

Hinckley and Bosworth Borough Council

External Audit Update

Government and
Public Sector

April 2015

The auditor shall communicate in writing with those charged with governance regarding auditor independence in accordance with ISA (UK&I) 260.

External Audit update

We presented our audit plan to the Finance, Audit and Performance Committee on 23 February 2015. This paper provides an update of the following sections of the audit plan: 'your audit fees' and 'Appendix A: Independence Threats and Safeguards.'

We advised in our plan that PwC had submitted a tender to provide internal audit services to Hinckley and Bosworth Borough Council (the 'Authority') and that if PwC were successful we would put in place appropriate safeguards to overcome any perceived or actual threats to our independence and communicate these at the next Finance, Audit and Performance Committee meeting.

PwC were successful in their tender to provide internal audit services to the Authority. To address this, a detailed independence assessment has been included in Appendix A.

We are required to communicate all non-audit services carried out by PwC along with an analysis of independence threats and safeguards. In May 2014, PwC provided tax services to the Authority and over the coming months will carry out certification work relating to the 2014/15 financial year. We have updated the audit fees and independence assessment sections to reflect both pieces of work. Please also note that the certification fees for 2013/14 have been updated to reflect the final fees which had not yet been agreed at the time of preparing the audit plan.

This section updates you on your audit fees.

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 2013/14 £	Indicative fee 2014/15 £
Audit work performed under the Code of Audit Practice		
- Statement of Accounts	64,980	65,880 ¹
- 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		
Total Audit Code work	64,980	65,880
Certification of Claims and Returns	25,701	19,330²
Planned non-audit work	13,000	3,250
Total fees (audit and non-audit work)	103,681	88,460

¹ 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.

² The indicative certification fee for 14/15 is broadly in line with the indicative 2013/14 certification fee (£25,701). The reason the actual fee for 2013/14 is greater than this is due to a fee variation of £5,000 that has been agreed owing to additional work which was required in the certification of the BENO1 claim as a result of the number of exceptions identified in testing of benefit cases.

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.

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

Appendix A: Independence threats and safeguards

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 (2014/15)

Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns	£19,330	<p>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.</p> <p>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.</p> <p>Management Threat: PwC is not required to take any decisions on behalf of management as part of this work.</p> <p>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.</p> <p>Familiarity Threat: Work complements our external audit appointment and does not present a familiarity threat.</p> <p>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</p>
Review of HBBC's partial exemption position relating to a specific project	£3,250	<p>Self-review threat: Members of the engagement team carrying out the services were not members of the audit engagement team</p> <p>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.</p> <p>Management threat: We have agreed under the terms of our engagement that management will receive and evaluate the</p>

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 PwC partners and staff providing this service were not 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.

Internal audit services (15/16)

Background

PwC were recently successful in their tender to provide internal audit services commencing in the 2015/16 financial year.

From 1 April 2015 to 30 September 2015, whilst we complete our external audit responsibilities, PwC personnel must not assume a Management Responsibility when providing Internal Audit services.

To avoid the risk of PwC taking on a Management Responsibility, between 1 April 2015 and 30 September 2015 the Chief Officer (Finance, Customer Services and Compliance) will assume an Interim Head of Audit role and will be responsible for internal audit activities. In particular they will:

- a. Request internal audit services on a call off basis. Prior to the acceptance of each piece of call off work a 'threats and safeguards' assessment will be carried out by PwC to ensure the work does not cause an independence issue. External audit will communicate these assessments at each Finance, Audit and Performance Committee meeting;
- b. Review, assess and report the 2015/16 internal audit plan to the Finance, Audit and Performance Committee;
- c. Set internal audit policies and the strategic direction of internal audit activities;
- d. Review, assess and approve the scope, risk and frequency of any internal audit work carried out by PwC;
- e. Evaluate the results of PwC's services, including PwC's findings;
- f. Decide what (if any) action should be taken in response to PwC's findings or recommendations, and managing any

such action; and

- g. Report to the Finance, Audit and Performance Committee the significant findings and recommendations resulting from PwC's internal audit services.

At the time of writing, the interim Head of Internal Audit has not commissioned any internal audit work from PwC.

Points to Note:

- No reliance will be placed on internal audit work for the audit of the 2014/15 financial statements. All internal audit work will relate to the 2015/16 financial year.
- The PwC partner and staff that will be providing the internal audit services are not part of the external audit engagement team.
- As a firm, we have no financial or other interest in the results of the Authority.
- PwC will not be required to take any decisions on behalf of management whilst PwC are external auditors.
- We will not be acting for, or alongside, management.

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 writing 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.



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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