

# *Hinckley and Bosworth Borough Council*

*External Audit Plan 2013/14 - DRAFT*

Government and  
Public Sector

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 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 Finance, Audit and Performance Committee of Hinckley and Bosworth 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 Audit Plan with you at the Finance, Audit and Performance Committee meeting on 31 March 2014. Attending the meeting from PwC will be Alison Breadon.

## 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 areas of audit risk.**

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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 business.

### *Understanding the Authority's business issues*

You are facing significant pressures on central government funding. Welfare reform (such as the benefits cap) and changes to the way that local authorities administer income from business rates have tested your resilience to change.

You have already identified the required savings to ensure you achieve your financial plans for 2014/15. You have recognised the need to identify further savings for 2015/16 and beyond and you have implemented actions to identify and review potential cost savings and opportunities for income generation across the Authority's portfolio of services.

In the December 2013 monthly outturn report, you reported a forecast year end underspend against the General Fund budget of £464,684, primarily arising from an underspend on salary costs of £193,684, additional savings identified (for example, within Recycling) and unplanned income (for example, the additional legal fees income from council tax and business rates recovery activity). A small year-end overspend (£84,000) is currently forecast on the Housing Revenue Account. This is primarily due to the cash collection rate on rent due being lower than expected.

You will undertake significant capital projects over the next two years including the bus station redevelopment (the Crescent) and construction of a brand new leisure centre. Whilst there are risks around these projects, you have put in place processes and controls to ensure that Value for Money is sustained.

We will continue to meet with management to discuss the Authority's response to these risks and future plans.

## Relevant risks

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:

- 
- **Significant** 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.
- 
- **Elevated** Although not considered significant, the nature of the balance/area requires specific consideration.
- 

A summary of the audit risks identified for 2013/14 is set out below which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2014, with reference to which element of our audit opinion (Accounts or Value for Money opinion) these risks relate to. Further information along with our planned audit response is provided on the following pages.

Risk arising	Potential impact upon our work		Categorisation for accounts / value for money risks
	Accounts true and fair opinion	Value for money conclusion	
Management override of controls	◆		Significant
Risk of fraud in revenue and expenditure recognition	◆		Significant
Meeting the financial challenge		◆	Elevated
Bus Station redevelopment		◆	Elevated
Leisure Centre		◆	Elevated

## Financial Statements risks

Risk	Categorisation	Audit approach
<p><b>Management override of controls</b></p> <p>ISA (UK&amp;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.</p>	Significant ●	<p>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.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"><li>- review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li><li>- test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported year-end position;</li><li>- review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);</li><li>- evaluate the business rationale underlying significant transactions outside the normal course of business; and</li><li>- perform unpredictable procedures targeted on fraud risks.</li></ul> <p>We may perform other audit procedures if necessary.</p>

Risk	Categorisation	Audit approach
<p data-bbox="604 316 1008 379"><b>Risk of fraud in revenue and expenditure recognition</b></p> <p data-bbox="604 427 1164 515">Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p data-bbox="604 547 1187 762">We extend this presumption to the recognition of expenditure in local government because the opportunities to perpetrate fraud, which the ISA considers are usually present in relation to revenue, are equally likely to present themselves through manipulation of expenditure in the public sector.</p>	<p data-bbox="1294 316 1467 347">Significant ●</p>	<p data-bbox="1547 316 2190 419">We will seek to understand and evaluate relevant revenue and expenditure controls and test controls to confirm they are operating effectively.</p> <p data-bbox="1547 435 1657 467">We will:</p> <ul data-bbox="1547 483 2172 970" style="list-style-type: none"> <li>- continue our regular dialogue with the statutory officers of the Authority;</li> <li>- seek to place reliance on internal audit work on key income and expenditure controls;</li> <li>- evaluate the accounting policies for income and expenditure recognition to ensure that they are consistent with the requirements of the Code of Practice on Local Authority Accounting;</li> <li>- test the appropriateness of journal entries and other adjustments;</li> <li>- review accounting estimates for income and expenditure, for example, provisions;</li> <li>- perform cut-off tests at year-end and after date cash testing to ensure items have been recorded in the appropriate period; and</li> <li>- perform unrecorded liabilities testing.</li> </ul>

## Other Audit Code Responsibilities Risks

Risk	Categorisation	Audit approach
<p><b>Meeting the financial challenge</b></p> <p>All local government organisations are faced with increased challenges in their medium term financial outlook. There continues to be a number of risks to the delivery of the plan, particularly in respect of national changes, such as;</p> <ul style="list-style-type: none"> <li>• Reductions in government grant funding as well as reductions in income from the County Council;</li> <li>• Welfare Reform Act (the effects of the benefits cap and the universal credit); and;</li> <li>• Business rates retention.</li> </ul> <p>As a result, the following risks are increased:</p> <ul style="list-style-type: none"> <li>• Slippage- the Authority may not be able to achieve the savings planned either from service reductions or through efficiencies;</li> <li>• Timing- the timing of planned savings, service reductions and funding announcements may impact delivery against the Comprehensive Spending Review targets; and</li> <li>• Assumptions- significant policy changes might impact on the Authority's ability to deliver a balanced budget over the period of the plan.</li> </ul> <p>There is also a risk of deteriorating operational performance and quality due to reduced resources and management capacity where cost savings are made without careful consideration.</p>	<p>Elevated ●</p>	<p>We will continue to review your savings plans, their robustness and performance against these plans in year.</p> <p>We will specifically consider :</p> <ul style="list-style-type: none"> <li>- the impact of new arrangements in relation to the Authority;</li> <li>- retention of business rates on the Authority's financial position;</li> <li>- the Authority's intention to take advantage of the Council Tax Freeze Grant;</li> <li>- the governance structure in place to deliver the targets;</li> <li>- the level and extent of accountability;</li> <li>- project management arrangements;</li> <li>- monitoring and reporting;</li> <li>- progress on delivering the plan; and;</li> <li>- how the assumptions applied in the Authority's plan compare with other organisations and best practice.</li> </ul> <p>We will consider any relevant accounting assumptions and whether they are realistic and reasonable.</p>



Risk	Categorisation	Audit approach
<p data-bbox="616 225 1193 256"><b>Bus Station redevelopment (the Crescent)</b></p> <p data-bbox="616 288 1420 347">On 16 July 2013, the Authority voted to proceed with the bus station redevelopment under the following proposal:</p> <ul style="list-style-type: none"> <li data-bbox="638 379 1435 438">(i) The Authority will invest £4.5m in Block C of the development. The total capital investment of £4.5m will need to be borrowed.</li> <li data-bbox="638 470 1458 592">(ii) The Authority agreed to provide a short term revolving loan facility of £7m to assist the Tin Hat Partnership to deliver the scheme to agreed timescales. The £7m loan facility will also need to be borrowed.</li> <li data-bbox="638 624 1458 778">(iii) On completion of the development, blocks A, B and D will be sold by Tin Hat Partnership on the open market. Tin Hat Partnership will have priority over the first £5m of development profit with 20% of the balance to be taken by the Authority (current estimate is £1.2m).</li> </ul> <p data-bbox="616 810 1451 932">A deed variation to the redevelopment agreement between the Authority, Tin Hat Regeneration Partnership and Wilson Bowden Developments Limited was signed on 15 November 2013 reflecting the agreed proposal.</p> <p data-bbox="616 963 1451 1054">The development is a key corporate priority for the Authority. It is expected to generate over 600 new jobs, provide retail, leisure and other facilities including an improved bus station and car parking site.</p> <p data-bbox="616 1086 1451 1241">The Authority expect to realise a return on investment in Block C through projected rental income and business rates income as well as the estimated £1.2m of development profit. The return on investment is based on variables and assumptions which present a value for money risk to the Authority.</p>	<p data-bbox="1518 225 1653 256">Elevated ●</p>	<p data-bbox="1742 225 2107 411">We will review the arrangements put in place by the Authority to monitor progress and adherence of the Developer to the redevelopment agreement.</p> <p data-bbox="1742 443 2107 630">We will review the Authority's arrangements to assess the expected return on investment to ensure the Authority continues to achieve value for money.</p>

Risk	Categorisation	Audit approach
<p data-bbox="613 225 826 252"><b>Leisure Centre</b></p> <p data-bbox="613 288 1435 344">On 21 January 2014, the Authority appointed DC Leisure to build and run a new Leisure Centre at the former Council offices site.</p> <p data-bbox="613 379 1458 467">The plans for the new Leisure Centre have been shared publicly and will include a 25 metre main pool, eight court sports hall, climbing wall and several other features and facilities.</p> <p data-bbox="613 502 1406 590">We understand that significant consultation had been undertaken during the procurement process and an independent leisure expert advised on the selection process.</p> <p data-bbox="613 625 1429 770">The total capital cost to the Authority will be £13.55m which is an increase from initial estimates. However, DC Leisure are prepared to pay the Council £902,000 per annum through management fees, which results in income of £18.04m (before financing costs) over the life of the 20 year contract term.</p>	<p data-bbox="1518 225 1653 252">Elevated ●</p>	<p data-bbox="1738 225 2101 280">We will review and verify that a signed contract is in place.</p> <p data-bbox="1738 316 2107 435">We will review the Authority's plans to monitor progress of the construction of the Leisure Centre.</p> <p data-bbox="1738 470 2096 558">We will review the outputs of the consultation undertaken and selection process criteria.</p>

**Overall  
Materiality:  
£981,580**

**Clearly trivial:  
£50,000**

*Intelligent scoping  
Materiality*

	£
Overall materiality	981,580
<b>Clearly trivial reporting de minimis</b>	<b>50,000</b>

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

Overall materiality is based on your 2012/13 audited accounts and is set at 2% of expenditure. We will update this assessment as necessary in light of the Authority's actual results for 2013/14.

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.

In 2012/13 we agreed a 'clearly trivial' level of £50,000 with the Finance, Audit and Performance Committee, which was in line with the ISA benchmark. We propose the same level of 'clearly trivial' for our 2013/14 audit.

## *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.

## *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's 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.

# *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:

<b>Auditors' responsibility</b>	<b>Management's responsibility</b>	<b>Responsibility of the Finance, Audit and Performance Committee</b>
<p>Our responsibilities 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 Finance, Audit and Performance 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?

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## *Your PwC team*

The individuals in your PwC team have been selected to bring you extensive audit experience from working with local authorities and the wider public 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:

### *Team Leader*

Helen Stephenson

0785 594 6801

[helen.x.stephenson@uk.pwc.com](mailto:helen.x.stephenson@uk.pwc.com)

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.

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### **Audit Team**

### **Responsibilities**

#### *Engagement Leader*

Alison Breadon

0774 089 4817

[alison.breadon@uk.pwc.com](mailto:alison.breadon@uk.pwc.com)

Engagement Leader responsible for independently delivering the audit in line with the Audit Code, quality of outputs and signing of opinions and conclusions.

#### *Engagement Manager*

Sophia Mouyis

0751 554 1313

[sophia.mouyis@uk.pwc.com](mailto:sophia.mouyis@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 260 Report and Annual Audit Letter.

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# Your audit fees

**Our audit fees are consistent with those set for the previous year.**

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2014. No changes to the work programme have been proposed therefore scale audit fees for have been set at the same level as the fees applicable for 2012/13.

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>	64,980	64,980
- 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>	29,209*	23,400*
<b>Total Audit Code work</b>	<b>94,189</b>	<b>88,380</b>
Planned non-audit work	2,300 (Note 1)	13,000 (Note 2)
<b>Total fees (audit and non-audit work)</b>	<b>96,489</b>	<b>101,380</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;

Hinckley and Bosworth Borough Council

- 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.

\*The indicative composite scale fee for certification of claims and returns in 2013/14 is £23,400. However, as in prior years the certification of claims and returns work will be charged at Audit Commission published hourly rates. We will discuss variation fees for the certification of claims and returns with you when we have greater certainty on the likely costs for the Authority and obtained the necessary approvals from the Audit Commission. This variation fee is estimated to be £5,569.

Note 1 – In 2012/13 the Council asked us to perform specified tests on the accounting records it keeps for the Leicestershire Revenues and Benefits Partnership and for the results of this work to be reported to the Partnership's management committee.

Note 2 – In 2013/14 the Council asked us to deliver a fraud awareness workshop, provide Value Added Tax advice, and prepare a partial exemption calculation. Details of the safeguards put in place to maintain our independence as your external auditors are detailed in Appendix 1 on page 18.

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# *Appendices*

*We can provide assurance to the Finance, Audit and Performance Committee that we are independent External Auditors.*

## 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. We have set out below the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

### Other services

Support provided by PwC	Value	Threats to independence and safeguards in place
Fraud Awareness Workshop	£1,000	<p><b>Self-review threat:</b> There is no self-interest threat. No deliverables were prepared that would be subject to audit.</p> <p><b>Self-interest threat:</b> As a firm, we have no financial or other interest in the results of the Authority. 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> The workshop was delivered by a senior manager who is not part of the external audit team 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>
General advice on the VAT implications of the Bus station redevelopment	£1,800	<p><b>Self-review threat:</b> Members of the engagement team carrying out the services will not be members of the audit engagement team</p> <p><b>Self-interest threat:</b> As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this</p>

work does not pose a self-interest threat.

**Management threat:** We have agreed under the terms of our engagement that management will receive and evaluate the results of our work and will make all decisions in connection with the services and our recommendations. It has been made clear in the deliverables of the work that the advice and recommendations are for consideration and decision by management, and will not be phrased in such a way that suggests that they are management decisions.

**Advocacy threat:** The PwC tax team act as objective, technical tax adviser to management and will not represent the Authority's interests to a third party, other than a tax authority.

**Familiarity threat:** The familiarity threat is insignificant because the PwC partners and staff providing this service will not be part of the audit engagement team.

**Intimidation threat:** 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.

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Preparation of a partial exemption calculation

£7,000

**Self-review threat:** Members of the engagement team carrying out the services will not be members of the audit engagement team

**Self-interest threat:** As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self-interest threat.

**Management threat:** We have agreed under the terms of our engagement that management will receive and evaluate the results of our work and will make all decisions in connection with the services and our recommendations. It has been made clear in the deliverables of the work that the advice and recommendations are for consideration and decision by management, and will not be phrased in such a way that suggests that they are management decisions.

**Advocacy threat:** The PwC tax team act as objective, technical tax adviser to management and will not represent the Authority's interests to a third party, other than a tax authority.

**Familiarity threat:** The familiarity threat is insignificant because the PwC partners and staff providing this service will not be part of the audit engagement team.

**Intimidation threat:** 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.

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Certification of claims and returns

£23,400

**Self-review threat:** The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors.

There is no self-review threat as we are certifying management completed grant returns and claims.

**Self-interest threat:** As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self-interest threat.

**Management threat:** PwC is not required to take any decisions on behalf of management as part of this work.

**Advocacy threat:** We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.

**Familiarity threat:** Work complements our external audit appointment and does not present a familiarity threat.

**Intimidation threat:** 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.

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### *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 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.

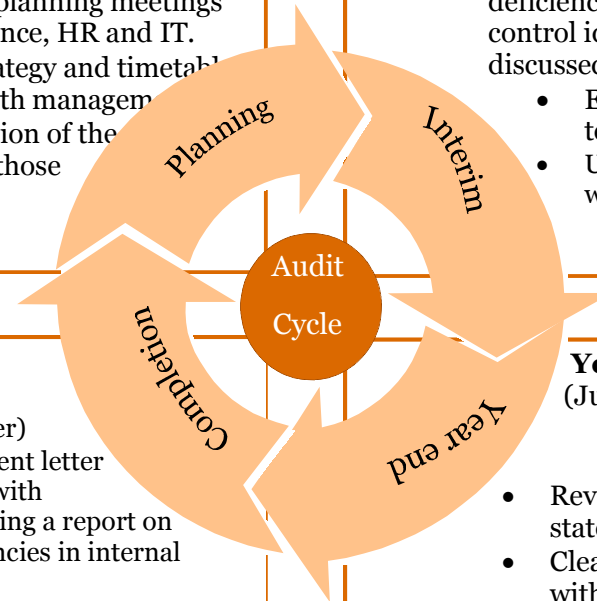
# Appendix B: Communications Plan

## Planning (December - February)

- Discussion of business risks with key management and plan detailed audit approach.
- Detailed planning meetings with Finance, HR and IT.
- Audit strategy and timetable agreed with management.
- Presentation of the audit strategy to those charged with governance (at March meeting)

## Interim Audit (February)

- Update understanding of key processes and controls.
- Key accounting and audit findings/significant deficiencies in internal control identified, discussed and resolved.
  - Early substantive testing.
  - Update our planning work.



## Completion (August/September)

- Management letter to those charged with governance including a report on significant deficiencies in internal control.
  - Statutory audit opinions.
  - Representation Letter.
  - Annual Audit Letter.

## Year end audit (July)

- Detailed audit testing.
- Review of financial statements.
- Clearance meetings with management.

## Continuous communication

- Continuous proactive discussion of issues as and when they arise; 'no surprises';
- continuous evaluation and improvement of the audit; and
- 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.

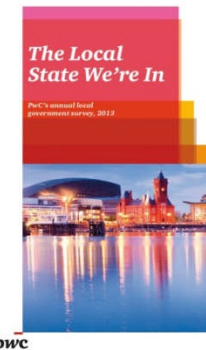
### Where Next for public services?

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 Authority 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. Authorities need to act urgently to transform themselves into agile organisations and shape a role for themselves through a future of continued austerity.

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## ***Appendix D: Audit quality***

Quality is built into every aspect of the way that we deliver the Authority’s 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.

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<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’s 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. 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’s Auditors’ Group.

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<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 the International Financial Reporting Interpretation Committee (IFRIC) and the Emerging Issues Task Force (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 were 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 its 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 taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge of the local government sector.

The engagement manager has 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*

### *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.

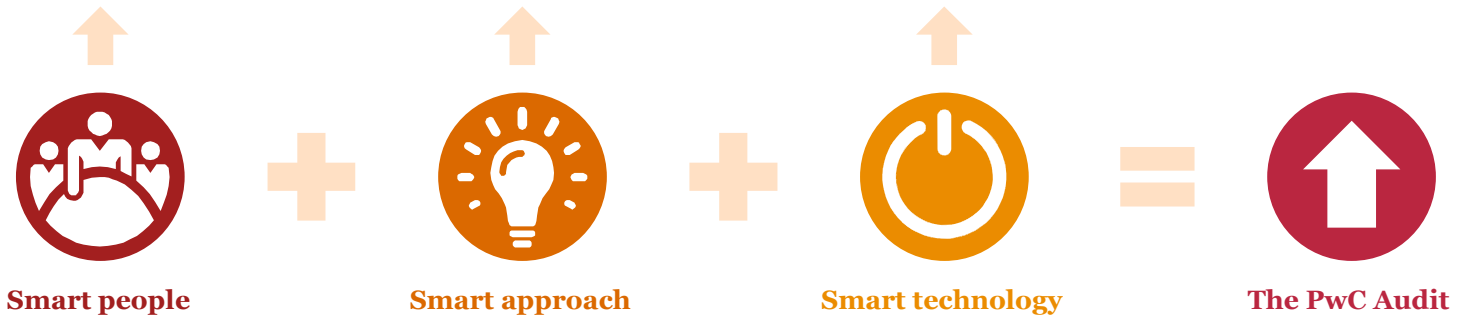
The use of our delivery centres frees up your audit team to focus on other areas of the audit.

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 appointed us as auditors to Hinckley and Bosworth Borough Authority and the terms of our appointment are governed by:

- the Code of Audit Practice; and
- the Standing Guidance for Auditors.

There are six 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.

### *Appointed auditor*

Ali Breadon, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Ali is not a partner.

### *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 Sophia Mouyis.

### *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 engagement leader 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 engagement leader, 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.

Hinckley and Bosworth Borough Authority  
Hinckley Hub  
Rugby Road  
Hinckley  
Leicestershire  
LE10 0FR

31 March 2014

Dear Sanjiv,

### **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 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,

A handwritten signature in black ink, appearing to read 'Alison Breadon', with a stylized flourish at the end.

Alison Breadon

Engagement Leader





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