

Darlington Borough Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP



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Public Sector Audit Appointments Ltd (“PSAA”) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (“the Code”) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or associate partner contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Darlington Borough Council (“the Council”) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council’s: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the annual accounts.
Concluding on the Council’s arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council. However, the Annual Governance Statement was not presented with the draft financial statements when published by the Council for inspection. This is a requirement of the Accounts and Audit Regulations 2015.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

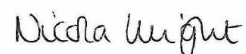
Area of Work	Conclusion
Reporting to the National Audit Office (“NAO”) on our review of the Council’s Whole of Government Accounts return (“WGA”)	The Council is below the specified audit threshold of £350 million, therefore we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit	Our Audit Results Report was issued on 21 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office’s 2015 Code of Audit Practice	Our certificate was issued on 21 September 2017.

In December 2017, we will issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council’s staff for their assistance during the course of our work.



Nicola Wright
Associate Partner
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 21 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 24 March 2017 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2016/17 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the Annual Governance Statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office ("NAO") on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million, therefore we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its Statement of Accounts accompanied by an Annual Governance Statement (“AGS”). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Statement Audit



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 21 September 2017.

Our detailed findings were reported to the 21 September 2017 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We performed the following procedures to mitigate the risk:</p> <ul style="list-style-type: none">• We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;• We reviewed accounting estimates for evidence of management bias; and• We evaluated the business rationale for any significant unusual transactions. <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

Significant Risk	Conclusion
<p>Revenue and expenditure recognition</p> <p>Auditing standards also require us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and cut-off at the year end.</p>	<p>We performed the following procedures to mitigate the risk:</p> <ul style="list-style-type: none"> • We reviewed and tested revenue and expenditure recognition policies as part of our review of accounting policies; • We reviewed and substantively tested accounting estimates for evidence of management bias, including: <ul style="list-style-type: none"> • Year-end accruals; • Depreciation and impairment; • Valuations; and • Provisions; • We tested material expenditure streams, including testing revenue and capital expenditure to ensure it has been correctly classified; and • We tested revenue and expenditure cut-off before and after 31 March 2017. <p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.</p>
<p>Valuation of land and buildings</p> <p>As at 31 March 2017, the total value of land and buildings was £196 million which represents 54% of the Council's total assets.</p> <p>Land and buildings are initially measured at cost and then revalued to fair value. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.</p> <p>The valuations are based on a number of complex assumptions. Given the high value of these assets, a small change in these assumptions can lead to a material change in value and have a material impact on the financial statements.</p>	<p>In response to this risk we performed the following procedures:</p> <ul style="list-style-type: none"> • We reviewed the output of the Council's valuer, Kier; • We challenged the assumptions used by the Council's valuer, Kier, by reference to external evidence and the CIPFA Code of Practice on Local Authority Accounting; and • We have tested the journals for the valuation adjustments to check that they have been accurately processed in the financial statements. <p>Our testing did not identify any material misstatements within the valuation of land and buildings.</p>

During the performance of our audit, we also identified the following unadjusted misstatement:

Other Key Findings	Conclusion
<p>Council Tax debtors</p> <p>We identified that the Council Tax debtor included in the Northgate Council Tax system was £622,000 higher than the Council Tax debtor disclosed in the financial statements.</p>	<p>This difference was below our materiality level and as a result did not impact upon our audit opinion. However, we recommend that this difference is investigated and any appropriate amendments are made within the 2017/18 financial statements.</p>

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<p>Planning materiality</p>	<p>We determined planning materiality to be £5.174 million (2015/16: £5.7 million), which is 2% of gross expenditure reported in the accounts.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
<p>Reporting threshold</p>	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £277,000 (2015/16: £255,000).</p>

A close-up, shallow depth-of-field photograph of a stack of gold coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

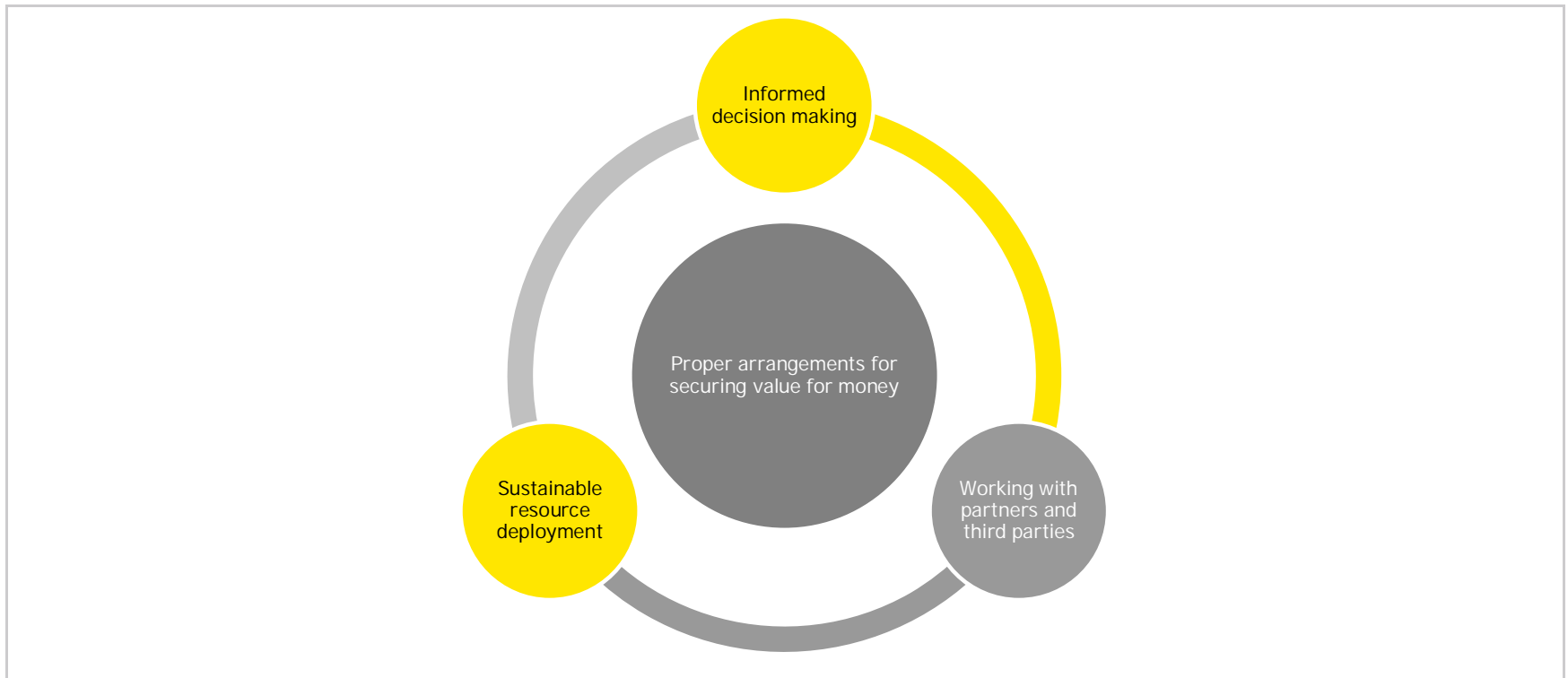
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We identified two significant risks in relation to these arrangements. The table below presents the findings of our work in response to the risks identified. Overall, we were satisfied that the Council has proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We therefore issued an unqualified value for money conclusion on 21 September 2017.

Significant Risk	Conclusion
<p>Financial Sustainability The Council faces a challenging set of financial circumstances, resulting from reductions in revenue made available from Central Government and additional budget pressures, including growing demand for services. The Council has produced a medium term financial plan that ensures it is able to provide all of its statutory services. However, as a result of further budget reductions and low levels of reserves there is a risk that unexpected cost pressures or unforeseen events may result in the Council being unable to deliver this plan.</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none"> • We obtained a copy of the latest medium term financial plan and tested the assumptions used; • We reviewed the 2016/17 outturn report that was presented to Cabinet in July 2017 and assessed whether the medium term financial plan and cost reduction plans are on target; • We assessed the Council’s level of reserves using our financial resilience tools; and • We selected a sample of cost reduction plans and tested the assumptions used to ensure the savings targets are reasonable. <p>Based on the testing performed, we are satisfied that there is no impact upon our VFM conclusion from this risk.</p>
<p>Children’s Services Ofsted Inspection The Council was subject to an Ofsted review in June and July 2015. This resulted in the Council being provided with an overall “inadequate” rating. The Council, along with external consultants, Red Quadrant, have developed an improvement plan to address the issues raised by Ofsted.</p>	<p>We have completed the following work in this area:</p> <ul style="list-style-type: none"> • We have received regular updates from senior officers during the year on the progress that has been made; and • We have reviewed the findings of the Ofsted monitoring visits that have taken place during the year. <p>The work undertaken has identified that processes and action plans have been developed and are being used by the Council to deal with the initial findings of the original Ofsted review. We are satisfied that there is no impact upon our VFM conclusion.</p>



Other Reporting
Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million, therefore we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We were satisfied that the Annual Governance Statement was consistent with other information from our audit of the financial statements. However, we identified that the draft Annual Governance Statement was not published with the draft financial statements by the Council, which is a requirement of the Accounts and Audit Regulations 2015.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any matters which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from members of the public.

Other Powers and Duties

We identified no matters during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 21 September 2017. In our professional judgement, the firm is independent and the objectivity of the audit engagement associate partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
Early Close	The main area for change in the Audit and Accounts Regulations 2015 is the requirement for Councils to approve and publish their accounts by 31 May and 31 July respectively (currently 30 June and 30 September).	<p>It is imperative that there is early dialogue between the Council and your audit team to agree a planned approach to support you in achieving the challenges of early close. This dialogue will result in new ways of working, which could include:</p> <ul style="list-style-type: none"> • Increased focus on data quality to minimise reworking and adjustments at year-end; • A clear understanding of what information will help your audit team complete their year-end audit visit, for example a detailed client assistant schedule; • Consideration of what areas of the final accounts process can be delivered early and can be audited before the year-end, for example property valuations, material provisions and accruals, group boundary assessments and accounting policies; • Review of the Council’s accounting policies to assist the early close process, for example a de-minimis accruals policy; and • Consideration of ‘soft closes’ at key points during the year, for example month 6 and 9, to enable interim audits prior to year-end therefore spreading the work through the year and reducing the workload at year-end.

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by the PSAA and reported in our Audit Results Report.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	93,264	93,264	93,264	93,264
Total Audit Fee – Certification of Housing Benefit Subsidy Claim	TBC	11,525	11,525	8,911
Non-audit work – Certification of other claims*	TBC	6,200	N/A	6,200

* We have undertaken the certification of two claims that fall outside of the PSAA's requirements.

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ED None

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