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Darlington Borough Council

External Audit Plan 2012/13

Government and Public Sector

22 March 2013

Darlington Borough Council
Feethams
Darlington
County Durham
DL1 5QT

Ladies and Gentlemen,

We are pleased to present our Audit Plan, which shows how your key risks and issues drive our audit and summarises how we will deliver it. We look forward to discussing it with you so that we can ensure we provide the highest level of service.

We would like to thank Members and Officers of the Council for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Greg Wilson or Simon Clegg.

Yours faithfully,

PricewaterhouseCoopers LLP

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Contents

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

The purpose of this plan

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2012/13 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Audit Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

Our work in 2012/13

We will:

- audit the annual report and statutory accounts, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- consider whether the disclosures in the Annual Governance Statement (AGS) are complete;
- see whether the other information in the accounts is consistent with the financial statements;
- report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- tell you promptly when we find anything significant during the audit, directly to management and as soon as practicable to the Audit Committee throughout the year.

We are required to report information on your accounts to the National Audit Office (NAO) which is used as part of the assurance process for compiling the Whole of Government Accounts (WGA).

Risk assessment

We considered the Council's operations and assessed:

- business and audit risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies.

Responsibilities

Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.

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.

Risk Assessment

Risk Assessment Results

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:

●	*Significant*	Risk of material misstatement due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
●	*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	● Significant	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. 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 2012/13 because of the ongoing financial pressures facing local authorities. We consider the following to be the key areas in which management override of controls may occur to manipulate the financial results:	We will understand and evaluate relevant internal control processes and procedures as part of our planning work. We will design and performed procedures in relation to business rationale for significant transactions. We will focus our work on testing of journals and will utilise computer assisted audit techniques to do this. This will provide you with assurance over the level of manual and automated journals together with the appropriateness of journals posted at evenings, weekends and on public holidays. We will ensure that recognition criteria are met for any material provisions and that the value of the liability recognized it appropriate. We will hold discussions with the Council’s legal and HR teams to confirm that all material provisions have been accounted for. We will look carefully at any management estimates and considered whether they are subject to bias.

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
		• Recognition of revenue and expenditure; • Manipulation of journal postings to the ledger; • Recognition and measurement of provisions; • Management estimates; and • Capitalisation of revenue costs.	We will look at controls around the capitalisation of expenditure and perform detailed testing on capital additions in year. We will carry out unpredictable procedures – these are tests we have not carried out before to test the robustness of controls.
Recognition of income and expenditure and the ongoing financial position	● Significant	Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in the Local Government. 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. The Council is experiencing increased pressures on many of its budgets as economic conditions have worsened and funding for local authorities is squeezed. 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. 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, recent announcements mean funding pressure has intensified and a more fundamental review of internal functions and service provision is required. There are also risks in relation to financial	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. 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. 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. 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.

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
		reporting that the requirement to report particular financial results overrides financial reporting best practice.	
Capital developments and valuation of property plant and equipment	● Significant	Property, Plant and Equipment is the largest figure on your Balance Sheet. Economic conditions continue to be uncertain, which has a potential impact upon the valuation of your property, plant and equipment. Whilst you are only required to re-value your assets at least once every 5 years, there is a requirement to assess the carrying value of your assets for impairment every year. ISAs (UK&I) 500 and 540 require us to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates. Specific areas of risk include: • The accuracy and completeness of detailed information on assets. • Whether the Authority's assumptions underlying the classification of properties are appropriate. • The valuer's methodology, assumptions and underlying data, and our access to these.	We will audit additions, disposals, and impairments and also consider the accounting treatment of PFI services as part of our audit work. 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. 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 considering the result of any impairment review performed and its implications to the wider estate.
Impact of service redesign and restructuring.	● Elevated	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	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. Where collaborative working has commenced, we will ensure that the associated income and expenditure is appropriately reflected in the Council's Statement of Accounts.

Risk	Significant / elevated risk	Reason for risk identification	Audit approach
		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 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	● Elevated	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. 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.	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.

Audit approach

Code of Audit Practice

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

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

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

Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We are required to comply with them for the audit of your 2012/13 accounts.

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. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your business 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, if 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.

Materiality

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. This includes consideration of the amount and nature of transactions.

Our audit approach is based on an understanding of your business 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.

Materiality is another factor which helps us to determine our audit approach. Materiality is more than just a quantitative concept. Judgements about materiality are subjective and may change during the course of the engagement. The judgements about materiality are often implicit, and will be reflected in our assessments of risk and our decisions about which business units or locations, account balances, disclosures and other items are of greater or lesser significance.

We identify and assess the risks of material misstatement at two levels: the overall financial statement level; and in relation to financial statement assertions for classes of transactions, account balances and disclosures. Specifically, under our integrated audit methodology, we are required to identify three quantitative materiality thresholds as set out in the table below.

These help us to plan the nature, timing and extent of our work and to evaluate the significance of any unadjusted differences identified from our audit procedures.

Type of materiality	*What is it used for?*
Overall materiality	Overall materiality represents the level at which we would consider qualifying our audit opinion.
Planning materiality	This is the level to which we plan our audit work and identify significant accounts.
De minimis threshold	ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We propose to treat misstatements less than £100,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&I) 260 report.

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.

In accordance with recent guidance issued by the Audit Commission, in 2012/13 our conclusion will be based on two criteria:

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

We will be carrying out sufficient work to allow us to reach a conclusion on your arrangements based on your circumstances. In particular our work will include consideration of the management of capital contracts, including the PFI contract for Harrogate Hill Primary School and Education Village. This work will be scoped and performed with the support of Internal Audit.

Internal Audit

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.

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 corporate governance committee

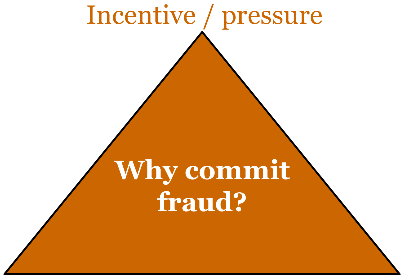
Your responsibility as part of your governance role is:

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

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure



Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Your views on fraud

We enquire of the Audit Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

Your team and independence

Your audit team has been drawn from our government and public sector team based in the North East. Your audit team consists of the key members listed below, but is further supported by our specialists both in the sector, and across other services:

Audit Team	Responsibilities
Engagement Leader **Greg Wilson** 1st year on the audit 0161 245 2916 greg.wilson@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.
Engagement Manager **Simon Clegg** 5th year on the audit 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.
Engagement Team Leader **Nicola Brown** 2nd year on the audit 0191 269 4392 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 VFM conclusion work.

Our team members

It is our intention that, wherever possible, staff work on the Darlington Borough Council 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

As external auditors of the Authority we are required to be independent of the Authority in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

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

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.

Communicating with you

Communications Plan and timetable

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. 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.

Stage of the audit	Output	Date
Audit planning	**Audit Planning Visit**	February 2013
	Audit Plan	March 2013
	ISA (UK&I) 260 report incorporating specific reporting requirements, including: • 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 significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures; • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; • Any other significant matters relevant to the financial reporting process; and • Summary of findings from our use of resources audit work to support our value for money conclusion	September 2013
Audit reports	**Financial Statements including Use of Resources**	September 2013
Other public reports	**Annual Audit Letter** A brief summary report of our work, produced for Members and to be available to the public.	October 2013

Audit fees

The Audit Commission has provided indicative audit fee levels for the 2012/13 financial year. The base fee scale for your audit is £123,282.

The fee is broken down as follows:

	2012/13	2011/12
Accounts – including value for money	£123,282	£205,470
Certification of grant claims and returns	£11,150	£35,000
Total		

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;
- Working papers and financial statements have been reviewed by officers before providing for audit;
- The quality of working papers is appropriate;
- We are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based; 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 Resources and his team.

Appendix 1 - 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, NE1 8HW, or James Chalmers, UK Head of Assurance, at our office at 7 More London, Riverside, London, SE1 2RT.

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 (revised) 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.

Appendix 2 – Recent developments

Implications of the Localism Act 2011

The Localism Act 2011 contains a range of measures to devolve more powers to councils and neighbourhoods and introduces key changes to governance and scrutiny arrangements. The key provisions in the Localism Act 2011 ('the Act') of which local authorities should be aware include the following:

- *Replacing the subsidy method of financing the Housing Revenue Account (HRA) with a system of self-financing.*

  The current subsidy method of financing the HRA was replaced in April 2012 by the Localism Act 2011. This has been replaced by a system of self-financing and on 1 February 2012 self-financing valuations were published by the government. These valuations are based on assumptions around the expenditure to maintain the housing stock over a 30 year period as well as on rental income and the payments required to implement the self-financing of council housing. In addition to this there are limits on the level of debt that each local authority can hold and these limits have also been published by the government. Darlington Borough Council complete it's settlement with central government during 2011/12 leading to an additional £33m of borrowings.

  From 2012/13 authorities will be expected to fund all HRA revenue and capital expenditure from their existing resources and will no longer receive the Major Repairs Allowance (MRA) or housing subsidy. As a result any revenue expenditure will be funded primarily from rental income while any capital expenditure would be expected to be funded from debt finance. The result will be that the income collected from housing rents and expenditure charged in the form of depreciation and impairment of HRA assets will have a real impact on the HRA surplus/deficit.

- *Introducing a new general power of competence, enabling local authorities to do anything which an individual may do, unless other legislation specifically prevents it.*

  The Localism Act 2011 introduces a new 'general power of competence' which allows Councils to do things for a commercial purpose through a company. The general power of competence is subject to restrictions, limitations and prohibitions in the Localism Act 2011, and the courts' jurisdiction. The authority retains a responsibility to act reasonably and responsibly and will need to seek advice prior to any substantial use of this power however this will allow for a more diversified approach to addressing the ongoing funding challenges.

- *Abolition of the Standards Board regime and the introduction of the requirements for authorities to promote and maintain high standards of conduct.*

  The Act has introduced changes to councils' arrangements for governance, scrutiny and standards. The requirement for councils to adopt the national code of conduct and to have a standards committee to oversee the behaviour of their councillors and receive complaints has been removed. The Act also abolished the Standards Board for England, the central body set up to regulate standards committees.

  All councils now have a duty to 'promote and maintain high standards of conduct by members and co-opted members of the authority'. This introduces the following obligations for councils:

  - developing a local code of conduct for members;
  - maintaining and publishing a register of interests; and
  - appointing at least one independent person to act as an adviser to the council on any allegations it may be considering and to members who may be the subject of the allegation(s).

Local Government 2013-14 settlement

DCLG has outlined '50 sensible savings', a Council Tax freeze and a fair funding for councils to protect residents and local services, as a major shake up of local finance.

A shift in spending power from Whitehall to the town hall means an estimated 70% of council income will now be raised locally compared to 56% under the previous centrally distributed grant system.

From April 2013 councils are encouraged to channel this greater local control into encouraging local jobs and local firms via a new business rate retention incentive that rewards them for growth. It aims to add £10 billion to the economy by 2020.

To help councils in that regard a document containing 50 suggested ways to make savings has been published was published, which can be found at the following website:

https://www.gov.uk/government/publications/50-ways-to-save-examples-of-sensible-savings-in-local-government

The '50 ways to save' include:

- sharing back offices
- adopting Community Budgets to bring staff and money together
- clamping down on corporate charge cards
- utilising non-school reserves creatively
- encourage direct debit and e-billing
- improving property management
- cut expensive travel
- reduce printing costs
- hiring out the town hall

The government has published the Council Tax principles it is proposing for 2013/14. Council Tax increases would trigger a referendum, if they exceed 2% for most principal authorities. The final principles for 2013/14 will be set out in a report for the approval of the House of Commons at the same time as the final report on the local government finance settlement. No equivalent principles are being proposed for town and parish councils for 2013 to 2014, although they may in future years.

Changes to IAS19 in 2013/14

The revised version of IAS19 Employee Benefits will apply to local authorities in 2013/14 and will change some of the pension numbers that authorities include in respect of the Local Government Pension Scheme.

Whilst this is a 2013/14 change, it will also impact 2012/13 as local authorities are required to follow IAS8 and disclose the impact of future accounting standard changes such as IAS19 revised.

For 2012/13 authorities will therefore need to disclose of the impact of IAS19 revised, had it been applied in 2012/13. This will likely be a quantifiable figure, such as describing that the pension components of the Comprehensive Income and Expenditure Statement would have been £xm higher/lower or similar. As such, Local Authorities will need access to this figure, whether it be from a full breakdown of the pension components of the Comprehensive Income and Expenditure Statement under IAS19 revised or a narrative as to the likely effect on the total pension components of the Comprehensive Income and Expenditure Statement had IAS19 revised been applied.

In terms of disclosing the 2013/14 impact, while this would be helpful it is unlikely to be required as long as the 2012/13 impact has been stated.

Carbon Reduction Commitment Scheme

The Climate Change Act 2008 sets out commitments to improve energy efficiency and reduce emissions. The Carbon Reduction Commitment ('CRC') Energy Efficiency scheme is intended to support the delivery of this by requiring organisations to buy allowances for their carbon dioxide (CO_2) emissions. This provides a direct incentive to reduce emissions as the more CO_2 an organisation emits, the more allowances it will need to buy.

Between June and July 2013 authorities will be able to purchase allowances for 2012/13, and in July 2013 participating local authorities are required to surrender purchased allowances in relation to CO_2 emissions reported for the financial year 2012/13. As the obligation to meet CRC responsibilities arises during 2012/13, the obligation should be accounted for at 31 March.

Exit Packages

The 2011/12 Code introduced a requirement for authorities to disclose exit packages. Further guidance on the disclosure requirements for exit packages is included in the 2012/13 guidance notes which add further clarify to the accounting and disclosure requirements for exit packages following some confusion in 2011/12. The guidance notes clarify that legal, contractual or constructive obligations at year end should be included in the disclosure of exit packages. As in 2011/12 authorities are expected to disclose exit packages on the same basis on which termination benefits are recognised. The Code guidance notes therefore recommend that the exit package disclosure is amalgamated with the requirements of paragraph 6.3.3.2 of the Code in relation to the disclosure of termination benefits.