

Audit and Inspection Plan

May 2006



Audit and Inspection Plan

Darlington Borough Council

2006-2007

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of PricewaterhouseCooper's audit reports to the Council

PricewaterhouseCooper's reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to non-executive members or officers. They 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.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2006

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Introduction	4
Our responsibilities	4
The fee	5
Cross-cutting work	6
CPA and inspections	7
Summary of key audit risks	8
Value for money conclusion	9
Use of resources judgement	9
Performance information	11
Best value performance plan	11
Financial statements	11
Whole of government accounts	13
Certification of claims and returns	14
Other information	15
Outputs from the audit and inspection plan	15
The team	15
Appendix 1 – Audit and inspection fee	16
Assumptions	17
Process for agreeing any changes in audit fees	17
Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources	18
Appendix 3 – Planned outputs	20
Appendix 4 - The Audit Commission’s requirements in respect of independence and objectivity	21

Introduction

- 1 This plan sets out the audit and inspection work that the Audit Commission (the AC) and PricewaterhouseCoopers (PwC) propose to undertake in 2006/07. The plan has been drawn up from PwC's risk-based approach to audit planning and the requirements of the new Comprehensive Performance Assessment CPA – the Harder Test. It reflects:
 - PwC's responsibilities under the Code of Audit Practice;
 - audit and inspection work specified by the Audit Commission for 2006/07;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.
- 2 Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 3 In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998 and the Code of Audit Practice (the Code) with regard to audit; and
 - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
 - the financial statements of audited bodies; and
 - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. We will give the first such conclusion by the end of September 2006 as part of the 2005/06 audit.

The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 7 PwC's total fee estimate for the audit work planned for 2006/07 is £175,485. The AC's total fee estimate for inspection work planned for 2006/07 is £16,000. This compares with an audit fee of £172,500 and an inspection fee of £14,200 in 2005/06.
- 8 In addition PwC estimate that it will charge approximately £75,000 for the certification of claims and returns.
- 9 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit fee, specific actions Darlington Borough Council could take to reduce its audit fees and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee may be necessary if PwC's audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
 - the opinion on the 2006/07 accounts, since PwC has yet to audit the accounts for 2005/06, and detailed financial reporting requirements for 2006/07 are not yet known; and
 - work on selected performance indicators, since PwC yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 11 We will formally advise you if any changes to the fee become necessary.

Cross-cutting work

- 12 We have discussed with you the proposals by the Audit Commission and audit firms in the north east to include work in audit and inspection plans for 2006/07 on health inequalities. PwC has included work on this issue in its audit plans.
- 13 The health inequalities faced by people within the North East are some of the most pronounced in the country. The AC, PwC and Deloittes will work with all audited and inspected bodies in the North East to assess the way organisations work together to address health issues and to identify the levers and barriers to improvement. Our work will have three phases.
 - Phase 1: an overview of the way in which bodies involved in the health inequalities issue work together, how they involve other stakeholders, and how they involve service users. This will be done via a series of approaches, including data analysis, partner surveys, and interviews.
 - Phase 2: a workshop of partners reviewing the barriers to better health outcomes, and the options for resolving those barriers, using data collected at Phase 1.
 - Phase 3: detailed work on a range of specific health issues, to be tailored to the requirements of each geographic area within the North East, choosing from smoking cessation, obesity, teenage pregnancy, access to health services, and substance misuse. This work will triangulate the information and assurances defined through the first two stages of work.
- 14 Phases 1 and 2 are likely to be completed in 2006/07, with phase 3 beginning during the early part of 2007.

CPA and inspections

- 15 The AC has applied the principles set out in the new CPA framework, *CPA – The Harder Test*.
- 16 Darlington Borough Council was classified as a '4-star' council in December 2005. As a consequence the AC's inspection activity will focus on the following.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders.
Direction of travel statement	To provide a focus for continuous improvement and to include in the CPA scorecard.

Summary of key audit risks

- 17** This section summarises PwC's assessment and the planned response to the key audit risks which may have an impact on PwC's objectives to:
- provide an opinion on your financial statements;
 - provide a conclusion on your use of resources;
 - provide a scored judgment on the use of resources to feed into the CPA process;
 - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's best value performance plan (BVPP).
- 18** In order to identify the significant risks PwC undertook a number of activities including:
- discussions with officers;
 - review of minutes;
 - assessment of cumulative audit knowledge and experience;
 - review of the results of the Council's own risk assessment processes;
 - review of the work of Audit Commission and other inspectors;
 - assessment of estimated 2005/06 financial and operational performance;
 - review of generic local government technical developments; and
 - review of the work of internal audit.
- 19** PwC's planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, PwC will perform work as appropriate to enable it to provide a conclusion on your arrangements.

Value for money conclusion

- 20** The Code of Audit Practice requires PwC to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources (the value for money conclusion). The Audit Commission has developed relevant criteria for auditors to apply in reaching the value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, PwC will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. PwC will give the first such conclusion by the end of September 2006 as part the audit of the 2005/06 accounts. This may influence PwC's risk assessment for similar work to be carried out as part of the 2006/07 and we will keep you informed of any changes to this plan that may become necessary.

Use of resources judgement

- 21** In addition to the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment. PwC's fee estimate 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes PwC will discuss with you the implications, including any impact on the fee.
- 22** These judgements are also used by the Commission as the basis for its overall use of resources judgement for the annual CPA.
- 23** Using cumulative knowledge and experience, including the results of previous work and other regulators' work, PwC has identified the following areas of audit risk to be addressed.

Table 2 Summary of use of resources audit risks

Audit risk	Response
<p>Financial management</p> <p>There are a number of ways in which reporting and monitoring procedures in the Council could be improved to improve financial management:</p> <ul style="list-style-type: none"> • better integration between financial and non-financial information reported to Members; • improved linkage between financial information and key operational activity indicators; and • more comprehensive and transparent reporting of planned efficiency gains and planned savings to Members. 	<p>We are aware that the Council has put arrangements in place to address these issues. PwC will monitor progress in the course of their work on the Use of Recourses.</p>
<p>Financial management</p> <p>The arrangements in place to evaluate the effectiveness and cost of debt recovery and the cost of not recovering debt promptly were not consistent across the Council.</p>	<p>PwC will review the Council's new arrangements in this area.</p>
<p>Internal control</p> <p>In its review of the risk management arrangements in 2005, PwC noted that officers did not report on risk management to Members on a regular basis.</p>	<p>PwC will review the reporting arrangements in place during the next round of fieldwork on the Use of Resources.</p>
<p>Value for money</p> <p>The Council was in the process of implementing comprehensive processes to challenge, monitor and report on value for money during PwC's review of Use of Resources in 2005.</p>	<p>PwC will monitor progress in this area during 2006.</p>

Performance information

- 24 Auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA. This work will be risk based and will link in part to PwC's review of the Council's overall arrangements to secure data quality as required for its Use of Resources conclusion. PwC's fee estimate includes an element for this work on the basis that it will assess Darlington Borough Council as medium risk in relation to its performance indicators.
- 25 This risk assessment may change depending on PwC's assessment of your overall arrangements. When PwC has finalised its risk assessment it will update this plan including any impact on the fee quoted above.

Best value performance plan

- 26 PwC is required to consider and report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your best value performance plan (BVPP).

Financial statements

- 27 PwC will carry out its audit of the 2006/07 financial statements and comply with the International Standards on auditing (UK and Ireland).
- 28 PwC is also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with its knowledge.
- 29 On the basis of its preliminary work to date PwC has identified the following audit risks.

Table 3 Summary of opinion risks

Opinion risks	Response
<p>Introduction of group accounts The Council took advantage of the transitional arrangements for the introduction of group accounts in 2004/05 and did not include group accounts in the statement of accounts for that year. Group entities must be consolidated with the Council's accounts for 2005/06 together with comparative figures for 2004/05.</p>	<p>PwC will review the Council's processes to identify those entities that should be included in the group accounts to ensure that all of the relevant entities are included. We will check the accounting treatment to ensure that the figures included in the accounts are accurate and properly disclosed.</p>
<p>Introduction of whole of government accounts 2005/06 is the first year that the Council is required to prepare a return to contribute to the whole of government accounts initiative.</p>	<p>PwC will review the return for accuracy and completeness.</p>

- 30 PwC's fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be maintained/improved and that internal audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by 3 July 2006.
- 31 PwC has yet to undertake the audit of the 2005/06 financial statements and its 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
 - PwC's documentation and initial testing of material information systems;
 - PwC's assessment of the 2006/07 closedown arrangements; and
 - any changes in financial reporting requirements.
- 32 When PwC has finalised its risk assessment in respect of your financial statements, it will update this plan in advance of the audit detailing its specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 33 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with stakeholders. The fee for this work is not included in this plan and we will discuss this with the Director of Corporate Services when further details are available.

Certification of claims and returns

- 34 PwC will continue to certify the Council's claims and returns:
- claims for £50,000 or below will not be subject to certification;
 - claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit; and
 - claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.
- 35 Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. Based on this, and on the assumption that the level of grant work will remain unchanged, PwC estimates that the fees for grant certification work will be around £75,000.

Other information

Outputs from the audit and inspection plan

- 36 The expected outputs from our planned audit and inspection work are listed in Appendix 3.

The team

Table 4

Name	Title
Audit Commission	
Sarah Diggle	Relationship Manager
Nick Flight	Performance Specialist
PricewaterhouseCoopers	
Paul Woolston	Appointed Auditor
Mike Pugsley	Senior Audit Manager
Sarah Thompson	Performance Specialist
Paul Harrison	Audit Team Leader

- 37 We are not aware of any relationships that may affect the independence and objectivity of the teams, and which are required to be disclosed under auditing and ethical standards.
- 38 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Appendix 1 – Audit and inspection fee

Table 5

Fee estimate	Plan 2006/07	Plan 2005/06
Audit		
Accounts	£144,885	Combined: £172,500
Use of resources	£30,600	
Total audit fee	£175,485	£172,500
Inspection		
Relationship management and Direction of Travel	£16,000	£14,200
Total inspection fee	£16,000	£14,200
Certification of grants and returns	£75,000	£70,000

- 1 The fee above includes all work contained in this plan except any work required in relation to the whole of government accounts.

Assumptions

- 2 In setting the audit fee PwC has assumed:
 - you will inform PwC of significant developments impacting on its audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that PwC can place reliance for the purposes of its audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
 - officers will provide good quality working papers and records to support the financial statements.
 - officers will provide requested information within agreed timescales;
 - officers will provide prompt responses to draft reports; and
 - The key lines of enquiry for PwC's Use of Resources judgement will be broadly similar to those used in 2005/06. (The key lines of enquiry (KLOEs) issued in June 2005 will be updated in spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment).
- 3 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 4 Changes to the plan will be agreed with you. These may be required if:
 - new risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - there are any changes to financial reporting requirements, professional auditing standards or legislation which results in additional audit work.

Process for agreeing any changes in audit fees

- 5 If we need to amend the audit or inspection fees during the course of this plan we will firstly discuss this with the Chief Executive and Director of Corporate Services.

Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives and for determining policy and making decisions

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

Arrangements for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 3 – Planned outputs

- 1 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 6

Planned output	Start date	Draft due date	Key contact
Audit and inspection plan	February 2006	April 2006	AC Relationship Manager
Audit and Inspection Letter 2006 (includes direction of travel assessment 2006)	October 2006	December 2006	AC Relationship Manager
Report on the overall control environment	April 2006	May 2006	PwC
Best Value Performance Indicators certificate and report	June 2006	August 2006	PwC
Health inequalities work	TBA	TBA	AC Relationship Manager + PwC
Report on financial statements to those charged with governance	August 2007	September 2007	PwC
Opinion on financial statements	TBA	TBA	PwC
Vfm conclusion	TBA	TBA	PwC
Final accounts memorandum	1 July 2007	October 2007	PwC
Annual audit and inspection letter 2007 (including direction of travel assessment 2007)	October 2007	December 2007	AC Relationship Manager

Appendix 4 - The Audit Commission's requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISAs when auditing the financial statements. Professional standards requires auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The ISA defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
 - carry out their work with independence and objectivity;
 - exercise their professional judgement and act independently of both the Commission and the audited body;
 - 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.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:
- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
 - audit staff are expected not to accept appointments as lay school inspectors;
 - firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned;
 - auditors 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;
 - auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
 - auditors are expected to comply with the Commission's policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
 - audit suppliers are required to obtain the Commission's written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and
 - the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.