

Darlington Borough Council 2005/06 Updated Audit Plan



Darlington Borough Council
Town Hall
Feethams
Darlington
Co Durham
DL1 5QT

31 March 2006

Ladies and Gentlemen,

We are pleased to present to you our updated 2005/06 audit plan, which includes an analysis of the significant risks faced by the Council, 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. We would like to thank members and officers of the Council for their help in putting together the audit plan.

If you would like to discuss any aspect of this audit plan further please do not hesitate to contact either Paul Woolston or Mike Pugsley.

Yours faithfully,

PricewaterhouseCoopers LLP

Encs

Contents

Section	Page
Executive Summary.....	1
Audit Risks.....	3
Audit Approach.....	5
Our Team and Independence.....	7
Communicating With You.....	9
Audit Fee.....	10
Appendix A: Other Engagement Information.....	12

In March 2005 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. Reports prepared by appointed auditors and addressed to Members 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.

Executive Summary

Introduction

This section sets out the key features of this audit plan.

Purpose of the Audit Plan

This updated audit plan has been prepared to inform officers and Members of Darlington Borough Council (“the Council”) about our responsibilities as your external auditors and how we plan to discharge them. It contains a number of specific risks, which have been identified through the audit planning process, and our proposed responses.

This plan updates our indicative approach and gives details of all the work that we plan to be undertake as at 31 March 2006 in our role as your external auditors. Any changes after this date will be reported to Members within the annual audit and inspection letter for 2005/06.

Code of Audit Practice

Our principal objective is to carry out an audit in accordance with the Audit Commission’s Code of Audit Practice (“the Code”), which was issued in March 2005. The most important changes introduced by the Code are:

- A new two part audit opinion in which explicit assurance will be provided on the Council’s arrangements to secure value for money in the use of resources. This two part audit opinion will cover the financial statements

‘presents fairly’ opinion and other aspects of our work, including:

- The statement on internal control;
 - Opinion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - Any matters that prevent the auditor from concluding that the best value performance plan (“the BVPP”) has been prepared and published in accordance with the relevant requirements; and
 - Any other exercise of powers in relation to the BVPP under the Local Government Act 1999
- 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”;
 - The identification of a set of criteria (outside the Code itself), which represent a satisfactory standard of financial and corporate management. We will need to ensure that these criteria are met and report in the audit opinion where they are not;
 - Recognition of the new International Standards on Auditing 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 (in short, legality, fraud, systems and financial standing) 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;

- 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;
- 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; 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.

Statement of Responsibilities of Auditors and of Audited Bodies

The Code is supported by the Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies ("the Statement"). The Statement sets out the respective responsibilities of external auditors and audited bodies. We strongly recommend that Members and officers read the Statement and familiarise themselves with its contents.

Audit Planning Process

In order to identify the significant 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 2005/06 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.

Significant Risks

The next section summarises the significant risks identified during the audit planning process together with our proposed responses. Where applicable, the proposed responses set out where we intend to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit.

Non-Audit Services

Details of all non-audit services provided to the Council during 2005/06 are included within this audit plan.

Acknowledgement

We would like to thank Members and officers for their help during the audit planning process.

Audit Risks

Significant Risk	Audit Approach	Lead Officer Contact
<p><u>Local Area Agreement</u></p> <p>Darlington, through the Darlington Partnership, has formed a local area agreement (LAA) that became live on 1 April 2006. Associated with the new LAA are freedoms and flexibilities and pooled budgets that all present challenges in terms of governance.</p>	<p>We will build on partnership governance work we conducted in 2005 to review the governance arrangements in place associated with the LAA.</p>	<p>Lorraine O'Donnell</p>
<p><u>Financial position</u></p> <p>The Council's MTFP indicates that significant use will have to be made of existing reserves over the next 5 years to meet budget requirements.</p>	<p>We will review the plans in place to bridge the gap in funding over the coming years.</p>	<p>David Hall</p>
<p><u>Introduction of group accounts</u></p> <p>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>David Hall</p>
<p><u>Introduction of Whole of Government Accounts</u></p> <p>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>	<p>David Hall</p>

Significant Risk	Audit Approach	Lead Officer Contact
<p><u>Value for money</u></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>	<p>Lorraine O'Donnell</p>

Audit Approach

Introduction

In this section, we set out our audit approach in further detail.

Accounts

Opinion on Financial Statements

Our audit of the financial statements is carried out in accordance with the Code, which requires us to comply with International Standards on Auditing (UK & Ireland) issued by the Auditing Practices Board. 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, both in terms of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of the risks faced by the Council. 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

The government is introducing whole of government accounts (“WGA”) in order to produce consolidated accounts for the whole public sector, however, at present there is no requirement for us to audit the WGA returns. Should this position change we will notify you immediately.

Use of Resources

Opinion on Use of Resources

Our responsibilities under the Code require 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 covering the following areas of performance management and financial management arrangements:

1. The Council has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives;
2. The Council 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;

3. The Council 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 Council has put in place arrangements to monitor the quality of its published performance information, and to report the results to members;
5. The Council has put in place arrangements to maintain a sound system of internal control;
6. The Council has put in place arrangements to manage its significant business risks;
7. The Council has put in place arrangements to manage and improve value for money;
8. The Council has put in place a medium-term financial strategy, budgets and a capital programme that is soundly based and designed to deliver its strategic priorities;
9. The Council has put in place arrangements to ensure that its spending matches its available resources;
10. The Council has put in place arrangements for managing performance against budgets;
11. The Council has put in place arrangements for the management of its asset base; and
12. The Council has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

When forming our opinion we will adopt the following approach:

- Completion of a self-assessment by the Council;
- Review of any relevant work done by internal audit, inspectors and other agencies; and
- Review of your internal control mechanisms plus targeted work to address specific risks and validate arrangements in place at the Council.

Use of Resources CPA Assessment

We will be required to assess the Council in the following five areas as part of the Audit Commission's annual CPA refresh:

- Financial reporting;
- Financial management;
- Financial standing;
- Internal control; and
- Value for money.

The Audit Commission defines the methodology for this work and the links with the work required to conclude on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.

Best Value Performance plans (BVPP)

We will assess the compliance of the 2006/07 BVPP with ODPM guidance.

Performance Indicators

We will undertake testing on specified performance indicators to support the specific service elements within the CPA scorecard.

Our Team and Independence

Audit Team	Responsibilities
Engagement Director <i>Paul Woolston</i> (0191) 269 4205 <i>paul.woolston@uk.pwc.com</i>	Paul is ultimately responsible for delivering an independent audit in line with the Code. More specifically, Paul is responsible for overall quality and for agreeing all audit outputs. He is also responsible for liaising with the Chief Executive and Members.
Engagement Manager <i>Mike Pugsley</i> (0191) 269 4207 <i>michael.n.pugsley@uk.pwc.com</i>	Mike is a senior manager who will be the principal point of contact for the Council and have overall responsibility for overseeing the team delivering the audit. More specifically,
Accounts and governance specialist <i>Paul Harrison</i> (0191) 269 4422 <i>paul.harrison@uk.pwc.com</i>	Paul is a manager who will manage our work on the accounts and governance aspects of the audit on a day-to-day basis. Paul will be responsible for reviewing the work done by the audit team and completing all outputs.

Audit Team	Responsibilities
Lead – Performance <i>Sarah Thompson</i> (0191) 269 4120 <i>sarah.thompson@uk.pwc.com</i>	Sarah is an executive who will manage PwC staff undertaking work on the Council's best value performance indicators and best value performance plan.

Team Members

It is our intention that all members of the audit team develop effective relationships with Council staff and an in depth understanding of your organisation. 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.

Non-Audit Services Provided to the Council

During 2005/06, PwC conducted a review of the proposed new pay and grading structure at Darlington Borough Council. The total fee for this work was approximately £21,000. The review was carried out by staff who are not involved in the audit.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from the firm. 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 appropriate conflict management arrangements in place.

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

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 members of the Audit Committee.

Output	Date
Initial Audit and Inspection Plan for 2005/06	May 2005
Updated Audit Plan	30 April 2006
Best value performance indicators certificate and report	31 August 2006
Audit memorandum incorporating specific reporting requirements under ISA 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. 	30 September 2006
Summary of findings from our performance and governance work	30 September 2006
Auditors' report on the financial statements (including the use of resources conclusion)	30 September 2006
Use of resources CPA assessment	31 October 2006

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 Fee

Introduction

This section sets out how the audit fee has been calculated.

Framework

The Audit Commission has developed a framework for calculating the 2005/06 audit and inspection fee. The formula is based on the level of expenditure, CPA category and potential risks. Based on the Council's gross expenditure and the risks identified in this audit plan, the fee has been agreed at £175,485 excluding VAT and grant claims. This may be broken down as follows:

	2005/06 (£)	2004/05 (£)
Accounts	144,885	122,000
Use of Resources	30,600	50,500
Total	175,485	172,500

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 2005/06 BVPP

- Audit of performance indicators included in the 2005/06 BVPP; and
- Follow up of previous work.

We have based the audit fee on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- Being able to place reliance, as planned, upon the work of internal audit;
- Obtaining comfort from your management controls;
- Placing reliance on the 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;
- 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.

In addition, should the Audit Commission specify further work in relation to the audit of whole of government accounts consolidation schedules we will need to agree additional fees 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.

Relationship Management

The Audit Commission has appointed relationship managers to co-ordinate audit and inspection work, and provides 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 Sarah Diggle.

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

Introduction

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

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

There are six further matters which are not currently included within the guidance, but our firm's practice requires that we need to 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 the 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, NE1 8WH, 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 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.

©2006 PricewaterhouseCoopers LLP. All rights reserved. PricewaterhouseCoopers refers to the United Kingdom firm of PricewaterhouseCoopers LLP (a limited liability partnership) and other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.