

Audit and Inspection Plan

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Audit and Inspection Plan

Darlington Borough Council

Audit 2008/09

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Document Control

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

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Introduction

- 1 This plan sets out the audit and inspection work that the Audit Commission and the Council's appointed auditors, PricewaterhouseCoopers LLP (PwC), propose to undertake for the 2008/09 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2008/09;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 The Audit Commission will take responsibility for the delivery of the planned inspection work.
- 3 During 2008/09, the role of Relationship Manager will be replaced by the post of Comprehensive Area Assessment Lead (CAAL). The CAAL will provide the focal point for the Commission's work in your local area, lead the CAA process, and ensure that the combined inspection programme across all inspectorates is tailored to the level and nature of risk for the area and its constituent public bodies. The Commission has become the statutory gatekeeper of all inspection activity involving local authorities.
- 4 As the appointed auditors have not yet completed their audit for 2007/08, the audit planning process for 2008/09, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 5 The Audit Commission and the Council's appointed auditors, PwC, will comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999; and
 - the Code of Audit Practice.
- 6 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the annual governance statement); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies (from April 2008) sets out the respective responsibilities of the auditors and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 8 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and audit work is undertaken in the context of these responsibilities.

Fees

- 9 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2008/09. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 10 The total indicative fee for the audit and inspection work included in this audit and inspection plan for 2008/09 is £230,800, which compares to the planned fee of £312,000 for 2007/08 which included the CPA corporate assessment.
- 11 A summary of this is shown in the table below. The fee is determined by audit risks identified, mandated work and basic assumptions. A detailed breakdown of the audit and inspection fee is included in Appendix 2.

Table 1 Audit and Inspection fee

Audit area	Planned fee 2008/09	Planned Fee 2007/08	Page
Audit (excluding Pension Fund)	£207,800	185,900	
Audit (Pension Fund)	n/a	n/a	
Total audit fee	£207,800	185,900	
Total inspection fee	£23,000	£126,100	
Certification of claims and returns	£40,000	£50,000	

- 12 The Audit Commission scale fee for Darlington Borough Council is £207,800. The fee proposed for 2008/09 is in line with the scale fee and is within the normal level of variation specified by the Commission.
- 13 In setting the audit fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different to that identified for 2007/08;
 - internal audit undertakes appropriate work on all systems; and
 - good quality working papers and records will be provided to support the financial statements before the start of the audit.

Further details of the assumptions are outlined in Appendix 2.

- 14 Our planned fees in relation to the certification of grants and returns based on an estimate of the volume and quality of the submissions made to the auditors. The fee charged will be on the basis of actual work carried out.

- 15 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 16 It is a matter for the auditors to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.

Process for agreeing any changes in audit fees

- 17 As set out in paragraph 4, we expect that the initial risk assessment may change as the year progresses. Where this is the case, we will discuss this in the first instance with the Director of Corporate Services. If required, supplements to the plan will be issued to record revisions to the risk and the impact on the fee.

Auditor's report on the financial statements

- 18 Your appointed auditors are required to issue an audit report giving their:
- opinion on whether the financial statements present fairly the financial position of the Council as at 31 March 2009; and
 - conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial statements

- 19 The auditors have not undertaken a risk assessment for the audit of the financial statements as many of the specific risks may only become apparent after the completion of the 2007/08 audit. A separate updated plan for the audit of the financial statements will be issued in May 2009.
- 20 At this stage the auditors are aware of the following risks that are likely to impact on the audit of the financial statements:
- The establishment of the Darlington/Stockton Shared Services Partnership;
 - The implementation of a new financial system and its transfer into the Partnership; and
 - Pressures on the Council's medium term financial plan including slippage in meeting targets set for efficiency savings and ongoing financial pressures related to Adult Social Care.

VFM conclusion

- 21 In reaching their conclusion, the appointed auditors will review evidence that is relevant to the Council's performance management and financial management arrangements.

Use of resources 2008/09

- 22 The Audit Commission has specified that auditors will complete a use of resources assessment for 2008/09. This will be a new assessment forming part of the CAA framework for 2009.
- 23 The Commission proposes that the approach to the new use of resources assessment will be focussed on three themes with the detailed Key Lines of Enquiry to be confirmed. For each of the significant risks identified in relation to the use of resources work, the appointed auditors will consider the arrangements put in place by the Council to mitigate the risk, and plan the work accordingly.

Mandated work

24 As part of the audit, the mandated work programme comprises:

- data quality for 2007/08; and
- whole of government accounts.

Appendix 1 highlights the work to be undertaken. Note that, for 2008/09, Data Quality will become an element of the Use of Resources assessment.

CPA and inspection

- 25 From April 2009, the Audit Commission, jointly with the other public service inspectorates, will be implementing Comprehensive Area Assessment (CAA). Therefore, 2008/09 is the last year in which corporate assessments and programme service inspections will be undertaken as part of the CPA framework.
- 26 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 27 The Council's CPA category is, therefore, a key driver in the Commission's inspection planning process. For CPA 2007, the Council was categorised as four stars.
- 28 We have applied the principles set out in the CPA framework, '*CPA – The Harder Test*', recognising the key strengths and areas for improvement in the Council's performance.
- 29 Our inspection activity for 2008/09 will be as follows

Table 2 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Management/CAAL role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Inspection activity	Reason/impact
Direction of Travel (DoT) assessment	An annual assessment, carried out by the CAAL, of how well the Council is securing continuous improvement. The DoT statement will be reported in the Annual Audit and Inspection Letter. The DoT assessment summary will be published on the Commission's website.

Advice and assistance

- 30 Under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 we have powers to provide 'advice and assistance' (A&A) to another public body where this is requested.
- 31 If you wish the Commission to provide additional services under these powers, please contact your Relationship Manager/Comprehensive Area Assessment Lead.

The audit and inspection team

- 32 The key members of the audit and inspection team for the 2008/09 audit are shown in the table below.

Table 3 Audit and inspection team

Name	Contact details	Responsibilities
Comprehensive Area Assessment Lead	To be appointed	The primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Janet Eilbeck Appointed Auditor	janet.eilbeck@uk.pwc.com 020 780 49178	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and Audit Committee.
Paul Harrison Audit Senior Manager	paul.harrison@uk.pwc.com 0191 269 4422	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Corporate Services.

Quality of service

- 33 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve the service, please contact your Relationship Manager/Comprehensive Area Assessment Lead in the first instance.
- 34 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website or on request.

Planned outputs

- 35 Reports will be discussed and agreed with the appropriate officers before being issued to Cabinet or the Audit Committee, as appropriate.

Table 4 **Planned outputs**

Planned output	Indicative date
Update Audit Plan	March 2009
ISA 260 report	September 2009
Auditor's report giving an opinion on the financial statements	September 2009
Final accounts memorandum	October/November 2009
Use of Resources report	October 2009
Direction of Travel report	February 2010
Annual Audit and Inspection Letter	March 2010

Appendix 1 – Elements of our work

Financial statements

- 1 Your appointed auditors will carry out their audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 2 Your appointed auditors are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Council as at 31 March 2009 and its income and expenditure for the year.
- 3 Your appointed auditors are also required to review whether the Annual Governance Statement has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the Annual Governance Statement is misleading or inconsistent with their knowledge of the Council.

Value for money conclusion

- 4 The Code requires your appointed auditors to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires the auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 5 In meeting this responsibility, your appointed auditors will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators, the auditors will normally place reliance on their reported results to inform their work.
- 6 The appointed auditors will also follow up audit work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment 2008/09

- 7 The Commission has now consulted on its proposals for the 2008/09 Use of Resources assessment. It proposes that the work required to arrive at the 2008/09 use of resources assessment is fully aligned with that required to arrive at the auditor's 2008/09 value for money conclusion.
- 8 The Commission proposes that the assessment will be based upon the evidence from three themes:

- Managing money;
 - Managing the business; and
 - Managing other resources.
- 9 The Commission proposes that Data Quality will become an element of the Use of Resources framework from 2008/09.

Whole of government accounts

- 10 Appointed auditors will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office.

National Fraud Initiative

- 11 From 2008/09 work relating to the National Fraud Initiative will be carried out directly by the Commission under its new data matching powers under the Serious Crime Act 2007. The Commission will be consulting audited bodies on the work programme and fee scales for the National Fraud Initiative later this year.

Certification of grant claims and returns

- 12 The Council's appointed auditors will continue to certify the Council's claims and returns on the following basis:
- claims below £100,000 will not be subject to certification;
 - claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
 - claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

Appendix 2 – Basis for fee

- 1 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning work to address areas of risk relevant to audit responsibilities and reflecting this in the audit fees. It also means making sure that work is coordinated with the work of other regulators and that work helps you to improve.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
 - cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

Assumptions

- 3 In setting the fee, the Audit Commission and appointed auditors have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2007/08;
 - you will inform us of significant developments impacting on the audit;
 - internal audit meets the appropriate professional standards;
 - good quality working papers and records will be provided to support the financial statements before the start of the audit;
 - requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 4 Where these assumptions are not met, the auditors will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when the opinion audit plan is issued.
- 5 Changes to the plan will be agreed with you. These may be required if:
 - new residual audit risks emerge;
 - additional work is required by the Audit Commission or other regulators; or

- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.
- 6 Our planned fees in relation to the certification of grants and returns based on an estimate of the volume and quality of the submissions made to the auditors. The fee charged will be on the basis of actual work carried out.
- 7 Below is a detailed breakdown of the audit and inspection fee for 2008/09.

Table 5 Detailed audit and inspection fee

Audit area	Planned fee 2008/09	Planned/Actual 2007/08	Page
Audit (excluding the Pension Fund)			
Financial statements	£137,000	£130,400	
Use of Resources 2007/08	n/a	£32,000	
Use of Resources 2008/09	£68,800	n/a	
Data Quality 2007/08	n/a	£21,000	
Whole of government accounts	£2,000	£2,000	
Audit of Pension Fund	n/a	n/a	
Total audit fee	£207,800	£185,400	
Inspection			
Relationship management and Direction of Travel	£23,000	£126,100 (including the CPA corporate assessment)	
Total inspection fee	£23,000	£126,100	
Total audit and inspection fee	£230,800	£311,500	
Certification of claims and returns	£40,000	£50,000	

Appendix 3 – Independence and objectivity

- 1 We are not aware of any relationships that may affect the independence and objectivity of the appointed auditor and the audit staff, which they are required by auditing and ethical standards to communicate to you.
- 2 The auditors comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised below.
- 3 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 4 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 5 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditors have charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 6 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditors to those charged with governance is the Audit Committee. The auditors reserve the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 7 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.
- 8 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.

- Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditors to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
- Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
- The appointed auditor is responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
- The appointed auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.
- The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Appendix 4 – Working together

Meetings

- 1 The audit and inspection team will maintain knowledge of your issues to inform audit and inspection work through regular liaison with key officers.
- 2 Our proposal for meetings is as follows.

Table 6 Proposed meetings with officers

Council officers	PwC and Audit Commission staff	Timing	Purpose
Chief Executive, Assistant Chief Executive and Director of Corporate Services	Appointed Auditor (AA) Audit Manager (AM) Comprehensive Area Assessment Lead	Quarterly (to be confirmed)	General update
Executive Directors	AM	Annually	Audit planning
Head of Corporate Assurance	AM	Monthly	Update on audit progress and issues
Audit Committee	AA and AM	Quarterly	Formal reporting of: <ul style="list-style-type: none"> • Audit and Inspection Plan; • ISA 260 report; • Annual Audit and Inspection Letter; and • other issues as appropriate.

Sustainability

- 3 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce the impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.