our expectations.

### *Management representations*

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

### *Financial standing*

There were no material uncertainties related to events and conditions that may cast significant doubt on the entity's financial standing at this point in time; however we do recognise that in the medium to long term the Council will need to make significant financial savings and rely on its reserves to bridge the budget gap.

### *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.

We worked with management to improve the disclosure in the accounts to ensure that all relevant transactions and balances were appropriately disclosed.

### *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 between PwC and the Authority*

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

### *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

### *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 Group as set out in our Audit Plan presented to the Audit Committee in January 2015.

### *Fees*

The analysis of our audit and non-audit fees for the year ended 31 March 2015 is included on page 18. 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". The AGS accompanies the Statement of Accounts.

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. Our review of the AGS led to discussions around the following significant areas:

As noted on page 7 of this report, The Council were subject to an inspection of Children's Services in June/July 2015. We believe that the report highlights that Children's Services has not been delivered effectively and consequently our opinion will be modified in this respect. We are currently working with management to ensure that the Ofsted report and the Authority's subsequent actions are appropriately disclosed within the AGS.

### *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.

We anticipate issuing a modified value for money conclusion due to the matters identified by Ofsted during their review of Children's Services.



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# 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 significant internal control deficiencies

Deficiency	Recommendation	Management's response
<b>Related Party Transactions</b> The members' interest forms require members to disclose all interests in other organisation but not the nature of these interests. This means that significant time and judgement is required by management when pulling together the related parties disclosure for the accounts.	We recommend that the members' interest forms are updated to require members to disclose the nature of their interest to streamline the process for compiling the related parties information for the accounts.	Agreed - The Head of Legal Services to review the design of members' interest's forms.
<b>Council dwellings valuation</b> During work performed on the valuation of Council properties, it was noted that the number of properties used in the valuation were overstated by 127, resulting in an overstatement of the valuation by £2.970m. This was due to a full reconciliation not being performed between the Orchard housing rents system and the number of properties used within the valuation.	A reconciliation should be performed at each valuation between the number of Council properties recorded onto the Orchard system and the number and type of properties used within the year end valuation, to ensure any additions or disposals are taken into account within the valuation.	Agreed - a procedure has been put in place so that the appropriate changes are made to the valuation data to ensure that it agrees with the Orchard system before the Valuation.

### **Agresso access controls**

When performing testing on a sample of staff who have left the Council to ensure their access had been removed, we found issues with the timeliness of removal of leavers from the Agresso application.

Out of a sample of 25 leavers, five were found to not have timely removal of access. We reviewed the last logon date, and there was one employee who had logged on after their leave date. This was further investigated, and it was noted that this was due to the employee logging onto the system to post expense claims, and we confirmed that they were unable to post accounting transactions to Agresso in their role.

Staff should be removed from Agresso on a timely basis once they have left employment.

Agreed - there are now processes in place to comply with this recommendation.

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# *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.

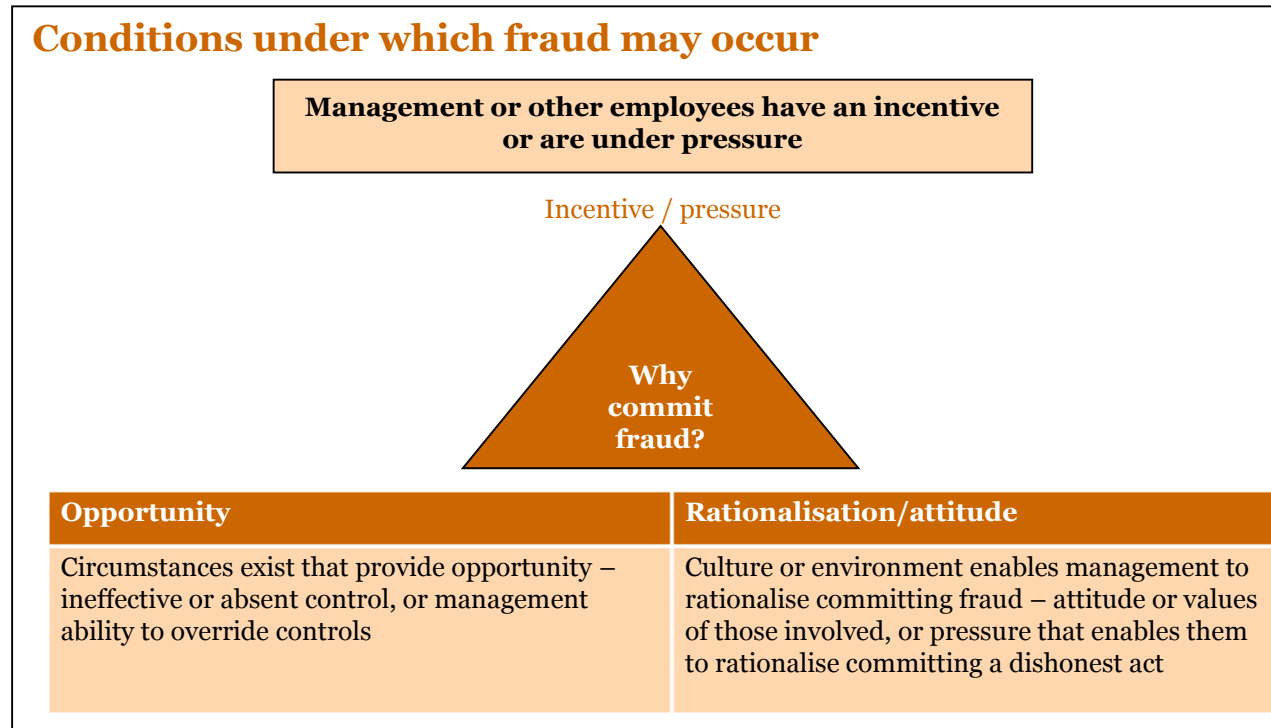
## Your views on fraud

In our audit plan presented to the Audit Committee in January 2015 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.



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# ***Fees update***

## *Fees update for 2014/15*

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 2014/15 and will be reported to those charged with governance in December 2015 within the Certification Report to Management in relation to 2014/15 grants.

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# *Appendices*

# Appendix 1: Summary of significant corrected misstatements

We found the following misstatements during the audit that have been adjusted by management but of which we believe you should be aware for you to effectively discharge your responsibilities as those charged with governance.

No	Description of misstatement (factual, judgemental, projected)	Income statement £'000		Balance sheet £'000	
		Dr	Cr	Dr	Cr
1	Dr I&E HRA account Cr Property plant and equipment – council dwellings Being an adjustment for the overstatement of the valuation council properties (see control recommendation 2 on page 15)	F		2,970	2,970
2	Dr Taxation and non-specific grant income Cr Service Lines in I&E: Adult Social Care Housing General Fund Housing Revenue Account Children and Education Services Cultural and Related Services Being an adjustment to reclassify grant income in the income and expenditure account from capital grant income to revenue grant income within each service line	F	769		
				60	
				210	
				19	
				471	
				9	
3	Correction of previous treatment: Dr Capital Adjustment Account (CAA) Cr Capital Grants Unapplied (CGU)  Revised accounting entries: Dr Accrued income Cr CIES – Taxation and non-specific grant income Dr General Fund Cr CAA	F			
				3,200	
					3,200
				3,200	
					3,200
				3,200	
					3,200

Being an adjustment to reclassify debit balances in the CGU into accrued income.

4	Dr Short term investments			3,000	
	Cr Cash and cash equivalents				3,000
	Being adjustment to Reclassify cash balances to short term investments				
<b>Total corrected misstatements</b>		<b>769</b>	<b>3,969</b>	<b>15,570</b>	<b>12,370</b>



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

[Entity letterhead]

### ***PricewaterhouseCoopers LLP***

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 2015**

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 2015 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 2014/15 supported by the Service Reporting Code of Practice 2014/15.

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 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 2013/14 supported by the Service Reporting Code of Practice 2014/15; 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 2014/15 requires adjustment or disclosure have been adjusted or disclosed.
- The restatement made to correct a material misstatement in the prior period Statement of Accounts that affects the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

### ***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 the 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. 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 2014/15.

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 2014/15.

### ***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 for 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.

***Value for Money***

I confirm that except for the matters identified by Ofsted, I believe that our systems and processes have been efficient and effective throughout the year. I also confirm that the assumptions used in the production of the MTFP are appropriate and reasonable, and that in my view the authority is financially sustainable for the medium term.

***Subsequent events***

Other than the outcomes of the Ofsted inspection published on 1 September 2015, 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 and related party transactions**

- Central government
- 700 Club
- Bike Stop Darlington
- Darlington College
- Durham Tees Valley Airport
- Evolution
- First Stop Darlington Limited
- Hummersknott Academy Trust Limited
- Theatre Hullabaloo
- Darlington YMCA
- Darlington and District Youth and Community Association
- Groundwork North East Board
- Family Help Organisation
- Association of North East Councils
- Darlington Citizen Advice Bureau
- Local Government Association
- North East Regional Employers Organisation
- Parking and Traffic Regulations Outside London
- Tees Valley YMCA
- Northern Housing Consortium
- Association of Councillors
- Darlington Town Twinning Association
- North East Highways Training Centre – Management Committee
- Darlington Community Carnival Committee
- Combined Fire Authority
- NHS



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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