

# Darlington Borough Council 2004/05 Audit Service Plan



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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

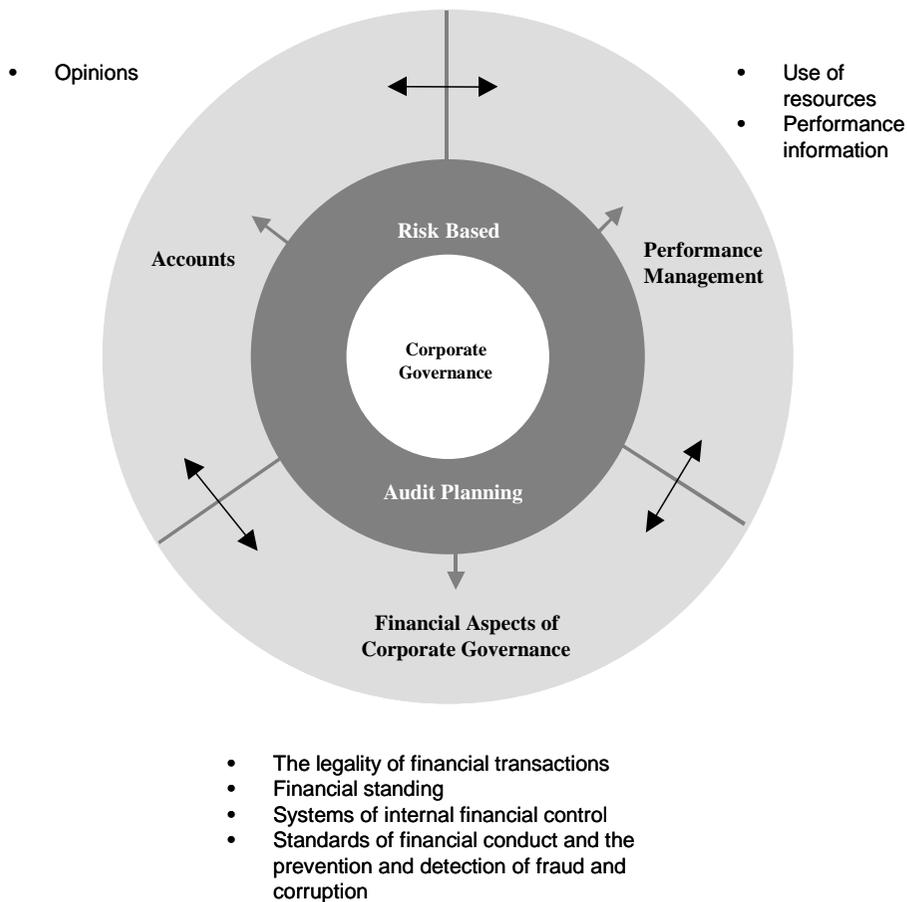
*PricewaterhouseCoopers perform the audit in accordance with the Audit Commission's Code of Audit Practice (the Code), which was last issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies (the Statement), which was last issued in April 2000. The purpose 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. PricewaterhouseCoopers' audit reports are prepared in the context of the Statement and in accordance with the Code. Audit and inspection letters are prepared by relationship managers and auditors and addressed to Members and officers. They are prepared for the sole use of audited and inspected bodies and no responsibility is taken by the Audit Commission or its auditors to any Member of officer in their individual capacity, or to any third party.*

# Introduction

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 requirements of the Code are set out on page 2.



### 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:

- the legality of transactions with significant financial consequences;
- the financial standing of the Council;
- systems of internal financial control; and
- 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 these arrangements. We also have a responsibility to review and report on:

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

# Key audit risks

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 considered and assessed 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 prepare the audit service plan that properly tailors the nature and conduct of audit work to the circumstances of the Council. It is not designed to identify all risks affecting the operations of the Council or all internal control weaknesses.**

The table on pages 4 to 6 summarises the results of our risk assessment in terms of the significant risks facing the Council and our proposed response. It excludes mandatory external audit requirements such as the BVPP and final accounts audit opinion. Risks shown in italics relate to work funded from the 2005/06 audit fee. We reserve the right to include some of the other risks in the 2005/06 Audit Service Plan should the need arise. We also reserve the right to amend our risk assessment in the light of any significant developments that may occur during the course of the year.

<b>Risk</b>	<b>Our proposed response</b>	<b>Code objective(s)</b>	<b>Council contact</b>
The recent corporate assessment report highlighted issues in relation to the Council's approach to strategic procurement.	We will review the Council's new procurement strategy and assess progress made on implementation.	Performance	Lorraine O'Donnell
<i>The approach to scoring use of resources within CPA 2005 has been revised by the Audit Commission.</i>	<i>We will complete this within the required timescales.</i>	<i>Performance / Governance</i>	<i>Brian James</i>
<i>The Council will be required to produce various statements setting out its approach to and its progress in achieving efficiency savings.</i>	<i>Although the exact level of audit work has yet to be determined, we will assess these statements against guidance produced by ODPM.</i>	<i>Performance</i>	<i>David Hall</i>
The Council's local framework has been operating for nearly a year and there have been a number of projects funded through prudential borrowing.	We will test a number of projects funded through prudential borrowing for compliance with the local framework.	Governance	Brian Boggon
The Council has to comply with the requirements of the Children's Act 2004 in respect of integrating Children's Social Services and Education.	We will review the Council's approach against this challenging agenda and consider further audit work as appropriate.	Performance / Governance	Margaret Asquith

<b>Risk</b>	<b>Our proposed response</b>	<b>Code objective(s)</b>	<b>Council contact</b>
The Council is currently negotiating with potential partners on plans to redevelop the existing Town Hall site.	We will consider the Council's approach to planning this project and review the proposed accounting treatment and approach to value for money.	Performance / Governance / Accounts	John Buxton
The Council is required to prepare group accounts where applicable.	We will review the Council's approach to identifying entities to be consolidated (including a review of partnership registers) and assess compliance with the SORP. In particular, we will consider the ownership of shares in companies received as part of the LGR settlement from Durham County Council.	Accounts	David Hall
The Council has plans to make payments to staff in relation to the equal pay issue, apply for a capitalisation direction and fund them through capital resources.	We will consider the accounting treatment followed by the Council for these transactions.	Accounts	David Hall
The requirements of FRS 17 (accounting for retirement benefits) have been extended to cover the Housing Revenue Account (HRA).	We will test the apportionment of relevant pension costs to the HRA and review the required disclosures for compliance with the accounting guidance.	Accounts	David Hall
During last year's audit, we noted that bank reconciliation processes were not operating effectively at the Council.	We will review the progress made by the Council in implementing new procedures.	Accounts	Brian Boggon

Risk	Our proposed response	Code objective(s)	Council contact
The Council has a number of loans from commercial lenders which seem to fit the definition of LOBOs. These are loans which have an initial period with fixed interest rates after which there are options on the part of the lenders to increase the rates and on the part of the borrower to repay the loan.	We will review the Council's accounting treatment for these loans.	Accounts	Brian Boggon
The Council, together with other local authorities, is facing potential fines if it fails to meet targets aimed at reducing the amount of waste that goes to landfill.	We will review the arrangements in place to minimise the financial risks to the Council in this area.	Governance	John Buxton
The Council is in the process of designing a new pay and grading structure.	We will assist the Council in this area.	Performance	Lesley Blundell

# Key deliverables

Key deliverable	Topics covered	Planned Date
Report on financial aspects of corporate governance	<ul style="list-style-type: none"> <li>Financial standing (excluding assessment of financial position);</li> <li>Legality of significant financial transactions;</li> <li>Systems of internal financial control; and</li> <li>Standards of financial conduct and prevention/detection of fraud and corruption.</li> </ul>	31 July 2005
Report on performance management arrangements	<ul style="list-style-type: none"> <li>BVPP;</li> <li>Performance information; and</li> <li>Use of resources.</li> </ul>	31 August 2005
Audit clearance issues summary	Issues noted during the audit of the Council's 2004/05 accounts.	31 August 2005
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 2005
SAS 610 report	Report to those charged with governance on the significant matters arising from the audit of the Council's 2004/05 accounts.	30 September 2005
Audit and inspection letter	Summarising the results of our audit work and highlighting issues for the attention of Members.	31 December 2005

# 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' is 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 the 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 £30,000 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 Audit Commission before agreeing to carry out the work

The Audit 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 Audit 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 service plan:

Other services provided to the Council

In addition to our work under the Code, PricewaterhouseCoopers is providing assistance to the Council on the most tax efficient way to structure compensation payments related to the equal pay issue and is providing IT audit support to the Council's Internal Audit team. The fees for both of these projects (£12,000 and £8,000 in 2004/05 respectively) are below the *de minimis* limit specified by the Audit Commission and the work is being undertaken by individuals who are independent of the PricewaterhouseCoopers audit team. Prior to bidding for these

projects we assessed the impact of undertaking the work on our independence as your external auditors.

#### 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 the following issues arising from our audit to the Cabinet:

- 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.

# Audit fees

The Audit Commission provided guidance on fee levels for the 2004/05 financial year which depends on the level of expenditure, CPA category and potential risks. Based on the Council's gross expenditure and the risks identified in this audit service plan, the fee for the audit has been agreed at £172,500 excluding VAT and grant claims. This may be broken down as follows:

Code Objective	2004/05 Plan (£k)	2003/04 Actual (£k)
Accounts	72.0	65.0
Governance	40.0	40.0
Performance	45.0	25.0
Audit Commission 'top-slice'	15.5	15.0
<b>Total</b>	<b>172.5</b>	<b>145.0</b>

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 some 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.

# Audit team

Audit Team	Responsibilities
<p><b>Paul Woolston</b> – engagement leader  <a href="mailto:paul.woolston@uk.pwc.com">paul.woolston@uk.pwc.com</a>            (0191) 269 4205</p>	<p>Paul is responsible for independently delivering the audit in accordance with the Code, including agreeing the audit service plan, the quality of audit deliverables and signing audit opinions.</p>
<p><b>Mark Nicholson</b> – engagement manager  <a href="mailto:mark.nicholson@uk.pwc.com">mark.nicholson@uk.pwc.com</a>            (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 members of the Council's Corporate Management Team.</p>
<p><b>Paul Harrison</b> – accounts and governance specialist  <a href="mailto:paul.harrison@uk.pwc.com">paul.harrison@uk.pwc.com</a>            (0191) 269 4422</p>	<p>Paul will manage our work on the accounts and governance aspects of the audit on a day-to-day basis.</p>
<p><b>Graeme Hunter</b> – performance specialist  <a href="mailto:graeme.hunter@uk.pwc.com">graeme.hunter@uk.pwc.com</a>            (0191) 269 3337</p>	<p>Graeme will manage our work on performance aspects of the audit on a day-to-day basis.</p>
<p><b>Shelley Peterson</b> – IT assurance specialist  <a href="mailto:shelley.peterson@uk.pwc.com">shelley.peterson@uk.pwc.com</a>            (0191) 269 4277</p>	<p>Shelley is responsible for the overall control of the IT audit, ensuring delivery to timetable and production of key deliverables.</p>

# Looking ahead

The Audit Commission has issued a new Code of Audit Practice that is applicable from the 2005/06 financial year. There are two objectives to our work under the new Code:

- Accounts (including a review of the Statement on Internal Control); and
- Use of Resources.

The most important changes from the current Code are:

- A new form of two part audit opinion in which an explicit assurance will be provided on the Council's arrangements to secure value for money in the use of resources. In addition, a set of criteria (outside the Code itself), which represent a satisfactory standard of financial and corporate management will be produced by the Audit Commission and auditors will need to ensure that these criteria are met at each authority and report in the audit opinion where they are not;
- A recognition of the central role of the Statement on Internal Control as a source of assurance on controls over financial and corporate management, which together redefine the concept of "value for money";
- Recognition of the new International Standards on Auditing (ISAs), which will converge with UK standards. The relatively stronger guidance on compliance with laws and regulations, fraud, systems and going concern mean that the four components of Financial Aspects of Corporate Governance will be reintegrated into the financial statements audit. In future they may be reported on by exception, where appropriate, although current levels and standards of work will continue. This means that the three part audit (accounts, financial aspects of corporate governance and use of resources, also known as value for money or performance) will become two parts, accounts and value for money, which come together in the Statement on Internal Control;
- Formalisation of the joint audit and inspection letter and of the requirement that auditors rely on work performed by inspectors in forming

their conclusions on value for money;

- Removal of much of the guidance on the exercise of auditors' special powers, which will instead be contained in supporting guidance. The importance of dealing with electors in a proportionate way is emphasised;
- A proposal that, where feasible, recommendations should be costed, which will require the support of the Council; and
- A requirement for an enhanced report to those charged with governance at the Council prior to the signing of accounts, containing key points on our use of resources work as well as on the accounts.

# Other engagement information

The Audit Commission appointed us as auditors to the Council and the terms of our appointment are governed by the Code, the Standing Guidance for Auditors and the Annual Letter of Guidance. There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

## 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 the PricewaterhouseCoopers and the Council (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.

## 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.

## 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 Paul Woolston. If, for any reason, you would prefer to discuss these matters with someone other than Paul please contact Chris Snell, Public Services leader, or Glyn Barker, UK Assurance and Business Advisory Services leader, both of whom are contactable 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.

## 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.

## Freedom of Information Act 2000

In the event that, pursuant to a request which the Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PricewaterhouseCoopers promptly and consult with PricewaterhouseCoopers prior to disclosing such information. The Council agrees to pay due regard to any representations which PricewaterhouseCoopers may make in connection with such requests and the Council shall apply any relevant exemptions which may exist under the Act. If, following consultation with PricewaterhouseCoopers, the Council discloses this report or any part thereof, it shall ensure that any disclaimer which PricewaterhouseCoopers has included or may subsequently wish to include is reproduced in full in any copies disclosed.

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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