

# Darlington Borough Council 2006/07 Audit Plan Update



Audit Committee  
Darlington Borough Council  
Town Hall  
Feethams  
Darlington  
DL1 5QT

14 May 2007

Ladies and Gentlemen

We are pleased to present to you our Audit Plan Update, 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 either Paul Woolston or Paul Harrison.

Yours faithfully

PricewaterhouseCoopers LLP

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*In March 2005 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 Update 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.

## Period covered by this Plan

We provided you with details of our plans for the audit at the beginning of the financial year in the joint Audit and Inspection Plan (AAIP) presented by PwC and the Audit Commission in 2006. This Plan updates our audit approach for 2006/07 as set out in the AAIP. It covers our work on:

- the 2006/07 final accounts audit;
- the 2007 Use of Resources assessment;

- the 2006/07 BVPP;
- 2006/07 performance indicators; and
- The Council's data quality arrangements.

## 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). This is supported by the Statement of responsibilities of auditors and of audited bodies (the Statement). Both documents were issued in March 2005 and are available from the Chief Executive.

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.

# Risk assessment

## Planning of our audit

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

## Audit planning Process

In order to identify risks we 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 2006/07 financial and operational performance;
- Review of generic local government technical developments; and
- Review of the work of internal audit.

This exercise was only performed to the extent required to enable us to properly tailor 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.

## Risk assessment results

The following table summarises the results of our risk assessment of both significant financial and operational risks facing you and our planned response.

| Significant Risks  | Audit Approach   | Lead Officer Contact |
|--|--|----------------------|
| <p><u>Equal Value Claims</u></p> <p>The Council has received significant monetary claims with regard to equal value where the claimants are seeking financial redress because they feel that their work was comparable to another group of employees who were on a higher salary.</p>  | <p><i>We will review the Council's accounting provisions for claims at the year-end in light of the volume and expected monetary value of the total claims received.</i></p> |                      |
| <p><u>Whole of Government Accounts (WGA)</u></p> <p>HM Treasury has confirmed an intention that local authorities will participate in the preparation of the first published edition of WGA in 2006/07. There is a risk that weaknesses are found in the Council's arrangements that need to be addressed for 2006/07, although we acknowledge that no issues were noted in relation to the 2005/06 "dry run" return.</p>  | <p><i>We will review the arrangements in place and accounting entries adopted for the WGA returns in light of Treasury guidance in this area.</i></p>                        | Peter Carrick        |
| <p><u>Changes in the Local Authority SORP for 2006/07</u></p> <p>The 2006/07 SORP has introduced significant changes to the presentation of local authority accounts. These changes require restatements of 2005/06 financial information. In particular, the familiar Consolidated Revenue Account and Statement of Movements in Reserves will be replaced by the following primary statements:</p> <ul style="list-style-type: none"> <li>• an Income and Expenditure Account;</li> <li>• a Statement of Movement on the General Fund Balance; and</li> <li>• a Statement of Total Recognised Gains and Losses.</li> </ul> | <p><i>We will review the accounting entries made by the Council and the overall disclosures to ensure that they meet the revised guidance.</i></p>                           | Peter Carrick        |

| Significant Risks   | Audit Approach   | Lead Officer Contact |
|---|--|----------------------|
| <p><u>Introduction of a new payroll system</u><br/>The Council has introduced new payroll system on 1 April 2007.</p>   | <p><i>We will work with internal audit to review the management of the implementation and to consider the impact on the 2007/08 audit.</i></p>       |                      |
| <p><u>Pedestrian Heart Scheme</u><br/>The Council has recently completed the Pedestrian Heart Scheme aimed at improving Darlington town centre. The project overran in terms of cost and timetable.</p> | <p><i>We will work with internal audit to review the Council's management of the scheme and the actions taken to address the issues arising.</i></p> |                      |
| <p><u>Financial pressures</u><br/>The Council is facing a variety of financial pressures over the medium term including waste management costs, single status including adult social care.</p>          | <p><i>We will review the Council's proposed approach to meet these pressures and maintain its financial standing.</i></p>                            |                      |
| <p><u>Education Village PFI scheme</u><br/>The Council is currently operating a PFI scheme at the Education Village.</p>  | <p><i>We will review the Council's arrangements for managing this PFI scheme focusing on the implementation of the payment mechanism.</i></p>        |                      |

| Significant Risks   | Audit Approach  | Lead Officer Contact |
|---|---|----------------------|
| <p><u>Audit Commission cross-cutting review on Health Inequalities</u></p> <p>The Audit Commission is currently undertaking a cross-cutting review into Health Inequalities in the North East which PwC will contribute to.</p> | <p><i>We will contribute audit resources in line with the Audit Commission proposals.</i></p> |                      |

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# 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 Statement of Internal Control (SIC); and
- Use of Resources.

From 2005/06 onwards 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

## 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. This conclusion will be based on criteria, which the Audit Commission has published separately and which cover key areas of corporate performance management and financial management arrangements.

When forming our conclusion we will seek to rely on:

- Your self assessment against the criteria;
- 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 2006/07 financial statements.

## **Mandatory work for 2006/07**

### **Use of Resources**

We will be required to carry out work at the Council for the Comprehensive Performance Assessment (CPA) in respect of the use of resources. This is part of the 2007/08 audit fee.

The use of resources assessment is a key part of CPA and will be conducted in all councils. It involves judgments on financial planning and management, internal controls, and financial standing. It will also provide a value for money (VFM) judgment drawing on a self-assessment by the Council. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.

Performance on each of these elements is scored on a scale of 1 to 4, with 4 being the highest score. The Audit Commission will use the results to prepare an overall score to feed into the Annual Use of Resources score.

The Audit Commission has defined the scope and methodology for the work

required to form the use of resources assessment and the links between this judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

### **Best Value Performance Plan (BVPP)**

We will review the 2007 BVPP to assess whether it complies with statutory guidance. This is part of the 2007/08 audit fee.

### **Audit of performance indicators**

We will be required to undertake audit work on specified performance indicators to support the service element of CPA. This is part of the 2007/08 audit fee.

The Audit Commission is developing a new approach for the audit of performance indicators. It will enable us to deliver our conclusion on audited bodies' arrangements for 'monitoring and reviewing performance including arrangements to ensure data quality'.

Our approach will comprise of three stages:

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

The Commission is developing a voluntary Code of Practice on Data Quality. The voluntary Code will set out the systems and processes that a good public body should put in place to assure itself about the robustness of published performance information.

### **Whole of government accounts**

The Government is introducing Whole of Government Accounts (WGA) in order to produce consolidated accounts for the whole public sector. The Commission is currently discussing the scope of the likely audit work that we will need to complete.

# Our team and independence

| Audit Team  | Responsibilities   |
|---|--|
| <p><b>Engagement Partner</b><br/> <i>Paul Woolston</i><br/>                     0191 232 8493<br/> <a href="mailto:paul.woolston@uk.pwc.com">paul.woolston@uk.pwc.com</a></p>                                   | <p>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.</p>   |
| <p><b>Engagement Manger and Use of Resources Audit Manager</b><br/> <i>Paul Harrison</i><br/>                     0191 269 4422<br/> <a href="mailto:paul.harrison@uk.pwc.com">paul.harrison@uk.pwc.com</a></p> | <p>Assignment Manager 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.</p> <p>Paul is also responsible for co-ordinating the use of resources audit programme including preparing and presenting reports. Paul will be the principal point of contact for the Council.</p> |

| Audit Team   | Responsibilities  |
|--|---|
| <p><b>Audit Manager: Accounts</b><br/> <i>David Inman</i><br/>                     0191 269 4094<br/> <a href="mailto:david.g.inman@uk.pwc.com">david.g.inman@uk.pwc.com</a></p>             | <p>Manager on the assignment responsible for managing our accounts work, including our review of the Statement on Internal Control.</p> |
| <p><b>Audit Manager: Performance</b><br/> <i>Sarah Thompson</i><br/>                     0191 269 4120<br/> <a href="mailto:sarah.e.thompson@uk.pwc.com">sarah.e.thompson@uk.pwc.com</a></p> | <p>Manager on the assignment responsible for our work on the Best Value Performance Plan, Performance Indicators and Data Quality.</p>  |

### **Our team members**

It is our intention that staff work on the Council audit throughout the 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. There are no matters which we perceive may impact our independence and objectivity of the audit team.

### **Services provided to the Council**

In addition to our audit under the Code, the Firm has also undertaken other work for you.

As part of the audit fee we have provided officers with Use of Resources feedback and training in January and February 2007.

We are currently undertaking a review to calculate the fair price of private sector residential and nursing care.

### **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 act as a director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements 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 Panel with whom we will communicate the outputs of our audit.

| Stage of the audit | Output  | Date  |
|--------------------|---|---|
| Audit planning     | Updated Audit Plan  | June 2007   |
| Audit findings     | Preliminary Use of Resources and audit conclusions for discussion   |   |
| Audit Reports      | <b>Audit Memorandum incorporating specific reporting requirements under Auditing Standard (ISA (UK&amp;I) 260), including:</b> <ul style="list-style-type: none"> <li>Any expected modifications to the audit report;</li> <li>Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust;</li> <li>Material weaknesses in the accounting and internal control systems identified as part of the audit;</li> <li>Our views about the qualitative aspects of your accounting practices and financial reporting;</li> <li>Any other relevant matters of governance interest; and</li> <li>Summary of findings from our use of resources audit work to support our value for money conclusion.</li> </ul> | September 2007  |
|                    | <b>Auditor Use of Resources Assessment to inform the Audit Commission CPA process</b>   | September 2007 or as determined by the Audit Commission |
|                    | <b>Opinion on the Financial Statements and conclusion on the Council's arrangements for its Use of Resources</b>  | September 2007  |

*The Audit Commission will produce a short audit and inspection letter summarising the results of audit and inspection work including the annual assessment to support the CPA process. This will be sent to the Council and will be available to the public.*

# Audit fees

## Introduction

The Audit Commission has provided indicative audit fee levels for Councils for the 2006/07 financial year, which depends upon the level of expenditure and assessed risk. Based on your expenditure, the fee for the 2006/07 audit is summarised in the table below.

|                  | 2006/07<br>(£'000) | 2005/06<br>(£'000) |
|------------------|--------------------|--------------------|
| Accounts         | 144                | 137                |
| Use of Resources | 31                 | 29                 |
| <b>Total</b>     | <b>175</b>         | <b>166</b>         |

Our fee for use of resources work includes the following:

- Assessment of the Council against the Use of Resources criteria contained within the Code of Audit Practice;
- Audit of your 2006/07 BVPP;
- CPA Use of Resources 2006 assessment;
- Audit of performance indicators included in the 2006/07 BVPP and to support the CPA assessment; 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 following work of inspectors and internal audit in respect of our Use of Resources conclusion;

- No 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 Statement of Internal Control (SIC) being available for us to review in advance of the audit;
- You providing a fully supported and robust self assessment against the Use of Resources criteria; and
- Our Use of Resources 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 Head of Strategic Finance and her team.

#### **Relationship management**

Nationally, for all principal local authorities, the Audit Commission has appointed relationship managers to co-ordinate audit and inspection work, and provide a direct link between the Council and the Audit Commission. Therefore, the relationship manager is an Audit Commission employee, and your own relationship manager is Lynne Snowball.

In practice, the relationship manager and the Appointed Auditor will work closely together to deliver our audit and inspection work and report the findings of that work to you.

# 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;
- The Standing Guidance for Auditors; and
- The Annual Letter of Guidance.

There are six 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. We recognise that systems and procedures cannot guarantee that transmissions will be unaffected by such hazard.

We confirm that we each accept the risks and authorise electronic communications between us. We each agree to use commercially reasonable procedures to check for the most commonly known viruses before sending information electronically. We shall each be responsible for

protecting our own systems and interests for electronic communications and Darlington Borough Council and PwC (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 due to 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 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 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 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.

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