

# *Darlington Borough Council*

*External Audit Plan 2013/14*

Government and  
Public Sector

28 March 2014

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

In April 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. 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.

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# Executive summary

## Background

We have prepared this audit plan to provide the Audit Committee of Darlington Borough Council (the 'Authority') with information about our responsibilities as external auditors and how we plan to discharge them for the audit of the financial year ended 31 March 2014.

## Framework for our audit

We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for local government bodies (the 'Audit Code') as well as the requirements of International Standards on Auditing (UK & Ireland) ('ISAs').

The remainder of this document sets out how we will discharge these responsibilities and we welcome any feedback or comments that you may have on our approach.

We look forward to discussing our report with you on 28 March 2014. Attending the meeting from PwC will be Greg Wilson and Simon Clegg.

## Our Responsibilities

Our responsibilities are as follows:

*Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).*

*Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.*

*Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.*

*Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.*

*Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.*

*Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.*

*Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.*

Our audit engagement begins with an evaluation of the Authority on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk that we consider when determining our audit approach.

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## *Audit approach*

**Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2013/14 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your organisation.**

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures:

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● <b>Significant</b>	Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.
● <b>Elevated</b>	Although not considered significant, the nature of the balance/area requires specific consideration.
● <b>Normal</b>	We perform standard audit procedures to address normal risks in all other material financial statement line items.

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The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2014:

Management override of controls ▶

**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. In every organisation, management may be in a position to override the routine day to day financial controls.**

**Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.**

**Significant**



As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.

We will perform procedures to:

- Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;
- Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus;
- Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);
- Evaluate the business rationale underlying significant transactions outside the normal course of business; and
- Perform unpredictable procedures targeted on fraud risks.

We may perform other audit procedures if necessary.

### **Risk of fraud in revenue and expenditure recognition including the ongoing financial position**

Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.

We extend this presumption to the recognition of expenditure in 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 continues to experience 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.



#### Significant



We will perform the following audit procedures:

- Evaluate and obtain an understanding of revenue and expenditure controls to confirm that they are operating effectively.
- Evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting.
- Perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.
- Review the Authority'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.

## Valuation of Property, Plant & Equipment

Property, Plant and Equipment is the largest figure on the Council's 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, 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.

### Significant



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 in 2012/13, we will extend our procedures to include a deeper focus on the nature of your estimation techniques and the evidence for them which will include the involvement of one of our valuation specialists.

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.

### **Accounting for potential liabilities arising from ongoing claims/contractual disputes**

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.



#### **Elevated**



We will continue to discuss the position of any ongoing claims and contractual disputes with the Assistant Director – Chief Executive's and the finance team. If we feel it necessary, we will also seek 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.



Overall  
Materiality:  
£4,756,880

*SUM de minimis:*  
*£100,000*

*Intelligent scoping*  
*Materiality*

	£
Overall materiality	£4,756,880
Clearly trivial reporting de minimis	£100,000

We set overall materiality to assist our planning of the overall audit strategy and to assess the impact of any adjustments identified.

Overall materiality has been set at 2% of forecast expenditure for the year ended 31 March 2014. We will update this assessment in advance of our year-end fieldwork, in light of the Authority's actual results.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We would like to seek the Audit Committee's views on this de minimis threshold.

## *Robust Testing*

### *Where we do our work*

As previously mentioned our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

- Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
- Consider the robustness of the control environment, including the governance structure, the operating environment, the information systems and processes and the financial reporting procedures in operation;
- Understand the control activities operating over key financial cycles which affect the production of the year-end financial statements;
- Validate key controls relevant to the audit approach; and
- Perform substantive testing on transactions and balances as required.

### *When we do our work*

Our audit is designed to quickly consider and evaluate the impact of issues arising to ensure that we deliver a no surprises audit at year-end. This involves early testing at an interim stage and open and timely communication with management to ensure that we meet all statutory reporting deadlines. We engage early, enabling us to debate issues with you. We have summarised our formal communications plan in Appendix B.

### *Value for Money Work*

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes 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 determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

Auditors should consider the risk that failure to set a realistic Medium Term Financial Plan (MTFP) and achieve its savings plan may indicate that the Council is unable to demonstrate its financial resilience.

We know the Council continues to face ongoing financial pressures. As such our work on financial resilience will be specifically tailored to consider your specific circumstances. The Council has further challenging savings targets to achieve over the MTFP period which are combined with changes in the way the Council is funded, in particular in relation the Business Rates.

The Council has been proactive in its response to the financial pressures experienced so far, implementing a significant internal restructuring program and transforming its approach to a number of services. As a result, reserves have been maintained at levels to support future activity and to respond to ongoing budgetary pressures.

However, 2015 and beyond is expected to present increased financial challenges and ultimately some risk to financial and strategic goals as the Council seeks to grow revenues whilst continue to make savings in service delivery.

While we do not see these factors as elevating our assessment of risk in respect of the 2013/14 audit, we are conscious of

the need to ensure an ongoing robust scrutiny of the Council's processes for managing financial pressures.

In forming our conclusion on economy, efficiency and effectiveness, we will review the Council's MTFP 2014-20. In particular, we will focus on:

- how the Council have managed their 2013/14 savings programme;
- the key assumptions included in the MTFP, comparing these assumptions with best practice and those used by other local authorities;
- the prioritisation of resources as part of the MTFP;
- the arrangements to review the value for money which the Council's services provide; and
- the adequacy of the Council's planned level of reserves and contingencies against the stated policy and the level of future risk in delivering the MTFP.

### *Annual Governance Statement*

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies with the CIPFA / SOLACE "Delivering Good Governance in Local

Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work.

### *Whole of Government Accounts*

We are required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and issue an opinion stating in our view if they are consistent or inconsistent with the Statement of Accounts.

### *Meaningful conclusions*

We believe fundamentally in the value of the audit and that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

In designing the Authority audit, our primary objective is to form an independent audit opinion on the financial statements; however, we also aim to provide insight.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we should be giving you value through our observations, recommendations and insights. We have set out some recent developments in Appendix C and we will provide other insights and observations to you in our audit reports throughout the year.

We have also developed a Local Government Centre of Excellence which supports your audit team in all aspects of the audit, including sharing insight and observations gained from audit teams across the country.

*The respective responsibilities of us, as auditors, management and the Audit Committee are summarised here.*

*We ask you to consider your responsibilities with regards to fraud, the conditions under which fraud may occur, and your assessment of the susceptibility of the Council's Statement of Accounts to fraud.*

# 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	Management's responsibility	Responsibility of the Audit Committee
<p>Our objectives are:</p> <ul style="list-style-type: none"> <li>To identify and assess the risks of material misstatement of the financial statements due to fraud;</li> <li>To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and</li> <li>To respond appropriately to fraud or suspected fraud identified during the audit.</li> </ul>	<p>Management's responsibilities in relation to fraud are:</p> <ul style="list-style-type: none"> <li>To design and implement programmes and controls to prevent, deter and detect fraud;</li> <li>To ensure that the entity's culture and environment promote ethical behaviour; and</li> <li>To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.</li> </ul>	<p>Your responsibility as part of your governance role is:</p> <ul style="list-style-type: none"> <li>To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and</li> <li>To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.</li> </ul>

## Conditions under which fraud may occur



## 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. whistle-blower 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 PwC team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector and the commercial sector. We also recognise that continuity in the audit team is important to you and the senior members of our team are committed to developing longer term relationships with you.

The core members of your audit team are as follows:

Audit Team	Responsibilities
<p><i>Engagement Leader</i> Greg Wilson <a href="mailto:greg.wilson@uk.pwc.com">greg.wilson@uk.pwc.com</a> (0191) 269 4111</p>	<p>Engagement Leader responsible for independently delivering the audit in line with the Audit Code (including agreeing the Audit Plan, ISA 260 Report to Those Charged with Governance and the Annual Audit Letter), quality of outputs and signing of opinions and conclusions.</p>
<p><i>Engagement Manager</i> Simon Clegg <a href="mailto:simon.d.clegg@uk.pwc.com">simon.d.clegg@uk.pwc.com</a> (0191) 269 4132</p>	<p>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 Audit Plan, ISA 260 Report, and Annual Audit Letter.</p>
<p><i>Team Manager</i> Nicola Brown <a href="mailto:nicola.x.brown@uk.pwc.com">nicola.x.brown@uk.pwc.com</a> (0191) 269 4392</p>	<p>Responsible for managing the field team and initial review of audit outputs, including the audit of the statement of accounts, and governance aspects of our work. Regular liaison with the finance team.</p>
<p><i>Team Leader</i> Rob Dowling <a href="mailto:robert.a.dowling@uk.pwc.com">robert.a.dowling@uk.pwc.com</a> (0191) 269 4222</p>	<p>Responsible for leading the field team, including the audit of the statement of accounts, and governance aspects of our work. Regular liaison with the finance team.</p>

## Your audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2014.

Our indicative audit fee, as agreed in our audit fee letter, and compared to the actual fee for 2012/13 is as follows:

Audit fee	Actual fee 2012/13 £	Indicative fee 2013/14 £
<b>Audit work performed under the Code of Audit Practice</b>	123,282	123,282
- Statement of Accounts		
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources		
- Whole of Government Accounts		
<b>Certification of Claims and Returns</b>	11,150	16,000
<b>Total Audit Code work</b>	<b>134,432</b>	<b>139,282</b>

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 use, as planned, the work of internal audit;
- We do not review more than 3 iterations of the statement of accounts;
- We are able to obtain assurance from your management controls;
- No significant changes being made by the Audit Commission to the local value for money work requirements; and
- Our value for money 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 and agreed in advance with you and the Audit Commission.

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# *Appendices*



## Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters and there are no matters which we perceive may impact our independence and objectivity of the audit team.

### Other services

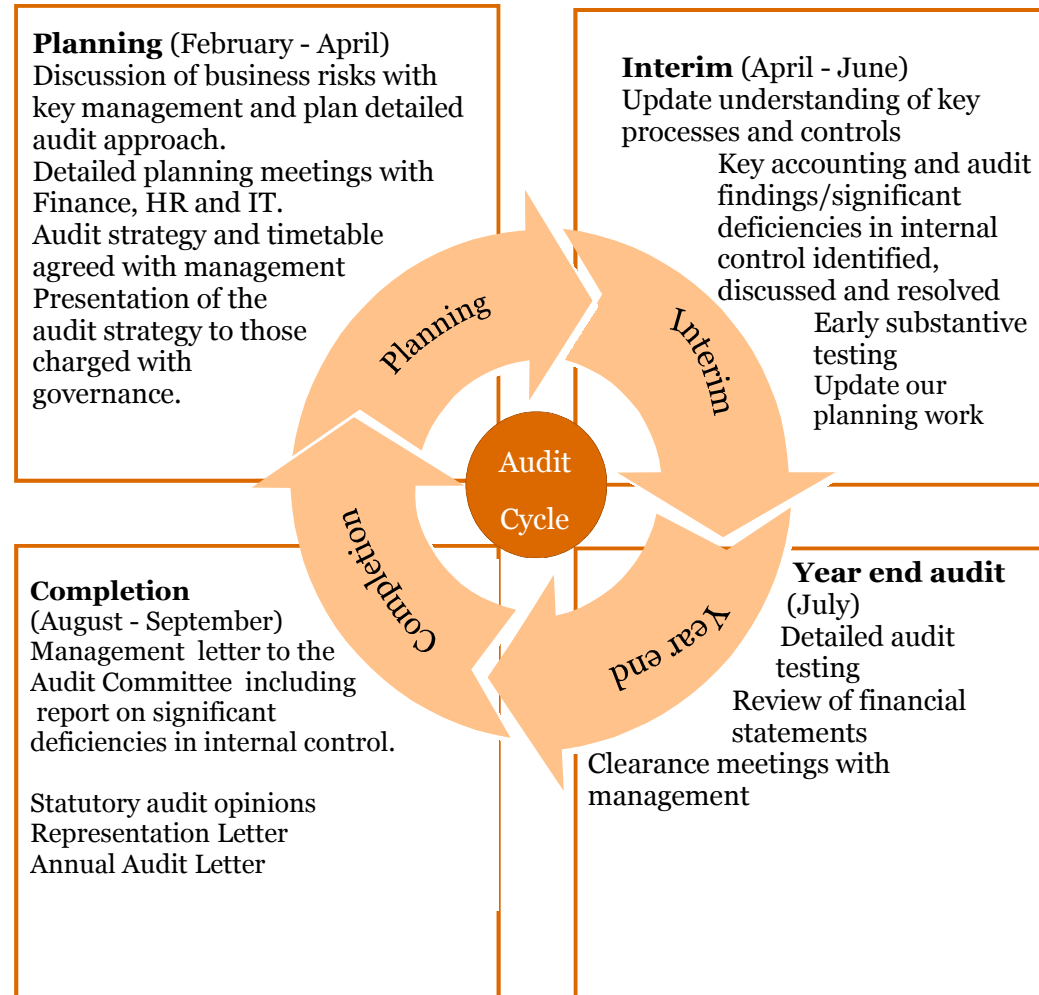
Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns	£16,000	<p><b>Self-Review Threat:</b> The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors.</p> <p>There is no self-review threat as we are certifying management completed grant returns and claims.</p> <p><b>Self Interest Threat:</b> As a firm, we have no financial or other interest in the results of the Authority.</p> <p>We have concluded that this work does not pose a self-interest threat.</p> <p><b>Management Threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy Threat:</b> We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.</p> <p><b>Familiarity Threat:</b> Work complements our external audit appointment and does not present a familiarity threat.</p> <p><b>Intimidation Threat:</b> We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism</p>

### *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.

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

# Appendix B: Communications Plan



## Continuous Communication

- Continuous proactive discussion of issues as and when they arise; 'no surprises'
- Continuous evaluation and improvement of the audit
- Bringing you experience of sector and best practice

# Appendix C: Recent developments

## The Future of Government



### Delivering on the Citizen Promise

In the face of recurrent budget cuts to reduce fiscal deficits in many countries, affordable government has become the watchword. This means doing more for less – meeting rising citizens' expectations by doing things differently to deliver services more effectively and efficiently.

### Where Next for public services?

Public sector organisations need to re-evaluate their purpose and role and decide if current visions and missions, and ways of operating to achieve them, are relevant enough to ride the waves of these shifts, or be overwhelmed by them.

Government and public sector organisations will also need to respond to these shifts proactively and pre-emptively, to avoid falling one or more steps behind.

### What guides and shapes the future public body?

As such, tomorrow's public bodies need to navigate themselves by first formulating a strong and clear vision and mission. Together, these will capture the organisation's

strategic ambition and purpose and serve to influence decisions and behaviour within the organisation.

## The Local State We're In



Over the past few years, local government has demonstrated its ability to deliver ambitious and far reaching savings programmes. While council Chief Executives are still holding on to their confidence in meeting savings targets for 2013/14, our third annual local government survey shows that confidence in being able to protect services as well has fallen by 40% over the past year. Beyond 2013/14, confidence in meeting savings targets falls further.

Tough choices are ahead as the cracks begin to show and decisions get closer to the frontline. Councils need to act urgently to transform themselves into agile organisations and shape a role for themselves through a future of continued austerity.

## Appendix D: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

<b>Procedure</b>	<b>Description</b>
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors' Group.

<b>Procedure</b>	<b>Description</b>
Technical updates	<p>PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance.</p> <p>These include:</p> <ul style="list-style-type: none"> <li>• A weekly publication covering the week’s accounting and business developments;</li> <li>• A periodic publication providing in-depth analysis of significant accounting developments; and</li> <li>• A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting.</li> </ul> <p>We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.</p>
Independence standards	<p>PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.</p>
Ethics	<p>Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.</p>
Independent review	<p>Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2013 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT.</p> <p>As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2012/13 audits are expected in early 2014 and will be publicly available on the Audit Commission’s website should you wish to take a look.</p>

## *Smart People*

We deploy quality people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Authority and the local government sector.

Key members of the audit team including the engagement manager and team leader have been involved in the audit of the Authority for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

We use dedicated IT specialists on the audit and share their insight and experience of best practices with you.

## *Smart Approach*

### *Data auditing*

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013/2014 we anticipate the work will include:

- Testing manual journals using data analytics, ensuring we consider the complete population of manual journals and target our detailed testing on the items with the highest inherent risk.
- The production of a journals 'insight report' which shows the comparable use of journals across the organisation and explores some of the root causes. We use the data gathered as part of our journals testing to share our findings and observations with management.

### *Centre of Excellence*

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

### *Delivery centres*

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

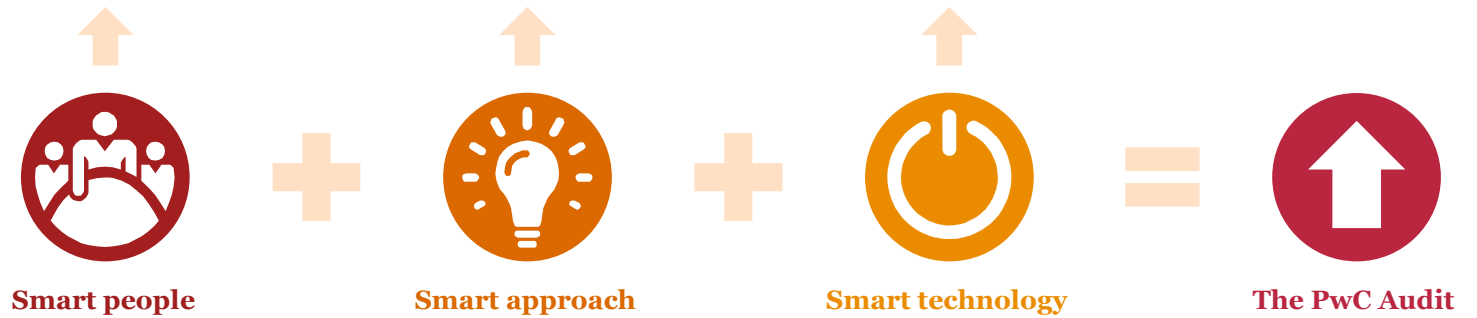
The use of our delivery centres frees up your audit team to focus on other areas of the audit.

We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in Appendix E.

### *Smart Technology*

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Authority audit cycles.



**Our 'smart' approach underpins your audit**



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## ***Appendix E: 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 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.

### *Overseas processing of information*

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India and Poland for the facilitation of basic audit tasks. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.
- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area.
- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998.
- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams.
- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams.
- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Greg Wilson or Simon Clegg in the first instance.

### *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 Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to

you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

### *Events arising between signature of accounts and their publication*

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

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



Private & Confidential

Darlington Borough Council  
Feethams  
Darlington  
County Durham  
DL1 5QT

28 March 2014

Dear Sirs

### **Working more efficiently**

As you know the Audit Commission recently tendered the audit work previously delivered by the District Audit service. This realised significant savings which have been passed on to your organisation in a reduction to your scale fee of around 40%.

As a result of this tender, suppliers have sought for opportunities to increase efficiency, whilst maintaining the level of quality. One principle which has recently been established is that certain basic parts of the audit can be off-shored. This is common practice in the private sector. When work is off-shored the firm delivering the audit and thus your audit team, remains entirely responsible for the conduct of the audit. As such the data would be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

Examples of the work that can be off-shored are:

- Request for confirmations (Receivables, Bank or Payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;
- Research; and
- Preparation of lead schedules.

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted above. We have agreed

Darlington Borough Council

with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring.

If you have any questions regarding the above, please do not hesitate to get in touch.

Yours sincerely

Greg Wilson

Engagement Leader



In the event that, pursuant to a request which Darlington Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Darlington Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Darlington Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Darlington Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Darlington Borough Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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