
Darlington Borough Council:

External Audit Plan 2011/12

Government and Public
Sector

March 2012



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

23 March 2012

Ladies and Gentlemen,

We are delighted to present to you our external audit plan 2011/12, which includes an analysis of our assessment of significant audit risks, our proposed audit strategy, audit and reporting timetable and other matters. Discussion of our strategy with you enables our engagement team members to understand your concerns and agree on mutual needs and expectations to provide the highest level of service quality. Our approach is responsive to the many changes affecting Darlington Borough Council.

If you have any questions regarding matters in this document please contact Neil Austin or Simon Clegg.

Yours faithfully

PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP, 89 Sandyford Road, Newcastle upon Tyne, NE1 8HW
T: +44 (0) 191 232 8493, F: +44 (0) 191 269 3400, www.pwc.co.uk*

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In March 2010 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 and on the Audit Commission's [website](#). 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 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

Purpose

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

We issued our audit fee letter, setting out our indicative fees for 2011/12, on 27 April 2011 in accordance with Audit Commission requirements. This plan sets out in more detail our proposed audit approach for the year.

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. It is our responsibility 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

This plan outlines our audit approach for the period 1 April 2011 to 31 March 2012, including the 2011/12 financial accounts audit which we will undertake in July 2012.

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 last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission's website.

Scope of the audit

We will conduct our audit in accordance with the relevant requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (“the Audit Code”) published by the Audit Commission.

Statement of Accounts

We will conduct our audit of the Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) as published by the Auditing Practices Board. We will issue an opinion stating whether in our view:

- the Statement of Accounts provides a true and fair view and has been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the CIPFA Service Reporting Code of Practice; and
- the information given in the Explanatory Foreword is consistent with the Statement of Accounts.

In our audit report on the Statement of Accounts, we are also required to report by exception where, in our view, the Annual Governance Statement does not comply with the requirements of “Delivering Good Governance in Local Government: Framework” published by CIPFA/SOALCE in June 2007 or is misleading or inconsistent with information we are aware of from our audit.

As part of our work on the Statement of Accounts statements we will examine:

- the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating whether in our view they are consistent with the Statement of Accounts.

Value for money conclusion

Under the Audit Code we are also required to report on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

As in 2010/11, we will perform the work we consider necessary to allow us to give our statutory value for money conclusion based on the following two criteria specified by the Audit Commission:

- that the Council has proper arrangements in place for securing financial resilience; and
- that the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Other reporting requirements

In addition, we are also required to consider:

- Whether we need to issue a report in the public interest under s8 of the Audit Commission Act 1998;
- Whether we need to make written recommendations for the consideration of the Council under s11(3) of the 1998 Act;

-
- Whether we believe that the Council or one of its officers:
 - is about to make or has made a decision which involves or would involve the authority incurring expenditure which is unlawful,
 - is about to take or has begun to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
 - is about to enter an item of account, the entry of which is unlawful;and we need to issue an advisory notice under s19A of the 1998 Act;
 - Whether there is any item of account for which we need to make an application to the court under s17 of the 1998 Act for a declaration that the item is contrary to law; and
 - Whether we need to apply under s24 of the 1998 Act for judicial review of any decision or failure to act by the Council which it is reasonable to believe would have an effect on the accounts.

Audit approach

Timetable

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.

Month/Deadline *Audit activity*

February 2012	Planning visit
March 2012	Issue of External Audit Plan
July 2012	Statement of Accounts audit
30 September 2012 (tbc)	Target date for issue of: <ul style="list-style-type: none">• Audit Opinion on the Statement of Accounts;• Value for Money Conclusion; and• Opinion on the Whole of Government Accounts return
September 2012	Planned date for issue of final version of ISA (UK&I) 260 Report to those Charged with Governance
30 November 2012 (tbc)	Deadline for issue of Annual Audit Letter

Significant audit risks

Local authorities nationwide are currently facing a range of unique challenges in the implementation of significant efficiency measures following the Comprehensive Spending Review and Government announcements of spending cuts. The level of cuts is requiring Councils to re-evaluate their activities from corporate structures to service redesign whilst also considering the implications of developments across the public sector, such as to the provision of social care. In the case of the Council, the key challenges are in evaluating services and determining how these can be delivered more efficiently and effectively and, in some cases, whether they should be delivered by the Council at all. This is whilst also delivering a significant programme of cost improvement savings which have led to significant restructuring within the Council. Many of these decisions are likely to lead to closer collaboration with other neighbouring local authorities and further leveraging existing service sharing vehicles such as Xentrall. All will present risks and challenges for the Council in coming years.

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks are categorised as follows:

● <i>Significant</i>	Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
● <i>Elevated</i>	Although not considered significant, the nature of the balance/area requires specific consideration.
● <i>Normal</i>	We perform standard audit procedures to address normal risks in all other material financial statement line items.

Auditing Standards require us to include two fraud risks as Significant:

- Management override of controls: *“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.”* ISA 240 paragraph 31; and
- Income and expenditure recognition: *“When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.”* ISA 240 paragraph 26. For our public sector clients we also include the recognition of expenditure as part of this risk.

We have identified the following significant and elevated risks for our audit. We also include a number of other risks related to our other Audit Code responsibilities.

Summary of risks

A summary of the risks identified for 2011/12 is set out below, with further information provided in Appendix 1.

<i>Risk arising</i>	<i>Categorisation for accounts risks</i>		<i>Risk Assessment</i>
	<i>Accounts true and fair opinion</i>	<i>Other Code responsibilities</i>	
Management override of controls	◆		● Significant
Income and expenditure recognition	◆	◆	● Significant
Capital developments and valuation of Property, Plant and Equipment	◆	◆	● Significant
Impact of service redesign and transition to delivering more services through externally commissioned providers	◆	◆	● Elevated
Accounting for potential liabilities arising from ongoing claims/contractual disputes	◆		● Elevated
Financial sustainability		◆	n/a - normal risk
Performance against MTFP and achievement of efficiency targets		◆	n/a - normal risk
Governance and structures		◆	n/a - normal risk

Materiality and our audit approach

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material, by considering the amount and nature of transactions. A high level summary of our audit approach is shown in Appendix 2.

We report all unadjusted errors identified, other than those below a threshold that we agree with you, to the Audit Committee in accordance with the requirements of ISA 260. We propose that the threshold be £100,000 for this year which is consistent with that agreed for 2010/11.

Our audit approach is based on a thorough understanding of your organisation and is risk-driven. As such we consider the following areas when developing our audit approach:

- key risks arising from internal developments or from external factors such as policy, regulatory or accounting changes;
- the robustness of the control environment, including the governance structure, the business environment, the management control structure, the information systems and processes and the financial reporting procedures in operation; and
- understanding the control activities operating over key financial cycles which affect the production of the year end financial statements and validating key controls considered relevant to the audit approach.

Our team and independence

Engagement Leader

Neil Austin

0191 269 4029
neil.austin@uk.pwc.com

Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.

Audit Manager

Simon Clegg

0191 269 4132
simon.d.clegg@uk.pwc.com

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, ISA (UK&I) 260 report and Annual Audit Letter.

Team Leader

Nicola Brown

Nicola.x.brown@uk.pwc.com

Responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the use of resources.

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.

Relationships and investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as 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.

Communications plan

ISA (UK&I) 260 (revised) '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. The communications plan is illustrated in the table below:

Required Communication	Planning	Completion	As required
Independence and objectivity confirmation	✓	✓	
Detail of all non-audit work performed by the firm and related fees		✓	
Nature and scope of work together with timing of expected reports	✓		✓
Expected modifications to the auditors' report		✓	✓
Uncorrected misstatements		✓	
Significant deficiencies in internal control identified during the audit		✓	
Views about the qualitative aspects of the entity's accounting practices and financial reporting		✓	
Matters specifically required by other ISAs (UK&I) to be communicated to those charged with governance		✓	✓
Final draft of representation letter		✓	
Any other audit matters of governance interest (including the Annual Audit Letter)		✓	✓

Risk of fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

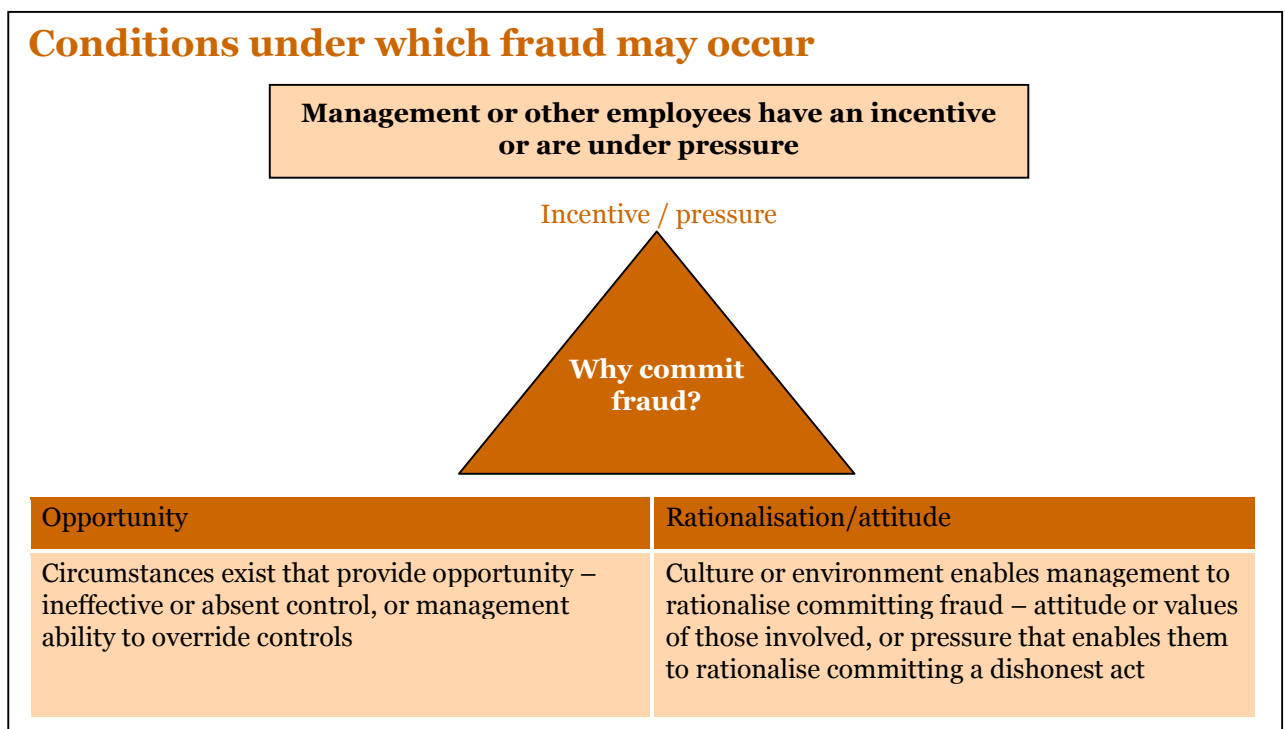
Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the audit committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



Recent developments

Accounting developments

New Requirements in the Code of Accounting Practice

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011/12 was published in Spring 2011 setting out the following substantial changes in accounting requirements for local authorities:

- For the first time in the 2011/12 Statement of Accounts, the Code requires authorities to present information about the **heritage assets** that they hold. Heritage assets are those that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Typical examples include historic buildings, civic regalia, museum and gallery collections and recordings of historic events. Where it is practicable to obtain a valuation (at a cost commensurate with the benefits to users of the Statement of Accounts), the Code now requires material amounts of heritage assets to be carried in the Balance Sheet at that valuation.

Where it is not practicable to obtain a valuation and there is no record of their historical cost, assets are to be omitted from the Balance Sheet. However, in these circumstances notes will be required explaining the significance and nature of those assets that are not reported in the Balance Sheet.

The Council will therefore need to assess whether it has any substantial portfolio of heritage assets. If so, it will determine whether an appropriate and relevant valuation can be made for the items in the portfolio and then obtain any valuations required. New notes to the accounts will also need to be prepared setting out the Council's policy for the acquisition, preservation, management and disposal of heritage assets.

- There is a new requirement for a disclosure note setting out the number of **exit packages** agreed, analysed between compulsory redundancies and other departures and presented in £20,000 bands up to £100,000 and £50,000 bands above £100,000. The total cost of packages in each band must also be disclosed. (There will be scope to combine bands if this is necessary to ensure that individual packages cannot be identified.)
- The **related parties** disclosures have been simplified where the Council has transactions with government departments and agencies, NHS bodies and other local authorities, limiting disclosure to individually or collectively significant transactions.

Carbon Reduction Commitment

2011/12 is the first year that the Council is required under the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme to purchase and surrender CRC allowances in proportion to the emissions it makes during the year. Although the surrender in relation to 2011/12 will take place in 2012/13, the Council will need to account at 31 March 2012 for the consequences of the emissions it has made in 2011/12.

When this report was issued there was no specific guidance available to local authorities as to how CRC obligations should be reflected in the Statement of Accounts. However, it is probable that provisions will need to be made at 31 March 2012 in relation to any costs likely to be incurred in meeting obligations relating to 2011/12 emissions.

Housing Revenue Account Self-Financing

The Housing Revenue Account Subsidy system is to be replaced by a devolved system of council housing finance in 2011/12. The devolved system will involve each housing authority taking on a level of HRA debt determined by the Government which will generate revenue charges that, taken together with other revenue expenditure, should be supportable from rental income without need for government support.

HRA debt levels are due to be adjusted on 28 March 2012 by authorities either making a payment to the Government (to increase their existing level) or having Public Works Loan Board loans settled by the Government (to reduce their existing level). The Council is expecting to make a payment to the value of £33.8m, funded through additional PWLB borrowing.

The Council will need to recognise the implications of the settlement in the HRA financial statements for 2011/12 and the 31 March 2012 Balance Sheet and provide relevant explanatory notes about the preparations for self-financing represented by the settlement.

Developments in auditing

Highways Infrastructure

Arrangements will not be confirmed by the Audit Commission until after the end of the financial year, but it is possible that the scope of our opinion on the Whole of Government Accounts return may be extended to include aspects of the information that the Council might be required to provide on the depreciated replacement cost of highways infrastructure assets. We will advise the Council promptly of any new responsibilities that might be confirmed once Commission arrangements are finalised.

Appendices

Appendix 1: Significant and elevated audit risks

Our risk assessment forms the basis for planning and guiding all subsequent audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of controls implemented by management. Risks are categorised as follows:

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- **Significant** Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
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- **Elevated** Although not considered significant, the nature of the balance/area requires specific consideration.
-
- **Normal** We perform standard audit procedures to address normal risks in all other material financial statement line items.
-

Financial Statements risks

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
Fraud and management override of controls	●	<p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p> <p>In any organisation, management may be in a position to override the financial controls that are in place. A control breach of this nature may result in a material misstatement. We are required to consider management override of controls as a significant risk every year and adapt our audit procedures accordingly. However, our view is that the risk is exacerbated in 2011/12 because of the ongoing financial pressures facing local authorities.</p> <p>We consider the following to be the key areas in which management override of controls may occur to manipulate the financial results:</p> <ul style="list-style-type: none"> • Recognition of revenue and expenditure; • Manipulation of journal postings to the ledger; • Recognition and measurement of provisions; 	<p>General approach: We will understand and evaluate internal control processes and procedures as part of our planning work. We will design and perform procedures in relation to the business rationale for significant transactions. Our audit procedures are also planned to include an unpredictable element that varies year on year.</p> <p>Recognition of revenue and expenditure: See below.</p> <p>Manual journal postings: We will review the appropriateness of manual journals processed during the year.</p> <p>Provisions: We will ensure that recognition criteria are met for any material provisions and that the value of the liability recognised is appropriate. We will hold discussions with the Council's legal and HR teams to confirm that all material provisions have been accounted for.</p> <p>Management estimates: We will look carefully at any management estimates and</p>

		<ul style="list-style-type: none"> Management estimates; and capitalisation of revenue costs. 	<p>consider whether they are subject to bias.</p> <p>Capitalisation of revenue costs: We will look at controls around the capitalisation of expenditure and perform detailed testing on capital additions in year.</p>
Recognition of income and expenditure including the impact of the economic downturn	●	<p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government.</p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported financial position.</p> <p>The Council is likely to be experiencing increased pressures on many of its budgets as economic conditions have worsened. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.</p> <p>Local government bodies continue to be expected to make significant efficiency savings over the coming years, on top of those of those already delivered. There is a risk that savings plans may not be robust or based on long term solutions which could result in short term, year-end actions to ensure that the targets are met. Whilst we know the Council have developed robust procedures to manage the impact of reduced central funding thus far, there remain ongoing pressures on the financial position in the medium to long term.</p> <p>There are also risks in relation to financial reporting that the requirement to report particular financial results overrides financial reporting best practice.</p>	<p>We will understand and evaluate controls relating to this risk and test key controls to confirm they are operating effectively. We will consider the accounting policies adopted by the Council and subject income and expenditure to the appropriate level of testing to identify any material misstatement.</p> <p>We will review the Council's budget monitoring processes to identify any areas of concern. We will also bear these risks in mind when carrying out cut-off testing.</p> <p>As part of our value for money work as well as our work on financial standing, we will consider the Council's savings plans and consider their robustness. We will meet with individual department directors as well as key finance staff to discuss their progress in delivering the MTFP as well as the future direction for the Council.</p> <p>We will also consider the accounting implications of any savings plans and would welcome early discussion of any new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure.</p>
Capital developments and valuation of property plant and equipment	●	<p>Property, plant and equipment (PPE) represents the largest balance in the Council's balance sheet. The Council measures its properties at fair value involving a range of assumptions and the use of</p>	<p>We will audit additions, disposals, and impairments and also consider the accounting treatment of PFI services as part of our audit work.</p>

		<p>external valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p>Specific areas of risk include:</p> <ul style="list-style-type: none"> • The accuracy and completeness of detailed information on assets. • Whether the Council's assumptions underlying the classification of properties are appropriate. • Whether properties that are not programmed to be revalued in the year might have undergone material changes in their fair value. • The valuer's methodology, assumptions and underlying data, and our access to these. <p>Furthermore, in 2011/12 we know that a number of local school previously controlled by the Council have subsequently achieved Academy status and are therefore now independent. This will lead to a significant write-out of these assets from the Council's balance sheet which will need to be accounted for and disclosed appropriately within the Statement of Accounts.</p>	<p>We will work with the Council in determining the appropriate treatment for assets where the carrying value may not be appropriate and for Academy schools which need to be written out of the Council's balance sheet.</p> <p>As part of year-end procedures we will review management's working papers which support any adjustments to the carrying value of fixed assets. This will include the result of any impairment review performed.</p>
Impact of service redesign and transition to delivering more services through externally commissioned providers	●	<p>Current economic conditions continue to result in changes in how the Council operates and the way in which it provides services. Many Councils are considering new arrangements for commissioning services through other providers and Darlington continue to explore this. In addition we know the Council continue to explore the potential for sharing services and working more collaboratively with other Councils in the region to generate efficiencies through economies of scale and shared experience and best practice. These changes could lead to significant contracts being signed increasing the need for robust contract management arrangements, an area where the Council has had concerns in the past. In addition the Council will need to ensure that the implications</p>	<p>We will review significant contracts that have been taken out during the year and ensure that these have been correctly accounted for. We will also review a number of recently approved capital contracts to ensure that all appropriate procedures have been followed throughout the contracting process.</p> <p>Where collaborative working has commenced, we will ensure that the associated income and expenditure is appropriately reflected in the Council's Statement of Accounts.</p>

		of collaborative working are appropriately reflected in the accounts (for instance shared costs where posts are split between more than one Council).	
Accounting for potential liabilities arising from ongoing claims/ contractual disputes	●	<p>The Council continue to closely monitor and actively manage a small number of ongoing claims and contractual disputes. The stage of these disputes, the likely outcome and the measurable cost of settlement can all determine when a liability should be recognised in the Council's accounts and to what degree.</p> <p>Many of these claims and disputes are drawing closer to conclusion to the point where liabilities will need to be recognised and in some cases may even crystallise. It is therefore important that the Council seek ongoing legal advice and monitor the situation of all such claims right up to the point the accounts are signed and that liabilities are accounted for and disclosed as appropriate.</p>	We will continue to discuss the position of any ongoing claims and contractual disputes with the Assistant Director of Resources and the finance team as well as seeking separate confirmations from the Council's independent legal advisors. We will review the status of all claims and consider legal advice sought with regard to the likely outcomes.

Appendix 2: Audit approach

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

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, where we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

Our work programme also involves close collaboration with Internal Audit and a mutual reliance on work performed. This allows us to ensure you maximise the efficiency and effectiveness of your combined audit service and that, through our combined approach, we fully address the risks facing the Council. Our approach can be summarised as follows:

Key balances / accounts	System/Process	Key client contact	Risk of material misstatement	Audit Approach	Joint Working with Internal Audit and Management
PPE/Intangible Assets	<ul style="list-style-type: none"> Fixed asset register Excel spreadsheets to map key capital accounting entries including valuations 	John Barrigan (finance) Derek Watkins (valuer)	Significant	<ul style="list-style-type: none"> Update understanding of controls Substantive testing of material impairments, additions and disposals Analytics over depreciation Detailed testing on valuations including assessing the assumptions used by the valuer, making use of our own internal valuation specialists Review of all transactions associated with the PFI schemes 	Review of internal audit work on capital to feed into our understanding of controls Work closely with management and the valuer to agree accounting entries and valuation assumptions
Income and debtors (excluding prepayments and accrued income)	<ul style="list-style-type: none"> Validation of income across all cost of service headings Invoices authorised through Agresso and controls operating in Xentrall Debtors ledger reconciliation 	Karl Hume Peter Carrick	Normal	<ul style="list-style-type: none"> Update understanding of controls in place over income processing Interim testing of month 9 income balances Reconciliation of income to central contacts or government awards / determinations Substantive testing including debtors Confirmation of all significant intra-government balances Consider recoverability of debtors 	Meetings with finance to update our understanding of controls in place Review of internal audit working papers and sharing results of controls testing performed
Expenditure and creditors	<ul style="list-style-type: none"> Authorisation and matching process for purchase orders and invoices BACS authorisation and reconciliation 	Karl Hume Peter Carrick	Normal	<ul style="list-style-type: none"> Update understanding of controls Substantive testing of material balances 	Meetings with finance to update our understanding of controls in place Review of internal audit working papers and sharing results of controls testing

Key balances / accounts	System/Process	Key client contact	Risk of material misstatement	Audit Approach	Joint Working with Internal Audit and Management
	<ul style="list-style-type: none"> Purchase ledger reconciliation 				performed
Debtors: Prepayments and accrued income Creditors: Accruals and deferred income Income	Management estimates and judgement created by journals	Karl Hume Peter Carrick	Significant	<ul style="list-style-type: none"> Update understanding of significant estimates Perform journals testing on material balances Testing of expenditure recognition through unrecorded liabilities and cut-off Testing of allocation of material income items Testing of material one-off income amounts 	Meetings with finance to understand the process in place over journals with focus on year end and material journals Review of internal audit working papers and sharing results of controls testing performed
Cash	Cash accounts and investments-managed and reconciled	Elaine Hufford	Normal	<ul style="list-style-type: none"> Update understanding of controls Substantive testing of year end bank reconciliations Bank confirmations (centrally coordinated) 	Meetings to update our understanding of controls in place over cash
Provisions	Excel spreadsheet	Peter Carrick Cath Whitehead (for legal claims and contractual disputes)	Elevated	<ul style="list-style-type: none"> Update understanding of controls Substantive testing where material 	Meeting with finance team and AD - Resources to update our understanding of provisions process and likely provisions at year end
Borrowings	Finance leases, PFI and loans collated through spreadsheets	Elaine Hufford	Normal	<ul style="list-style-type: none"> Substantive testing to PFI model, lease agreements and loan agreements Review of valuation of PFI assets 	Meeting with finance team and regular access to our local PFI specialist Specific work performed in conjunction with Internal Audit on the management of the PFI contract
Payroll	Xentrall Reconciliation of payroll system to the general ledger	Xentrall	Normal	<ul style="list-style-type: none"> Update understanding of controls Substantive testing of starters and leavers Substantive testing of agency costs Testing of allocation of payroll costs Substantive analytical procedures on permanent staff costs and testing of staff numbers to payroll system Substantive testing on a sample of Council employees 	Meetings to update understanding of controls and the allocation of payroll costs Reliance on work performed by internal audit on starters and leavers

Key balances / accounts	System/Process	Key client contact	Risk of material misstatement	Audit Approach	Joint Working with Internal Audit and Management
				to agree costs are appropriate	
Housing Revenue Account/ Collection Fund	NNDR and Council Tax systems and Orchard for Housing.	Shaun Russell Peter Carrick	Normal	<ul style="list-style-type: none"> • Detailed testing of HRA Income and Expenditure balances • Reconciliation of HRA to Income and Expenditure account • Analytical procedures on housing rents • Testing of item 8 debit and credit • Analytical procedures on Council Tax ad NNDR 	Bespoke, tailored audit approach developed in conjunction with Internal Audit for testing controls over Council Tax and NNDR systems as well as Housing Rents

Appendix 3: Audit fees

The Audit Commission has provided audit fee levels for local government bodies for the 2011/12 financial year, based on the fee for 2010/11 adjusted for the reductions set out in the final work programmes and scales of fees documents available on the Commission's website. The fee for the audit of the Council is detailed as follows:

	2011/12	2010/11
Accounts - Including Value for Money	£205,470	£228,300
Certification of grant claims and returns – see paragraph below	£35,000	£35,000
Total	£240,470	£263,300

The fee takes into account assessments we made in 2010/11 about audit risk and complexity, and the Commission expects variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2010/11 fee.

Our assessments about audit risk and complexity have been based 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 value for money conclusion;
- No significant changes being made by the Audit Commission to the value for money 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 2012; and
- Our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded or other changes in audit risk or complexity are identified, 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 Resources.

Appendix 4: 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 four 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, 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 James Chalmers, 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.

In the event that, pursuant to a request which Darlington Borough Council 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. Darlington Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Darlington Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Darlington Borough Council 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.

This report has been prepared for and only for Darlington Borough Council in accordance with the Statement of Responsibilities of Auditors and of Audited Bodies (Local government bodies) published by the Audit Commission in March 2010 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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