

# *Hinckley and Bosworth Borough Council*

*External Audit Plan 2014/15*

Government and  
Public Sector

February 2015

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# Contents

## **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 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 2015.

## 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 at the Finance, Audit and Performance Committee meeting on 23 February 2015. 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 Authority on our 'Acceptance and Continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk.

# Audit approach

## The PwC Audit

1. Client acceptance & independence
2. Deep business understanding
3. Relevant risks
4. Intelligent scoping
5. Robust testing
6. Meaningful conclusions

*PwC's audit is built on a foundation of smart people, a smart approach and smart technology. This together with our six-step audit process, results in an audit that is robust, insightful and relevant.*



**Smart People** + **Smart Approach** + **Smart Technology** = **The PwC Audit**

Our unique methodology involves using people who understand your business, a tailored audit approach for local authorities and use of technology to carry out our work efficiently, communicate securely with you and get to the heart of issues quickly. Our 'smart' approach underpins your audit. The core elements of our audit process are outlined below:

## *Client acceptance and independence*

Our audit engagement begins with an evaluation of the Authority on our 'Acceptance and Continuance system' which highlights an overall engagement risk score and highlights areas of heightened risk.

At the beginning of our audit process we are also 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. We have set out in Appendix A 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.

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.

## *Deep understanding*

### *Strategic context*

The Authority is operating in an increasingly challenging environment where many Local Government organisations are facing a continued reduction in funding from central government and increasing demand for their services.

Our risks identified later in this plan have been considered in the above context.

### *Understanding your issues*

The Authority is facing significant reductions in central government funding as well as funding from the County which are affecting the services it provides to the local community.

Welfare reform and changes to the way the Authority administers income from business rates have tested the Authority's resilience to change. The Authority's retained business rates element is offset by central government with a reduction in the annual formula funding. This poses challenges in terms of maximising collection rates, however it also provides the Authority with an opportunity, as encouraging growth in the local economy can potentially lead to more locally retained business rate income as well as reduced welfare costs.

The Authority has a responsibility to identify and address operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. There are a number of significant financial and operational challenges and continued management of the related risks is imperative in achieving the aims as outlined in the Authority's Corporate Plan.

In its Quarter 3 outturn report, the Authority reported a forecast year end net underspend against the General Fund budget of £581,583. This has been driven by a substantial growth in planning fees as a result of a number of large applications. However, there remains financial pressure going forward with possible further reductions in funding from Leicestershire County Council (LCC). LCC have given notice of withdrawal of green recycling credits from 2015/16. This will reduce the Authority's income by approximately £320K. The Authority has transferred £345,792 to the Waste Management Reserve to fund this. However, LCC announced that their financial position has worsened so it is likely that they will remove dry recycling credits from 2016/17; this could mean a further £550k loss of income.

It is anticipated that the Housing Revenue Account outturn surplus will be £251,562, which is a net overspend of £37,000 against budget. This is primarily due to £50,000 less rent forecasted based on collection rates. This is mostly offset by salary savings within the service and more efficient allocation of responsive repairs.

The Authority is in the process of completing significant capital projects including the bus station redevelopment (the Crescent) and construction of a new leisure centre; work has begun on both projects. With regards to the leisure centre, members made the decision on 2 September 2014 to add a moveable floor to the swimming pool. This coupled with additional required ground remediation works has increased the estimated total cost of the construction of the Leisure Centre to be over £15m. The shortfall in capital funding has been met through utilisation of the Hub Future Rental Management Reserve and through borrowing. The Authority have committed to restoring this reserve over time from underspends.

The top corporate/strategic risks which the Authority has identified in its risk register are:

- failure to implement the Town Centre Plan – this could lead to lack of member support, private sector investment interest, public sector funding, and public support;
- failure to successfully deliver the Medium Term Financial Plan – which could lead to underperformance, inadequate cash flow and indicate ineffective financial planning;
- Motor Industry Research Association (MIRA) Regional Growth Funding (RGF) Fund – impact on development of MIRA on the A5 motorway; and
- Leicestershire County Council budget cuts – reductions in funding could have a significant negative impact on the Authority's budgets.

The Authority's ability to manage its risks is clearly of great interest to us as external auditors, but for the purpose of planning our work on the Authority's statement of accounts, we will carry out an assessment of risk focused on potential for material misstatement in the accounts.

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

### *Relevant risks*

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2014/15 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

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.
- 

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 2015.

## 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> | <p>Significant ●</p> | <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 deficit/surplus;</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> |
| <p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure in local government.</p>   | <p>Significant ●</p> | <p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will 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.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p>  |



## Value for Money Risks:

### Meeting the financial challenge

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;

- Reductions in government grant funding as well as reductions in income from the County Council;
- Welfare Reform Act (the effects of the benefits cap and the universal credit); and;
- Business rates retention.

As a result, the following risks are increased:

- Slippage- the Authority may not be able to achieve the savings planned either from service reductions or through efficiencies;
- Timing- the timing of planned savings, service reductions and funding announcements may impact delivery against the Comprehensive Spending Review targets; and
- Assumptions- significant policy changes might impact on the Authority's ability to deliver a balanced budget over the period of the plan.

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.

We will continue to review your savings plans, their robustness and performance against these plans in year.

We will specifically consider :

- the impact of new arrangements in relation to the Authority;
- retention of business rates on the Authority's financial position;
- the Authority's intention to take advantage of the Council Tax Freeze Grant;
- the governance structure in place to deliver the targets;
- the level and extent of accountability;
- project management arrangements;
- monitoring and reporting;
- progress on delivering the plan; and
- how the assumptions applied in the Authority's plan compare with other organisations and best practice.

## Large capital projects

### The Crescent

The Crescent 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.

The Authority expects to realise a return on the £4.5m investment in Block C (of the development) through projected rental income and business rates income as well as an 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.

### Leisure Centre

The new Leisure Centre will include a 25 metre main pool, eight court sports hall, climbing wall and several other features and facilities.

The total capital cost to the Authority is estimated to be over £15m which is an increase from initial estimates. The shortfall in capital funding has been met through utilisation of the Hub Future Rental Management Reserve and through borrowing. The Authority have committed to restoring this reserve over time from underspends

The Authority is expecting income of £18m (before financing costs) over the life of the 20 year contract term. This is based on variables and assumptions and therefore presents a value for money risk to the Authority.

We will review the arrangements put in place by the Authority to monitor progress and address risk.

We will review the Authority's arrangements to continually assess the expected return on investment to ensure the Authority continues to achieve value for money, including how the Authority plans to mitigate any risk arising from changing variables and assumptions.

We will review and verify that a signed contract and contract monitoring arrangements are in place.

**Overall  
Materiality:  
£877,900**

**Triviality:  
£43,850**

*Intelligent scoping  
Materiality*

|                                      | £       |
|--------------------------------------|---------|
| Overall materiality                  | 877,900 |
| Clearly trivial reporting de minimis | £43,850 |

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 2013/14 audited accounts and has been set at 2% of gross expenditure. We will update this assessment as necessary 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 calculate this amount to be 5% of overall materiality. In 2013/14 the Finance, Audit and Performance Committee requested a lower threshold (£25,000).

We would like to seek the Finance, Audit and Performance Committee's views on the de minimis threshold for the 2014/15 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 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 will share insights and observations with 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 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 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?

## 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. We also recognise that continuity in the audit team is important to you.

The core members of your audit team are:

| Audit Team  | Responsibilities   |   |  |
|---|--|---|--|
| <i>Engagement Leader</i><br>Alison Breadon<br>01509 604 246<br><a href="mailto:alison.breadon@uk.pwc.com">alison.breadon@uk.pwc.com</a> | 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. | <i>Team Leader</i><br>Anjm Shahbaz<br>07835 272 031<br><a href="mailto:anjm.shahbaz@uk.pwc.com">anjm.shahbaz@uk.pwc.com</a> | 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. |
| <i>Engagement Manager</i><br>Sophia Mouyis<br>07515 541 313<br><a href="mailto:sophia.mouyis@uk.pwc.com">sophia.mouyis@uk.pwc.com</a>   | 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.         |   |  |



# Your audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2015.

Our indicative audit fee, compared to the actual fee for 2013/14 is as follows:

| Audit fee   | Actual fee<br>2013/14<br>£ | Indicative fee<br>2014/15<br>£ |
|---|----------------------------|--------------------------------|
| <b>Audit work performed under the Code of Audit Practice</b>  |                            |                                |
| - Statement of Accounts   | 64,980                     | 65,880 <sup>1</sup>            |
| - 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>Total Audit Code work</b>  | <b>64,980</b>              | <b>65,880</b>                  |
| <b>Certification of Claims and Returns</b>  | <b>27,889</b>              | <b>19,330<sup>2</sup></b>      |
| <b>Planned non-audit work</b>   | <b>13,000</b>              | <b>0</b>                       |
| <b>Total fees (audit and non-audit work)</b>  | <b>101,380</b>             | <b>85,210</b>                  |

<sup>1</sup> The Audit Commission has added a supplemental fee of £900 to the 2014/15 scale fee to give a slightly higher scale fee of £65,880. The supplemental fee covers the additional audit procedures we are now required to carry out on business rates balances and disclosures for our work on the financial statements due to the localisation of business rates in the prior year.

<sup>2</sup> The indicative certification fee for 14/15 is broadly in line with the indicative 13/14 certification fee (£20,701). The reason the actual fee for 13/14 is greater than this is due to a fee variation that has been requested owing to additional work which was required in the certification of the BENO1 claim. Please refer to our Annual Certification Report for further details.

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*

*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.

### *Other services*

| <b>Support provided by PwC</b>      | <b>Value</b> | <b>Threats to independence and safeguards in place</b>   |
|-------------------------------------|--------------|--|
| Certification of claims and returns | £19,330      | <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> |

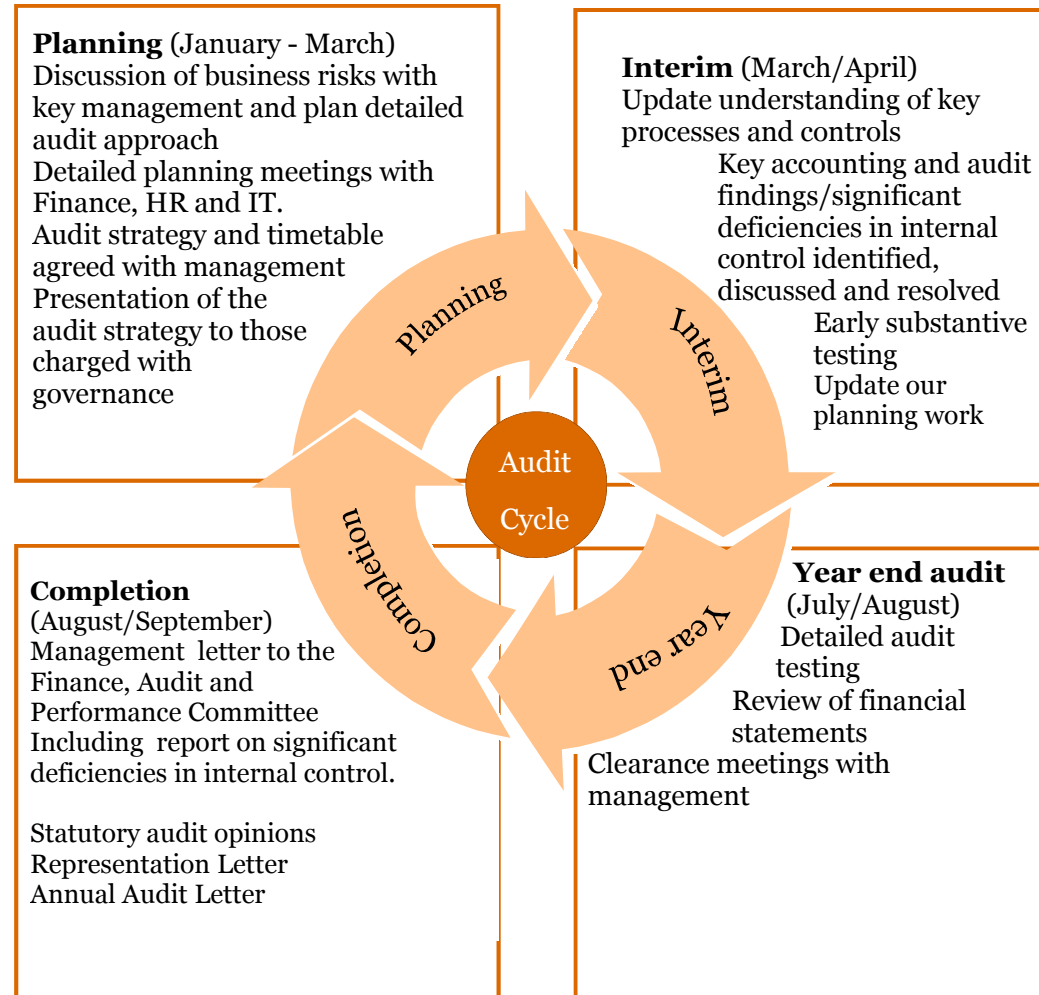
We are aware that PwC have submitted a tender to provide internal audit services as well as a tender to provide tax services to the Authority. If PwC are successful in these tenders we will put in place appropriate safeguards to overcome any threats to our independence and communicate these at the next Finance, Audit and Performance Committee meeting on 13 April 2015.

### *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: 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 2014 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 2013/14 audits are expected in 2015 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 2014/15 we anticipate the work will include:

- Testing journals using data analytics, ensuring we consider the complete population of 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.

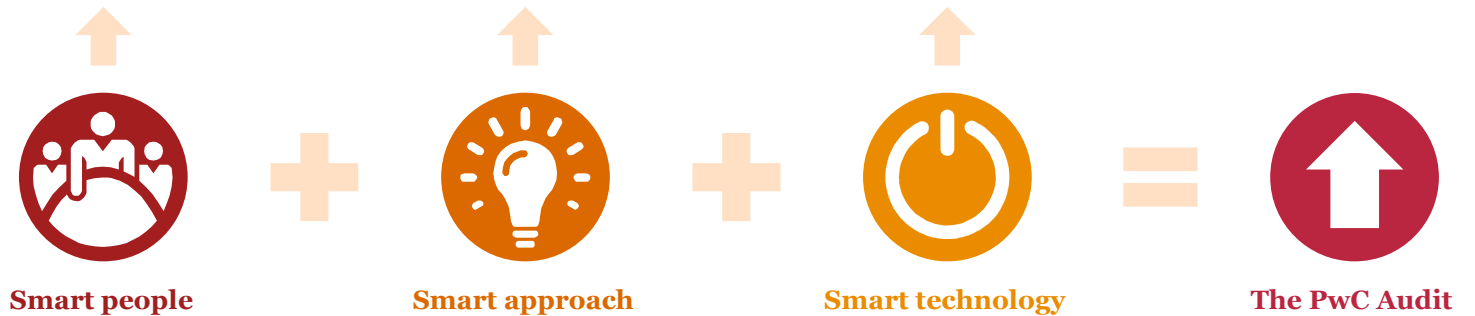


We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent 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 D: Other engagement information***

The Audit Commission appoint us as auditors to Hinckley and Bosworth Borough Council 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*

Alison Breadon, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Alison Breadon 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 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.

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## ***Appendix E: Use of service centres***

Private & Confidential

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

February 2015

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 'A 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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