

Darlington Borough Council 2007/08 Update Audit Plan



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

June 2008

Ladies and Gentlemen

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

We would like to thank members and officers of the Council for their help in preparing this document.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact Janet Eilbeck (020 780 49178) or Paul Harrison (0191 2694422).

Yours faithfully

PricewaterhouseCoopers LLP

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Contents

Section	Page
Darlington Borough Council.....	1
Introduction.....	4
Risk assessment	5
Our approach to the audit.....	8
Our team and independence.....	10
Communicating with you	12
Audit budget and fees.....	13
Appendix A: Other engagement information	15

In March 2005 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Introduction

The purpose of this Plan

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

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

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

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

Period covered by this plan

This Plan outlines audit approach for 2007/08, including the audit of the 2007/08 accounts which we will undertake in summer 2008.

Relationship management

Nationally, for all principal local authorities, the Audit Commission has appointed relationship managers to co-ordinate audit and inspection work.

This provides a direct link between the Council and the Audit Commission. In practice, the relationship manager and the appointed auditor will work closely together to deliver audit and inspection work and report the findings to you.

From summer 2008, relationship managers will be replaced by managers responsible for pulling together the new CAA process across the area.

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code). This is supported by the Statement of Responsibilities of Auditors and of Audited bodies (the Statement). Both documents were issued in March 2005 and are available from the Chief Executive.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

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

Risk assessment

Planning of our audit

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

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Our response explains where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

When we report to "those charged with governance" following the audit, as we are required to do under International Standards on Auditing, we report to you the results of our work and refer back, where applicable, to these risk areas identified.

At the Council, we have assumed that "those charged with governance" are the Audit Committee.

Risk assessment results

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

Business risks	Audit approach
<p><i>Changes in accounting guidance - Introduction of a Revaluation Reserve</i></p> <p>The Local Government Statement of Recommended Practice (SORP) for 2007/08 accounts requires authorities to include, for the first time, a revaluation reserve in the balance sheet. The revaluation reserve, which is common in private sector and other public sector accounts, is used to capture revaluation gains and losses for individual fixed assets held by the Council.</p> <p>The implementation of the revaluation reserve will require the Council, for 2007/08 and all subsequent years, to hold more detailed information, such as historical cost, depreciation and impairments, on individual assets within the fixed asset register.</p>	<p>We will discuss the new requirements with you and review the plans and arrangements that you have put in place to implement the revaluation reserve. We will conduct detailed testing to confirm that the new guidance had been adhered to in preparing the accounts.</p>
<p><i>Changes in accounting guidance - Financial Instruments</i></p> <p>Financial instruments are contracts that give rise to a financial asset in one entity and financial liabilities in another. Financial assets and liabilities include cash, equity instruments (such as shares in companies) and contractual rights to receive or deliver cash (or another financial asset).</p> <p>The Local Government SORP for 2007/08 accounts requires authorities to adopt new accounting treatments for financial instruments. The SORP also sets out more complex disclosure requirements for financial instruments.</p>	<p>We will discuss the new requirements with you and review the plans and arrangements that you have put in place to account for financial instruments in accordance with the revised accounting requirements. We will conduct detailed testing to confirm that the new guidance has been adhered to in preparing the accounts.</p>
<p><i>Financial standing</i></p> <p>In common with many authorities, Darlington Borough Council is facing significant budgetary pressures. The Council's revenue Medium Term Financial Plan for 2008/09 to 2011/12 relies on the achievement of challenging efficiency savings and requires the use of some £3.5m in revenue reserves over the four years of the Plan to balance expenditure.</p>	<p>We will monitor the financial position of the Council regularly to ensure that financial standing is not compromised.</p>

Business risks	Audit approach
<p>Health inequalities</p> <p>There are significant health inequalities between the North and South of England evidenced by national data on mortality and morbidity. Over the past two years, the Audit Commission has been co-ordinating a cross-cutting study in the North East focussed on organisations which are responsible for addressing health inequalities. Phases 1 and 2 of this study, which are already complete, identified seven key challenges in addressing health inequalities. Phase 3 is targeted at a detailed examination of the enablers and barriers to tackling the seven challenges identified in phases 1 and 2.</p>	<p>We will contribute specialist skills to the Audit Commission's work on Phase 3 of the Health Inequalities study.</p>
<p>Strategic Partnership with Stockton Borough Council</p> <p>Darlington Borough Council has entered into a strategic partnership with Stockton Borough Council to provide a range of back-office functions to both authorities. The main impact of this, from an audit perspective, will be on the 2008/09 accounts. However, there are issues around the establishment and governance of the partnership that we will address in the 2007/08 audit while the issues are current.</p>	<p>We will work with Internal Audit to review the governance arrangements established in relation to the partnership.</p>
<p>New General Ledger system</p> <p>A new general ledger system was implemented by the Council on 1 April 2008. There is a risk that data from the old ledger may not have been transferred accurately or completely to the new system resulting in errors in the 2008/09 accounts.</p>	<p>We will review the data transfer arrangements adopted during the implementation and consider the results of the Council's own assurance procedures on the completeness and accuracy of the data transfer.</p>

Our approach to the audit

Code of Audit Practice

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

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

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

Accounts

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

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

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

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

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This conclusion will be based on criteria, which the Audit Commission has published separately and which cover key areas of corporate performance management and financial management arrangements.

When forming our conclusion we will seek to rely on:

- Your self-assessment against the criteria;

- Your Internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Council.

As noted above, our conclusion will be issued as part of the audit report on your 2007/08 financial statements.

Mandatory work for 2007/08

Use of Resources

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

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

The Audit Commission defines the scope and methodology for the work required to form the use of resources assessment and the links between this judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Best Value Performance Plan (BVPP)

We will review the 2007 BVPP to assess whether it complies with statutory guidance.

Local Government Data Quality Reviews

We will be required to review data quality and performance indicators specified by the Audit Commission.

Our approach will comprise three stages:

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

Whole of Government Accounts

Work on the Whole of Government Accounts consolidation pack is included in the scope of the audit.

Our team and independence

Audit Team	Responsibilities
<p>Engagement Partner Janet Eilbeck First year on audit (0191) 232 8943 janet.eilbeck@uk.pwc.com</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p>Engagement Senior Manager Paul Harrison Third year on audit (0191) 269 4422 paul.harrison@uk.pwc.com</p>	<p>Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Audit Memorandum and Annual Audit Letter.</p>

Our team members

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

We will hold periodic client service meetings with you, separately or as part

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

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters, including these training courses, which we perceive may impact our independence and objectivity of the audit team.

Other services provided to the Council

In addition to our audit under the Code, PwC has also provided training courses to the Council's Internal Audit Team.

Relationships and investments

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

Independence conclusion

At the date of this Plan we confirm that, in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

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

Stage of the audit	Output	Date
Audit planning	Audit Plan	June 2008
Audit findings	Internal control issues and recommendations for improvement	October 2008
Audit Reports	Audit Memorandum incorporating specific reporting requirements under Auditing Standard (ISA (UK&I) 260), including: <ul style="list-style-type: none"> • Any expected modifications to the audit report • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust • Material weaknesses in the accounting and internal control systems identified as part of the audit • Our views about the qualitative aspects of your accounting practices and financial reporting • Any other relevant matters of governance interest and • Summary of findings from our use of resources audit work to support our value for money conclusion. 	September 2008
	Auditor Use of Resources Assessment to inform the Audit Commission CPA process	November 2008
	Opinion on the Financial Statements and conclusion on the Councils arrangements for its Use of Resources	September 2008
	Other Audit Reports We will report as appropriate on the results of any targeted audit work we carry out	As Required

The Audit Commission will 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 budget and fees

The Audit Commission has provided indicative audit fee levels for Councils for the 2007/08 financial year, which depends upon the level of expenditure. Based on your expenditure, the indicative fee range for audit of the Council is £145,600 to £270,400.

We categorise the Council as medium risk. We have therefore agreed an audit fee of £208,000, which is broken down as follows:

	2007/08 £000	2006/07 £000
Accounts	176	144
Use of Resources	32	31
Total	208	175

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 2007/08 BVPP;
- 2007/08 review of data quality and specified performance indicators;

- Targeted audit work to be undertaken ;and
- Follow up of previous work.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the work of inspectors and internal audit in respect of our use of resources conclusion:
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Assurance Statement being available for us to review prior to 31 March 2008;
- You providing a fully supported and robust self assessment against the use of resources criteria; and

- Our use of resources conclusion and accounts opinion being unqualified.

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

Certification of grant claims

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

Additional work outside of the Code

In addition to our audit under the Code, we have undertaken additional work outside of the Code of Audit Practice providing training courses to the Council's Internal Audit Team.

Appendix A: Other engagement information

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

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

There are five further matters which are not currently included within the guidance, but our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

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

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

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

Access to audit working papers

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

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

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

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

Freedom of Information Act

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

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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.

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