

Darlington Borough Council

2008/09 Audit Plan



The Audit Committee
Darlington Borough Council
Town Hall
Feethams
Darlington
Co Durham
DL1 5QT

June 2009

Ladies and Gentlemen,

We are pleased to present to you our updated Audit Plan, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting Darlington Borough Council.

We would like to thank members and officers of the Council for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact Janet Eilbeck, Paul Harrison or Simon Clegg.

Yours faithfully,

PricewaterhouseCoopers LLP

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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.

Introduction

The purpose of this Plan

Our Audit Plan has been prepared to inform the officers and Members of Darlington Borough Council (the Council) about our responsibilities as your external auditors and how we plan to discharge them.

Every Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Council. Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our Plan has been drawn up to consider the impact of these developments and risks.

We would like to thank Members and officers of the Council for their help in putting together this Plan.

Period covered by this plan

We provide you with details of our plans for the audit at the beginning of the financial year. This Plan outlines our audit approach for 2008/09, including the 2008/09 final accounts audit which we will undertake in summer 2009.

The environment you operate in is dynamic and, therefore, in this Plan we also provide an update of our plans for the 2008/09 accounts audit which we

will undertake this coming summer.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was issued in March 2005. This is supported by the Statement of Responsibilities of Auditors and of Audited bodies (the Statement) issued in April 2008.

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 follow the Statement and are in line with the Code. Although reports may be addressed to officers or members of the Council, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

Relationship management

For 2008/09, the role of Relationship Manager has been replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in the Council's local area, lead the CAA process, and ensure that the combined inspection programme across all

inspectors is tailored to the level and nature of risk for the area and its constituent public bodies.

Philippa Corner has been appointed as CAAL for Darlington Borough Council. We are working closely with Philippa as she oversees the completion of the CPA framework and the introduction of CAA.

Risk assessment

Planning of our audit

We have considered the Council's operations and have assessed the extent to which we believe there are potential business and audit risks. We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements or on your arrangements for the use of resources. We have considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is your responsibility to identify and address your 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 assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Council and our response to these risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

Risk assessment results

The following table summarises the results of our risk assessment and our planned response.

Risk	Audit approach
Significant Risks	
<p><u>Strategic Partnership with Stockton Borough Council</u></p> <p>Darlington Borough Council has entered into a strategic partnership with Stockton Borough Council to provide a range of back-office functions to both authorities. The Council needs to ensure that appropriate governance arrangements are in place for the partnership and that controls operating over Darlington's transactions are effective and robust.</p>	<p>We will work closely with officers involved with the partnership, as well as internal audit at both authorities, to ensure that effective governance arrangements are in place and that controls operating over transactional finance continue to be effective for audit purposes.</p>
<p><u>New General Ledger system</u></p> <p>A new general ledger system was implemented by the Council on 1 April 2008. There is a risk that data from the old ledger may not have been transferred accurately or completely to the new system resulting in errors in the 2008/09 accounts.</p>	<p>We will review the data transfer arrangements adopted during the implementation and consider the results of the Council's own assurance procedures on the completeness and accuracy of the data transfer.</p>
<p><u>Financial standing</u></p> <p>In common with many authorities in the current economic climate, Darlington Borough Council is expecting to face increasing budgetary pressures in the future. The Council's revenue Medium Term Financial Plan for 2009/10 to 2012/13 relies on the achievement of challenging efficiency savings and requires the use of some £2.8m in revenue reserves over the four years of the Plan to balance expenditure.</p>	<p>We will monitor the financial position of the Council regularly to ensure that financial standing is not compromised. Efficiency savings have already been achieved in 2008/09 with the result that reserve balances have not been utilised to the extent expected.</p>

Risk	Audit approach
Other Risks	
<p><u>IFRS</u></p> <p>CIPFA has announced that International Financial Reporting Standards will not be implemented for Local Government bodies until 2010/11. However there are elements that will have an earlier impact and the authority will need to follow developments and ensure that it is planning for change.</p> <p><i>WGA</i></p> <p>Whole of Government Accounts consolidation will be on an IFRS basis for 2008/09. Whilst it is not anticipated that this will require local authorities to prepare returns that are fully compliant with IFRS, new supplementary information may be required so that the Treasury can process adjustments in areas that might be material to WGA (eg, infrastructure assets and PFI schemes).</p> <p><i>Accounts</i></p> <p>Although IFRS will not be fully implemented until the 2010/11 accounts, it is likely that some IFRS related developments will be integrated into the SORP at an earlier stage. The two main areas where this applies are changes to accounting for PFI schemes and accounting for infrastructure assets, which are likely to apply from 2009/10 accounts.</p> <p>In the case of PFI schemes adjustment of public sector accounting to make it consistent with the principles of accounting under IFRIC 12 is likely to lead to an increase in the number of schemes being recognised on local authority balance sheets.</p> <p>New requirements for valuing infrastructure assets at current cost rather than at cost are also likely to be introduced.</p> <p>Neither of these developments will be in place by the 2008/09 accounting period, but authorities will need to plan for the potential impact in advance.</p>	<p>We will review the plans that the Council develops to manage the transition to IFRS as they become available.</p> <p>We will work closely with the Council at each stage of the transition to offer audit support and guidance on the key phases under IFRS.</p>
<p><u>Revaluation Reserve</u></p> <p>The introduction of the revaluation reserve in 2007/08 will have ongoing implications for the treatment of assets revalued during 2008/09. Particular care will need to be taken over the treatment of any downwards revaluations which exceed revaluation gains recognised since the start of 2007/08. These will need to be charged to the Income and Expenditure Account.</p>	<p>We will discuss with you the treatment of any revaluations in the year to ensure they are consistent with new accounting requirements.</p>

Risk	Audit approach
<p><u>Financial Instruments</u></p> <p>The introduction of new financial instruments provisions from the 2007/08 financial year is likely to have an ongoing impact on the Council as part of the continuing development of treasury management strategies and the new accounting policies into 2008/09. There is also a risk that new and more complex instruments may be offered by the market that seek to get the best advantage out of the accounting provisions and the statutory rules. The Council will need to have assurance that entry into such instruments is within their powers, and that the instruments work as intended in terms of managing risk and provide value for money.</p>	<p>We will discuss with you the treatment of any new treasury, or other, transactions which may have an impact on financial instrument disclosures.</p>

Our approach to the audit

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Council. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We will adopt a top-down, controls-based approach to the audit, where we will drill down the management structure and review key business processes. We will focus our work on verifying, evaluating and validating, where possible, the controls you use, to ascertain how much assurance we can draw from them. We will supplement this controls work with detailed analytical review procedures and additional substantive tests where necessary.

We aim to rely on the work done by internal audit wherever possible. We will ensure that a dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned approach

Whole of government accounts

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit. From 2008/09 these will be based on International Financial Reporting Standards (IFRS).

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

When forming our use of resources conclusion we will seek to rely on:

- Your Use of Resources self assessment against the key lines of enquiry (KLoEs) as specified by the Audit Commission;
- Your internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Council.

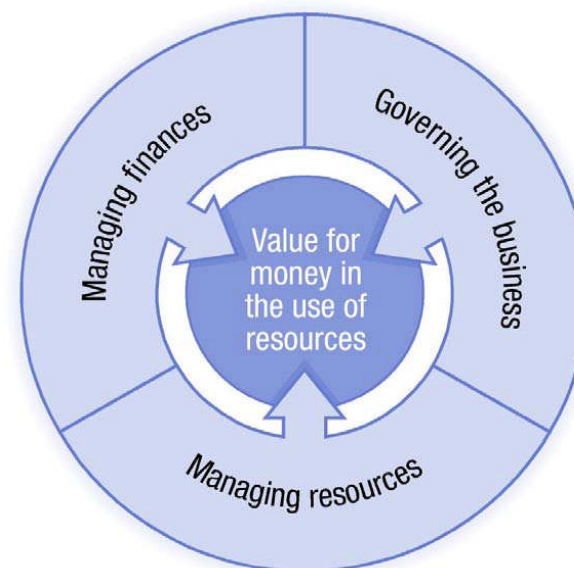
As noted above, our conclusion will be issued as part of the audit report on your 2008/09 financial statements.

Mandatory work for 2008/09

Use of Resources

From April 2009, the Audit Commission has been implementing comprehensive area assessment (CAA), jointly with the other public service inspectorates. The audit year 2008/09 is a year of transition to CAA. Our use of resources judgements in 2008/09 will therefore input into the first results of CAA which the Audit Commission will report on in autumn 2009 as well as acting as the basis for our value for money conclusion. The Audit Commission have therefore issued new Key Lines of Enquiry (KLoEs) against which auditors will assess Local Authorities' arrangements.

We will assess the Authority's arrangements against a series of Key Lines of Enquiry (KLoEs) grouped into three themes which form the Use of Resources framework. The assessment has changed to focus on the Authority's achievements, outputs and outcomes rather than the Authority's processes. Auditors are therefore considering the Authority's strategies rather than the detailed processes that the Authority has put in place.



KLoEs are scored as follows:

- 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 minimum requirements – performs excellently.

Value for Money Conclusion

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. From 2008/09 the Key Lines of Enquiry for the scored use of resources assessment also form the criteria for the Use of

Resources conclusion. A score of Level 2 or higher under the KLoEs will usually result in an assessment of 'adequate' arrangements for the purposes of the Code criteria. In reaching our conclusions, we also consider whether the KLoE scores should be adjusted for other factors such as whether the arrangements have been in place for the whole financial year.

Local Government Data Quality Reviews

We will be required to review data quality and performance indicators specified by the Audit Commission to inform our Use of Resources assessment under KLOE 2.2.

Our approach will comprise of three stages:

- Review of the overall management arrangements to secure data quality
- Completeness checks of reported performance information
- Data quality spot checks

National Fraud Initiative

The National Fraud Initiative (NFI) is the national computerised data-matching exercise designed to detect fraud at public bodies. We will be required to undertake further work to ensure you provide all required data, issue fair processing notifications and effectively follow up the NFI output.

Our team and independence

Audit Team	Responsibilities
Engagement Partner/Director Janet Eilbeck Second year on audit 0207 804 9178 janet.eilbeck@uk.pwc.com	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Senior Manger Paul Harrison Fourth year on audit 0191 269 4422 paul.harrison@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Audit Memorandum and Annual Audit Letter.
Audit Manager: Accounts Simon Clegg Second year on audit 0191 269 4132 Simon.d.clegg@uk.pwc.com	Manager on the assignment responsible for managing our accounts and use of resources work, including the audit of the statement of accounts, and governance aspects of the use of resources.

Our team members

It is our intention that staff work on the audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

Other services provided to the Council

In addition to our audit under the Code, the Firm has also provided information governance workshops to officers.

Relationships and Investments

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

Independence conclusion

At the date of this plan we confirm that in our professional judgement, 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 team is not impaired.

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Audit Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Audit Committee with the outputs of our audit.

Stage of the audit	Output	Timing
Audit planning	Audit Plan	June 2009
Audit findings	Internal control issues and recommendations for improvement	October 2009
	Use of resources and preliminary conclusion for discussion	July 2009
Audit Reports	Annual Audit Letter incorporating specific reporting requirements under Auditing Standard (ISA (UK&I) 260), including: <ul style="list-style-type: none"> Any expected modifications to the audit report Uncorrected 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 your accounting practices and financial reporting Any other relevant matters of governance interest and Summary of findings from our use of resources audit work to support our value for money conclusion. 	September 2009
	Opinion on the Financial Statements and conclusion on the Councils arrangements for its Use of Resources	September 2009
	Auditor Use of Resources Assessment to inform the Audit Commission CAA process	July 2009
	Other Audit Reports We will report as appropriate on the results of any targeted audit work we carry out	As required

The Audit Commission will summarise the results of inspection work in their annual Direction of Travel Statement. This will be sent to the Council and will be available to the public.

Audit budget and fees

We have agreed an audit fee of £207,800 as per the Audit Commission's indicative fee scales for 2008/09 which are based partially on your level of expenditure. This is detailed as follows:

	2008/09 £k	2007/08 £k
Fees	208	186

Our fee for accounts work includes the following:

- Audit of the financial statements for 2008/09
- Work on whole of government accounts for 2008/09

Our fee for use of resources and data quality work includes the following:

- Use of Resources assessment;
- Review of data quality and specified performance indicators;
- Required work on the National Fraud Initiative; and
- Follow up of previous work.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the work of inspectors and internal audit in respect of our use of resources conclusion;
- No further significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2009;
- You providing a fully supported and robust self assessment against the use of resources criteria; and
- Our use of resources conclusion and accounts opinion being unqualified.

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

Certification of grant claims

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Director of Finance and his team.

Additional work outside of the Code

In addition to our audit under the Code, we have undertaken additional work outside of the Code of Audit Practice to the value of £6,500 in respect of information governance workshops.

We would expect to be starting to work with you, in 2008/09, on readiness for conversion to IFRS, but this work is yet to be discussed and planned.

Appendix A: Other engagement information

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

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

There are five further matters which are not currently included within the guidance, but 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, 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.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee

that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, 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 or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want 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 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 Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can 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

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

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

Freedom of Information Act

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

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

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