

Darlington Borough Council 2008/09 Annual Audit Letter



The Members
The Audit Committee
Darlington Borough Council
Town Hall
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8 December 2009

We are pleased to present Members with this Annual Audit Letter which summarises the high level results from our 2008/09 audit.

Please contact Janet Eilbeck (0191 269 8493) if there any issues that you would like to discuss.

Yours faithfully

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

In April 2008 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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Introduction

The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Darlington Borough Council that is accessible for Members and other interested stakeholders.

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

- Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are those that we consider to be the most significant for the Authority.

Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- Forming an opinion on the financial statements;
- Reviewing the Authority's Annual Governance Statement;
- Forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- Undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued on 26 June 2009.

Audit findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009.

We found that the accounts production process adopted by officers was robust and that the accounts submitted for audit and the supporting working papers were of good quality.

Financial standing

It is the responsibility of the Council to conduct its financial affairs and to put in place proper arrangements to ensure that its financial standing is soundly based.

General Fund

General Fund net expenditure in 2008/09 was £132.3m against a budget of £133.7m - an underspend of £1.4m. Revenue balances at the year-end stood at £9.7m representing 7.2% of the Council's 2009/10 revenue budget (£135.5m). The budget for 2009/10 anticipates a contribution from reserves of £1.8m.

Housing Revenue Account

The Council planned to maintain the closing balance on the Housing Revenue Account at £0.5m during 2008/09. The year-end balance was £0.8m. The increase was due to some slippage of the capital programme resulting in reduced financing costs.

Collection Fund

The total income on the Collection Fund for 2008/09 was £75.7m against expenditure of £75.9m - leading to a deficit of £0.2m for the year and an overall deficit of £0.6m on the account.

The following table sets out the Council's collection rates for Council Tax and National Non-Domestic Rates (NDR) in 2007/08 and 2008/09 and compares the 2008/09 results with the average for all unitary authorities:

	Darlington BC 2007/08	Darlington BC 2008/09	All unitary authorities – 2008/09
Council Tax	96.6%	96.8%	96.7%
NDR	99.0%	98.3%	97.5%

The data indicate that the Council is performing, at least, in line with other unitary authorities.

Capital Programme

The Council's capital expenditure for 2008/09 totalled £49.2m. This was funded as follows:

Description	£m
Capital grants	28.6
Capital contributions	1.9
HRA – Major Repairs Allowance	3.9
Supported borrowing	4.1
Unsupported borrowing	6.1
Capital receipts	0.9
Revenue contributions	3.2
Borrowing for leasable assets	0.5
TOTAL	49.2

Use of Resources

During 2009, we assessed the Council's use of resources in accordance with the new methodology and guidance prescribed by the Audit Commission. The revised framework forms part of the Comprehensive Area Assessment and comprises the following three themes:

- Sound strategic financial management;
- Strategic commissioning and good governance; and
- The management of natural resources, assets, and people.

Note that, in contrast to previous years, value for money does not appear as a separate theme and is not scored in isolation. Instead, VfM is considered throughout the assessment. This is illustrated in the figure below:



We evaluated the Council's Use of Resources arrangements against criteria set by the Audit Commission in underlying Key Lines of Enquiry (KLoE) and reached a score for each KLoE based on the following definitions:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements – performs adequately
- 3 Exceeds minimum requirements – performs well; or
- 4 Significantly exceeds requirements – performs excellently.

The scores for these KLoEs determine the score for each theme, using rules issued by the Commission. The Commission then determines an overall score for the Authority. The aggregate score for Darlington Borough Council in 2008/09 was "3" – exceeds minimum requirements – performs well.

Managing finances

We have scored the KLoEs for managing finances as follows:

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	2
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	3
Overall score for this theme		3

We found that the Council's processes for managing finances are robust. Budget setting and financial planning are generally sound and financial reporting is timely and accurate.

Governing the business

We have scored the KLoEs for governing the business as follows:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	2
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance	3
2.3	The Authority promotes and demonstrates the principles and values of good governance	3
2.4	The Authority manages its risks and maintains a sound system of internal control	3
Overall score for this theme		3

Overall we found the Council had comprehensive arrangements in place to govern the organisation. Procurement processes are generally robust, arrangements are in place to secure data quality and systems of governance and internal control are sound.

Managing resources

We have scored the KLoEs for managing resources as follows:

Key Line of Enquiry		Score
3.1	The Authority makes effective use of natural resources.	2
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs.	2
3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities*	n/a
Overall score for this theme		2

[*Note: KLoE 3.3 was not assessed in 2008/09 for single tier and county councils.]

We found that the Council's approach to managing natural resources and public assets was adequate.

Value for Money Conclusion

The statutory Code of Audit Practice for local government bodies requires auditors to conclude on whether or not audited bodies have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. This is the Value for Money conclusion. It is based on judgements made against nine specified criteria assessed under the detailed Use of Resources framework described above. We addressed "yes" or "no" questions to each of the nine criteria – that is, whether the Council had proper arrangements in place or not. A "no" judgement would result only in the circumstance in which the performance was judged at level "1" for the Use of Resources assessment.

The results underpinning our 2008/09 Value for Money conclusion at Darlington Borough Council were as follows:

Key Line of Enquiry		Proper arrangements in place (yes/no)?
Managing finances		
1.1	Planning for financial health	Yes
1.2	Understanding costs and achieving efficiencies	Yes
1.3	Financial reporting	Yes
Governing the business		
2.1	Commissioning and procurement	Yes
2.2	Use of information	Yes
2.3	Good governance	Yes
2.4	Risk management and internal control	Yes
Managing resources		
3.1	Natural resources	Yes
3.2	Strategic asset management	Yes

Based on these judgements, we issued an unqualified conclusion that stated:

"we are satisfied that, in all significant respects, Darlington Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009"

Our conclusion was published with the Council's 2008/09 Statement of Accounts.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) in a format that is consistent with guidance issued by CIPFA/SOLACE. Darlington Borough Council's 2008/09 AGS was published with the

Statement of Accounts.

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

Targeted audit work

In our planning risk assessment at the outset of the 2008/09 audit we identified the following areas for detailed review:

- Strategic Partnership with Stockton Borough Council (Xentrall) - we worked closely with officers involved with the partnership, as well as with internal audit at both authorities, to gain an understanding of governance arrangements in place and to determine whether controls over transactional finance were operating effectively. The Audit Commission, as auditors of Stockton Borough Council, has reviewed the effectiveness of IT general controls in operation in Xentrall. No significant concerns were raised as a result of this work.
- New General Ledger System – a new General Ledger system was implemented by the Council on 1 April 2008 presenting a specific risk that balances may not have been transferred accurately or completely to the new system resulting in errors in the 2008/09 accounts. We reviewed the data transfer arrangements adopted during the implementation and considered the Council's own assurance procedures on the completeness and accuracy of data transfer. We did not identify any audit issues arising from the implementation of the new system.

Treasury Management

As part of our work on Use of Resources we carried out a review of the Council's Treasury Management arrangements. We did not identify any significant issues in the course of this review.

Members' allowances

As part of our work on Use of Resources we reviewed the authority's processes related to Members' allowances and whether appropriate disclosures had been made in relation to the allowances. We did not identify any issues.

National Fraud Initiative

The National Fraud Initiative (NFI) is a process which involves the interrogation of data held on individuals to identify circumstances which may indicate fraudulent activity. For example, records of deaths can be matched to the details of Blue Badge holders to identify anomalies. NFI is managed by the Audit Commission, but certain significant matches of data that might be indicative of fraud are referred to local authorities for detailed follow-up. We reviewed the approach taken at Darlington Borough Council to process NFI referrals. We found that the Council's approach to NFI was robust and we made no recommendations for improvements to the processes in place.

Matters affecting future periods

Financial pressures on local authorities

Local authorities are facing a period of significant financial challenge generated through increasing demands for services coupled with anticipated reductions in funding. Some of the generic factors influencing this are:

- Pressure on local funding and income generation;
- Pressure on central funding;
- Impact of the downturn on citizens and businesses;
- Diminishing capital receipts;
- Demographic and policy issues leading to increased demands on services;
- Increasing pressures on partner organisations.

Some authorities have estimated that, to address these challenges, operating cost savings in the order of 20 to 30% will have to be made over the next 2 to 3 years. Responding to this will require a suite of approaches that may, depending on the individual circumstances of each authority, include:

- Increased focus on the efficiency agenda;
- Targeted service improvement initiatives;
- Council-wide adaptations in the business model for the delivery of services;

- Enhanced working with partners and other public sector bodies; and
- Service prioritisation.

Transition to International Financial Reporting Standards (IFRS)

CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009. The authority needs to have values for assets and transactions as they should be recognised under IFRS from this date.

The Authority needs to ensure that it has a good understanding of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code.

In our experience the key features of a successful IFRS conversion project have proved to be:

- Completed impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;
- Operational steering and technical groups;
- Cabinet/Audit Committee oversight;

- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all Members and officers with IFRS involvement.

To date, we have worked with the Council to support officers and Members with IFRS as they embark upon the early stages of the transition. This has included:

- Reviewing proposals from the project team on their suggested approach and treatment of items under IFRS;
- Offering guidance and support based on our experience in other sectors, in particular the NHS and Central Government;
- Meeting regularly with officers to discuss progress on the transition; and
- Providing initial training to Members and officers on the implications of IFRS.

As the transition progresses, we will maintain this approach. We will also report to the Audit Committee the results of our audit work on the first phase of the transition, which will consist of the restatement of the opening 1 April 2009 balance sheet, and offer our initial thoughts and findings on how the Council is progressing.

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

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