

Darlington Borough Council

2003/04 Audit Service Plan

April 2004

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Statement of Responsibilities of Auditors and of Audited Bodies

In April 2000 the Audit Commission issued a revised version of the Statement of Responsibilities of Auditors and Audited Bodies. 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 are prepared in the context of this statement. Reports prepared by appointed auditors and addressed to Members and/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.

I. Introduction

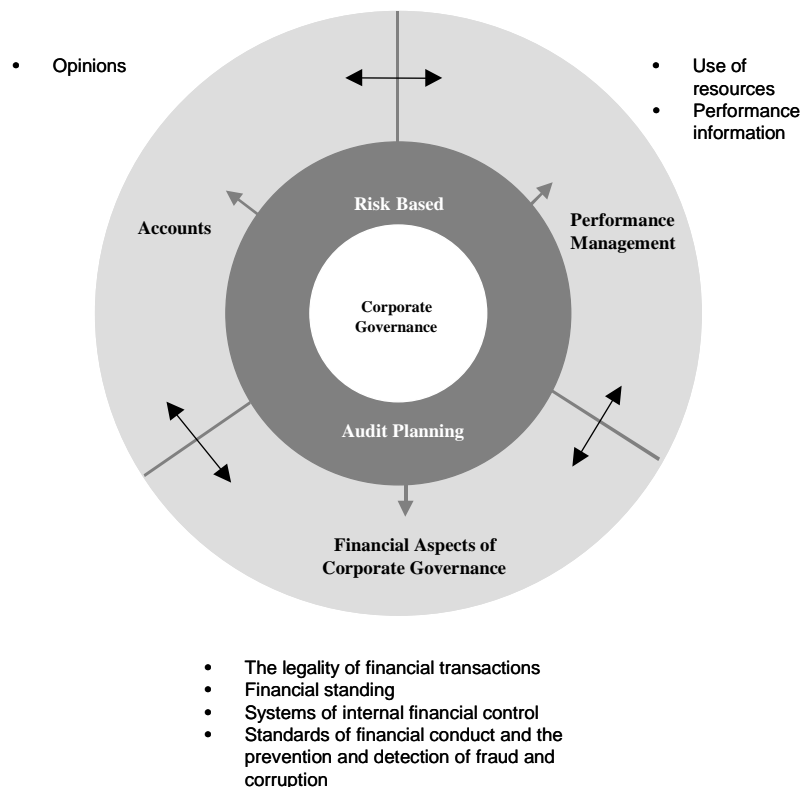
The Audit Commission has changed the audit year to match with the financial year of local government bodies. This resulted in an initial 17-month period, running from November 2002 to March 2004 which covered two audit years – i.e. 2002/03 and 2003/04. We presented our 2002/03 audit service plan to Cabinet on 10 June 2003. Given the dynamic environment in which you operate, we recognise that the issues facing the Council may change over the 17-month period. In order to fulfil our statutory responsibilities for the 2003/04 financial year we therefore undertook to review the risks identified within the 2002/03 audit service plan to ensure that they are still appropriate. The aim of this audit service plan is to inform you of any changes that have arisen and to notify you of the revised set of risks we have identified and our proposed response to these risks.

Every local authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Council, and is discharged by managing the Council's affairs in order to:

- secure economy, efficiency and effectiveness in the use of resources;
- safeguard assets against unauthorised use or disposal;
- maintain proper accounting records;
- ensure the reliability of financial information used within the organisation or for external publication;
- ensure that the organisation has an appropriate system of internal financial control;
- ensure that proper arrangements have been implemented to guarantee the proper conduct of its financial affairs;
- conduct its financial affairs and put in place proper arrangements to ensure that its financial standing is soundly based; and
- ensure that the organisation prepares and publishes specified performance information and an annual Best Value Performance Plan.

Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code").

The Code of Audit Practice



Accounts

It is the responsibility of the Council and its officers to prepare the accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the accounts.

Financial Aspects of Corporate Governance

It is the responsibility of the Council to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the Council's corporate governance arrangements, as they relate to:

- (a) the legality of transactions with significant financial consequences;
- (b) the financial standing of the Council;
- (c) systems of internal financial control; and
- (d) standards of financial conduct, and the prevention and detection of fraud and corruption.

Performance Management

It is the responsibility of the Council to put in place proper arrangements to manage its performance and to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Council has put in place to secure economy, efficiency and effectiveness in its use of resources. We also have a responsibility to review and report on:

- (a) the arrangements that the Council has put in place to prepare and publish specified performance information; and
- (b) the Council's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

II. Developments since the presentation of the 2002/03 audit service plan

Change in the audit year

As a result of the change in the audit year, the work that will be covered during the initial 17-month period is as follows:

Audit work	2002/03 audit year	2003/04 audit year
Accounts	✓	✓
Financial aspects or corporate governance	✓	✓
Best value performance plan	✓	-
Best value performance indicators	✓	-
Performance audit work (risk-based)	✓	✓

Risk assessment

The Council has identified a number of improvement priorities in conjunction with its partners – improving the local economy, raising educational achievement, promoting inclusive communities and enhancing the Council's capacity to improve. Specific improvement actions identified by the Council include relocating the DLO depot, project managing strategic developments (e.g. Haughton Road, Commercial Street and the town centre), reviewing the current configuration of both primary and secondary school, piloting children's trusts and extended schools, managing the Council's exposure to equal pay claims, implementing the access to services improvement plan and continuing to improve procurement arrangements. We have revisited the key business and audit risks identified in the 2002/03 audit service plan in the light of changes to the legislative, regulatory and political environment faced by the Council. The updated risk assessment and our proposed response to these risks is set out in Section III.

Audit and inspection regime

Since the presentation of the 2002/03 audit service plan to Cabinet on 10 June 2003, the Council has volunteered to be involved in a joint audit and inspection pilot being carried out by the Audit Commission. This pilot will cover the 2003/04 and 2004/05 financial years. The aim of the pilot is to further join up the audit and inspection regimes at the Council with inspection work being undertaken by PricewaterhouseCoopers with the Audit Commission's relationship manager retaining her role. Although the pilot is still in its infancy, PricewaterhouseCoopers have already undertaken some inspection work at the Council, namely a qualitative assessment of the BVPP published in December 2003 and a regular performance assessment of the environment CPA sub-block (covering planning, waste management and transport). Further inspection work on transport and housing is planned for 2004/05.

III. The key audit risks

To determine the nature and extent of the core audit work required we have considered each area of operations and assessed the extent that we believe there are potential business and audit risks that relate to one or more of our Code objectives. We have then considered our understanding of how management's control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is the responsibility of the Council to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we consider and assess the significant operational and financial risks that are relevant to our responsibilities under the Code. **This exercise is only performed to the extent required to plan the audit. It is not designed to identify all risks affecting the operations of the Council or all internal control weaknesses.**

The following tables summarise the results of our risk assessment in terms of the significant financial and operational risks facing the Council and our planned response (items in italics will be carried out as part of the 2004/05 audit and are shown in this audit service plan for information only).

Risks	Our proposed response	Code objective(s)
<p><i>Performance management</i></p> <p>The Council responded to the 2002 CPA assessment by developing an improvement plan to address identified weaknesses and secure improvements in services to users and the community. One area identified in the improvements plan was further development of service planning and performance management focusing on the implementation of the 'Striving for Excellence' performance management framework.</p>	<p>We will review the progress made by the Council on implementing PerformancePlus and the impact it makes on performance management.</p>	<p>Performance</p>
<p><i>2004 CPA</i></p> <p><i>Following the 2003 CPA assessment, the Council has continued to develop its improvements agenda in preparation for a proportionate corporate assessment in October 2004.</i></p>	<p><i>We will work with the Audit Commission's corporate assessment team as appropriate.</i></p>	<p><i>All</i></p>
<p><i>Managing equal pay</i></p> <p>The Council is currently working through the implications of equal pay.</p>	<p>We will assist the Council to identify and manage the risks it faces in this area.</p>	<p>All</p>

Risks	Our proposed response	Code objective(s)
<p><i>Education PFI</i></p> <p>The Council is in the process of developing a significant PFI scheme involving the creation of an ‘education village’ with seven new schools.</p>	<p>We will review the procurement process followed and the proposed accounting treatment to be adopted in respect of this scheme.</p>	<p>All</p>
<p><i>Prudential framework</i></p> <p>When the prudential framework was introduced on 1 April 2004, it replaced most of the statutorily defined controls over capital expenditure with limits and indicators based on balances recorded in the Council’s Consolidated Balance Sheet and projections of the consequences of capital investment on revenue accounts for future years.</p> <p>Substantial work will be required to meet the demands of the framework by designing and implementing new financial planning processes to develop affordable capital programmes, secure approval for them, and monitor and report on progress.</p> <p>As the starting point for many of the limits and indicators that will be required for the framework will be entries in the Council’s accounts (e.g. the capital financing requirement) or will depend on the Council’s accounting policies (e.g. the treatment of credit arrangements), it will be crucial to ensure that the policies and accounting treatments carried forward into the new framework are robust and fit for their new purpose.</p>	<p>We will assess the arrangements put in place to implement the prudential framework.</p>	<p>Accounts/ Governance</p>
<p><i>Statement on Internal Control</i></p> <p>The Accounts and Audit Regulations require the Council to prepare a Statement of Internal Control for the 2003/04 accounts and to undertake an effectiveness review in order to inform the production of the statement.</p>	<p>We will review in detail the relevant disclosures in the 2003/04 accounts and assess the consistency of the information with other information we are aware of.</p>	<p>Accounts/ Governance</p>

Risks	Our proposed response	Code objective(s)
<p><i>Accounts and Audit Regulations 2003</i></p> <p>The 2003 Regulations came into effect on 1 April 2003, and many of their provisions applied to the 2002/03 accounts and the administrative arrangements that surrounded them. These included a requirement for the presiding member to sign the accounts following their approval by members, and extension of the period for public inspection of the accounts from 15 to 20 days.</p> <p>The significant changes applicable for the 2003/04 accounts are as follows:</p> <ul style="list-style-type: none"> • the Council is required to have specific arrangements for the management of risk; • an annual review of the effectiveness of the system of internal control (see above); • internal audit to be carried out in accordance with the CIPFA Code of Practice for Internal Audit in Local Government; • the deadline for approval of the accounts by members will be brought forward by one month to 31 August and publication will be required 30 November; and • group accounts are now a direct statutory requirement where a local authority has a controlling interest in a company. Group accounting is also likely to be an important element in the prudential framework and CIPFA is intending to clarify the SORP's requirements for 2004/05. As a minimum, group accounts would need to be prepared in memorandum for 2003/04 in order to produce comparatives and opening figures for 2004/05. 	<p>We will review the relevant disclosures in and arrangements for the 2003/04 accounts.</p>	<p>Accounts / Governance</p>

Risks	Our proposed response	Code objective(s)
<p><i>Retirement benefits</i></p> <p>The Council will be required to incorporate transactions and balances based on the provisions of FRS 17 fully into its 2003/04 accounts. This will involve the recognition of the pensions asset/liability in the Consolidated Balance Sheet and the charging of the current service cost to service revenue accounts. In making the transitional disclosures in 2001/02 and 2002/03, the Council has become familiar with the process for commissioning the relevant figures and disclosing them in notes to the accounts. However, fully incorporating the transactions and balances into the accounts introduces new requirements that the changes are presented fairly and that they do not have an unintended impact on the Council's financial standing (particularly in terms of council tax and housing rents).</p>	<p>We will test this area in detail as part of our work on the 2003/04 accounts.</p>	<p>Accounts</p>

IV. Audit timetable and deliverables

We will liaise closely with officers to provide an efficient and effective audit process that adds value to the Council. We will produce a number of deliverables, as shown below:

Key deliverable	Topics covered	Planned Date
Report on financial aspects of corporate governance	<ul style="list-style-type: none"> Financial standing (excluding assessment of financial position); Legality of significant financial transactions; Systems of internal financial control; and Standards of financial conduct and prevention/detection of fraud and corruption.. 	31 July 2004
Specific reports on use of resources	Results of audit work and recommendations for improvement.	31 July 2004
Report on performance management arrangements	<ul style="list-style-type: none"> BVPP; Performance information; and Summary of work on use of resources. 	31 July 2004
Audit clearance issues summary	Issues noted during the audit of the Council's 2003/04 accounts.	30 September 2004
Opinion on the accounts	Opinion on whether the accounts present fairly the results for the year and the financial position at year-end.	30 September 2004
Annual audit letter	Summarising the results of our audit work and highlighting issues for the attention of Members.	31 October 2004

The achievement of the above timetable is dependent on our receiving timely and accurate information from officers. Failure to provide this will place meeting the targets at risk and may lead to additional costs.

V. **Communication of audit matters to those charged with governance**

Statement of Auditing Standard (SAS) 610: 'Communication of audit matters to those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications to them. We have assumed that 'those charged with governance' are the Cabinet. We intend to continue to communicate with the Cabinet in the following way:

- We will communicate to you any relationships that may bear on our independence and objectivity of the audit engagement partner and audit staff, and how we will deal with these issues;
- We will communicate key matters in relation to the planning of our audit, and
- We will communicate the key findings from the audit.

We reserve the right to communicate directly with Members on any audit matters that we consider to be of sufficient importance.

Independence and objectivity

We are required by the Code to:

- carry out our work with independence and objectivity;
- exercise our professional judgement and act independently of both the Audit Commission and the Council;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that we should not carry out work for the Council, which does not relate directly to the discharge of our functions as auditors if it would impair our independence or might give rise to a reasonable perception that our independence could be impaired. If we are satisfied that performance of such additional work will not impair our independence as auditors, nor be reasonably perceived by members of the public to do so, and the value of the work in total in any financial year does not exceed a *de minimis* amount (currently the higher of £25,000 or 20% of the annual audit fee), then we may undertake such work. If the value of the work in total in any financial year would exceed the *de minimis* amount, we must obtain approval from the Commission before agreeing to carry out the work

The Commission's *Standing Guidance for Auditors* includes several references to arrangements designed to support and reinforce the requirements relating to independence, which we must also comply with. These are as follows:

- any staff involved on the audit who wish to engage in political activity should obtain prior approval from the Engagement Leader;
- we will only bid for work within an your area in direct competition with the your own staff if we have discussed and agreed a local protocol you;
- we are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence; and
- we are expected to comply with the Audit Commission's policy for both the Engagement Leader and the Engagement Manager to be changed on each audit at least once every five years.

We have made enquiries of all PricewaterhouseCoopers teams providing services to the Council and of those responsible in the UK Firm for compliance matters. We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of our audit engagement leader and staff which represent matters that have occurred during the financial year on which we are to report up to the date of this audit strategy:

Relationships and investments

Senior officers should not seek or receive personal financial or tax advice from PricewaterhouseCoopers. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for an audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Conclusion

We confirm that in our professional judgement, as at the date of this audit service plan, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Planning of our audit

This audit service plan details those areas that we consider to be high risk and includes our response to those risks. It also explains where we are intending to rely upon internal controls and the work of internal audit, if applicable.

Our work on the accounts is carried out in accordance with the Code, which requires us to comply with auditing standards. We plan and perform our audit to be able to provide reasonable assurance that the accounts are free from material misstatement and present fairly the income and expenditure of the Council and its financial position at the year-end. The assessment of what is material is a matter of professional judgement.

Findings from the audit

We will communicate to the Cabinet, the following issues arising from our audit:

- Expected moderations to the audit report;
- Unadjusted misstatements (i.e. those misstatements identified as part of the audit that management have chosen not to adjust);
- Material weaknesses in the accounting and internal control systems identified as part of the audit;
- Our views about the qualitative aspects of the Council's accounting practices and financial reporting; and
- Any other relevant matters relating to the audit.

This will result in you receiving additional information in previous years and we would welcome the opportunity to discuss with you the format and any additional comments that you would like to receive.

VI. Audit fees

The Audit Commission has provided indicative fee levels for the 17-month period beginning 1 November 2002 which depend on the level of expenditure, CPA category, and potential risks. Based on the Council's gross expenditure the indicative fee for the audit is £310,000, excluding VAT and grant claims. This covers both the 2002/03 and 2003/04 audit years and is payable in regular monthly instalments.

The fee will be payable in regular monthly instalments and excludes VAT, and grant claims. We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- That we are able to place reliance, as planned, upon the work of internal audit; and
- That we are able to draw comfort from the management controls within the Council.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Appendix A – audit team

The senior members of the team will be:

Audit Team	Responsibilities
<p>Paul Woolston – appointed auditor paul.woolston@uk.pwc.com (0191) 269 4205</p>	<p>Paul is the statutory auditor responsible for independently delivering the audit in accordance with the Code, including agreeing the audit strategy, the quality of audit deliverables, presenting the annual audit letter, and signing opinions. He is also responsible for liaison with the Chief Executive and Members.</p>
<p>Mark Nicholson – senior engagement manager mark.nicholson@uk.pwc.com (0191) 269 4430</p>	<p>Mark is responsible for the overall control of the audit, ensuring delivery to timetable, production of key audit deliverables and liaising with the Director of Corporate Services and other members of the Council’s Corporate Management Team.</p>
<p>Paul Harrison – assistant engagement manager paul.harrison@uk.pwc.com (0191) 269 4422</p>	<p>Paul will manage our work on the different aspects of the audit on a day-to-day basis. He will also be responsible for co-ordinating our work on the certification of grant claims.</p>
<p>Andrew Murdoch – performance specialist andrew.murdoch@uk.pwc.com (0191) 269 4448</p>	<p>Andrew is a performance specialist with our national performance improvement team and based in our Newcastle office. He will be responsible for undertaking work on the Council’s performance management framework.</p>
<p>Graham Woodfine – IT specialist graham.woodfine@uk.pwc.com (0191) 269 3324</p>	<p>Graham is an IT specialist within our Newcastle office who will be responsible for overseeing any IT-related work at the Council.</p>

We are keen to ensure that the Council benefits from the range and depth of experience and expertise within PricewaterhouseCoopers and will therefore involve other specialists as and when the need arises.

Appendix B – other engagement information

The Audit Commission appoint us as auditors to the Council and the terms of our appointment are governed by:

- The Code of Audit Practice;
- The Standing Guidance for Auditors; and
- The Annual Letter of Guidance.

There are four further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

1) Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure or virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We recognise that systems and procedures cannot be a guarantee that transmissions will be unaffected by such hazard.

We confirm that we each accept the risks of and authorise electronic communications between us. We each agree to use commercially reasonable procedures to check for the then most commonly known viruses before sending information electronically. We shall each be responsible for protecting our own systems and interests in relation to electronic communications and Darlington Borough Council and PricewaterhouseCoopers (in each case including our respective partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information.

The exclusion of liability in the paragraph above shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective partners, employees, agents or servants.

2) Access to audit working papers

We may be required to give access to our audit working papers for regulatory purposes or because of other statutory obligations. Typically, in the case of a local government body, this would be to the Audit Commission for quality assurance purposes.

3) Quality arrangements

It is our desire to provide you at all times with a high quality service to meet your needs. 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 any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Stephen Clare, our Public Services Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Glyn Barker, Assurance and Business Advisory Services leader for the UK, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we are able to ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

4) Events arising between signature of accounts and their publication

Statement of Auditing Standard (SAS) 150 includes a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. For us to fulfil these requirements, management need to inform us of any such matters that arise.

If you have any queries on the above, please let us know before approving the audit service plan or, if arising subsequently, at any point during the year.

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