

Leicestershire County Council

External Audit Plan 2014/15

Government and
Public Sector

January 2015

**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 Corporate Governance Committee of Leicestershire County 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 ending 31 March 2015. This is the last financial year for which PwC will be your external auditors under our contract with the Audit Commission.

We will prepare a separate audit plan for work on the pension fund. This and other matters relating to the pension fund audit will be presented to those charged with governance of the pension fund.

Framework for our audit

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

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

We look forward to discussing our report with you on 20 February 2015. Attending the meeting from PwC will be Matthew Elmer.

Leicestershire County Council

Our Responsibilities

Our responsibilities are as follows:

Perform an audit of the accounts and pension fund accounting statements 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 other responsibilities under the Audit Commission Act.

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

Our audit engagement begins with an evaluation of the Authority on our ‘acceptance & continuance database’ which highlights an overall engagement risk score and highlights areas of heightened risk.

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 our people, a tailored audit approach and our use of technology. Our ‘smart’ approach underpins your audit. The core elements of our audit are outlined below:

Client acceptance & independence

Our audit engagement begins with an evaluation of the Authority on our ‘acceptance & 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. 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.

Understanding the Authority

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, in particular in relation to social care.

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

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 ending 31 March 2015.

Main Council Audit

Risk

Categorisation Audit approach

Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant ● As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We will perform procedures to: - Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; - Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus; - Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions); - Evaluate the business rationale underlying significant transactions outside the normal course of business; and - Perform unpredictable procedures targeted on fraud risks. We may perform other audit procedures if necessary.
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.	Significant ● We will obtain an understanding of revenue and expenditure controls. 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. We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.

Valuation of property, plant and equipment

Property, Plant and Equipment is the largest figure on your balance sheet. The economic conditions continue to be uncertain, which has a potential impact upon the valuation of your property, plant and equipment. Whilst you are only required to re-value your assets at least once every 5 years, there is a requirement to assess the carrying value of your assets for impairment every year. This assessment also needs to cover whether assets have materially increased in value since their last formal valuation.

Elevated ●

The Council measures its properties at fair value involving a range of assumptions and the use of external valuation expertise. ISAs (UK&I) 500 and 540 require us, respectively, to undertake certain procedures on the use of internally professionally qualified valuers and processes and assumptions underlying fair value estimates.

Specific areas of audit risk include:

- The accuracy and completeness of detailed information on assets.
- Whether the assumptions underlying the classification of properties are appropriate.
- The valuer's methodology, assumptions and underlying data, and our access to these.

Where asset valuations are undertaken in-year we will:

- agree the source data used by your Valuer to supporting records;
- assess the work of your Valuer through use of our own internal specialists where required; and
- agree the outputs to your Fixed Asset Register and accounts.

Where any changes to valuation bases are proposed we will work with you to understand and evaluate the rationale you are using on a timely basis.

Where assets are not re-valued in year, we will review your impairment assessment, and evaluate whether your assets are held at an appropriate value in your accounts at the year-end

Medium Term Financial Strategy

The Authority has made significant efforts over the past few years to identify savings and deliver more efficient services. The current MTFS is based upon a reduction in formula grant over the four year period 2014/15 to 2017/18. It includes savings of over £100m. Growth of £28.5m has been included for service improvement, cost and demand pressures.

Recent announcements on likely future funding and the protection from reductions of other public services over the medium term mean that the total savings requirement is likely to continue being significant.

Significant
(VFM work) ●

You have historically provided value for money services when benchmarked against your nearest neighbours. However, the scale of the challenge over the next few years is significant and much of the good practice you have demonstrated will need to continue and be intensified if your planned savings and service reductions are to be delivered. In some areas reduced service provision is inevitable.

In forming our conclusion economy, efficiency and effectiveness, we will review your Medium Term Financial Strategy. We will understand how you develop the strategy and will compare the assumptions you have used to comparative benchmarks and best practice.

In particular, we will review:

- the governance structure in place to deliver your plans ;
- how you have managed your 2014/15 savings programme;
- the key assumptions included in the MTFS, comparing them with best practice and those used by other Local Authorities.
- the sensitivity of key assumptions to change;
- the impact of potential changes to key assumptions and the rigour behind the MTFS;
- the prioritisation of resources as part of the MTFS; and
- your arrangements to review the value for money which your services provide; and
- the adequacy of your planned level of reserves and contingencies against your stated policy and the level of future risk in delivering the MTFS.

**Overall
Materiality:
£17,232,000**

**Triviality:
£100,000**

*Intelligent scoping
Materiality*

	£
Overall materiality	17,232,000
Clearly trivial reporting de minimis	100,000

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

Overall materiality for the 2014-15 audit has been set at 2% of gross expenditure per the 2013-14 accounts. 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. Auditing standards indicate that a level of 5% of overall materiality would be appropriate. This would mean a reporting level of £861,600.

The Corporate Governance Committee has previously agreed a reporting level of £100,000. We would like to seek the Committee’s views on the threshold for 2014-15.

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.

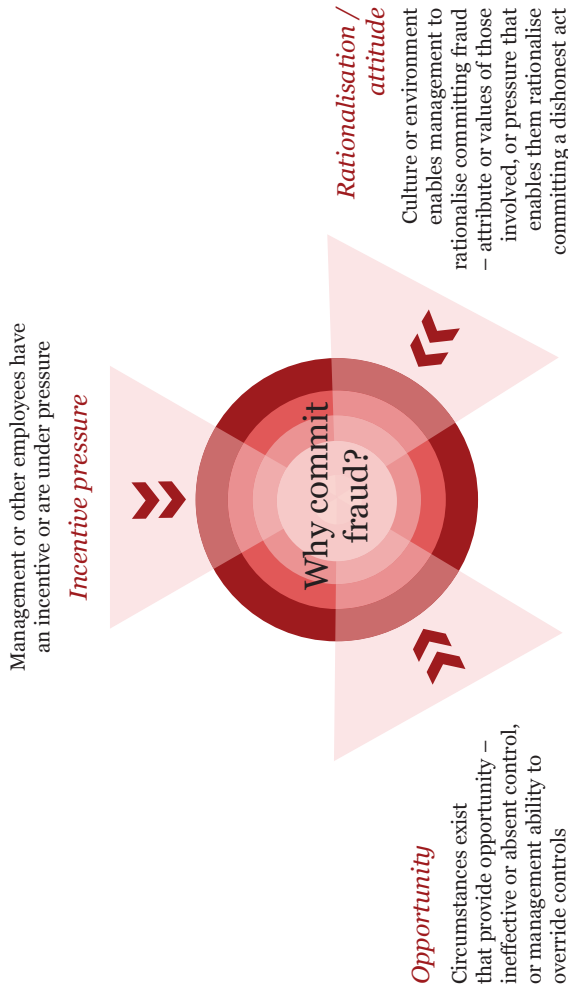
We have also developed a Local Government Centre of Excellence which supports your audit team in all aspects of the audit, including sharing insight and observations gained from audit teams across the country.

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:

Auditors' responsibility	Management's responsibility	Responsibility of the Corporate Governance Committee
Our objectives are: • To identify and assess the risks of material misstatement of the financial statements due to fraud; • To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and • To respond appropriately to fraud or suspected fraud identified during the audit.	Management's responsibilities in relation to fraud are: • To design and implement programmes and controls to prevent, deter and detect fraud; • To ensure that the entity's culture and environment promote ethical behaviour; and • To perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.	Your responsibility as part of your governance role is: • To evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and • To ensure any alleged or suspected instances of fraud brought to your attention are investigated appropriately.

Conditions under which fraud may occur



Your views on fraud

We enquire of the Corporate Governance 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?

The audit team remains consistent with the previous year.

Audit team

The individuals in your PwC team have been selected to bring you extensive audit experience from working with Local Authorities, the wider public sector. 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:

*The Audit Commission allows an Engagement Leader to be appointed for 5 consecutive years. This can be extended for up to 2 further years on request. Richard’s extension to cover the 2014/15 audit has been approved.

**The Audit Commission allows for the audit manager to be involved in an audit for up to 10 years.

Audit Team	Responsibilities
Lead Partner Richard Bacon 6 th year on the audit* 0121 232 2598 richard.f.bacon@uk.pwc.com	Lead Partner responsible for the overall quality of our audit service. Also responsible for liaison with the Chief Executive and Members.
Engagement Senior Manager Matthew Elmer 8 th year on the audit** 0121 265 5517 matthew.r.elmer@uk.pwc.com	Senior 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.
Engagement Manager Edward Cooke 3 rd year on the audit 0121 265 5182 edward.cooke@uk.pwc.com	Manager responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the VFM conclusion work.

The audit fees remain at the same level as in the previous year.

Audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2015. No changes to the work programme have been proposed therefore scale audit fees have been set at the same level as the fees applicable for 2013/14.

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

Audit fee	Actual fee		Indicative fee	
	2013/14	£	2014/15	£
Audit work performed under the Code of Audit Practice				
- Statement of Accounts		102,600		102,600
- 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				
Certification of Claims and Returns				
		2,789		0
Total Audit Code work	105,389	102,600		
Planned non-audit work	0*	0		
Total fees (audit and non-audit work)	105,389	102,600		

*In addition to the audit of the Statement of Accounts, PwC undertook some non-audit work during 2013/14:

- East Midlands Councils (EMC) audit 2013/14 (estimated fee of £8,500) – we separately provide an audit of the EMC accounts. We will not be undertaking an audit in 2014/15 because EMC are now hosted by Nottingham City Council.
- VAT Helpline (£3,000) – we provide a VAT service to the Council giving unlimited access to a telephone helpline for routine VAT queries.
- VAT claim (estimated £14,000) – you have requested administrative assistance with a VAT claim you are progressing.

We have based the audit 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, the Audit Commission and its successor body.

Appendices

Appendix A: Independence threats and safeguards

At the beginning of our audit process we are required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters. 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

As noted in the audit fees section above, we provide some

Support provided by PwC	Threats to independence and safeguards in place
East Midlands Councils audit	Self Review Threat: The audit team will conduct the audit work and this has arisen due to our appointment as external auditors. There is no self review threat as we will not be relying on this work in our capacity as external auditors. Self Interest Threat: As a firm, we have no financial or other interest in the results of the Council. 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. No such threat has been identified in our previous work with the Council.
VAT helpline and claim	Self Review Threat: We will not be relying on the work being undertaken with your VAT team. There is no self review threat.
VAT claim	Self Interest Threat: As a firm, we have no financial or other interest in the results of the Council. 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 management and we have therefore concluded that this work does not pose an advocacy threat.

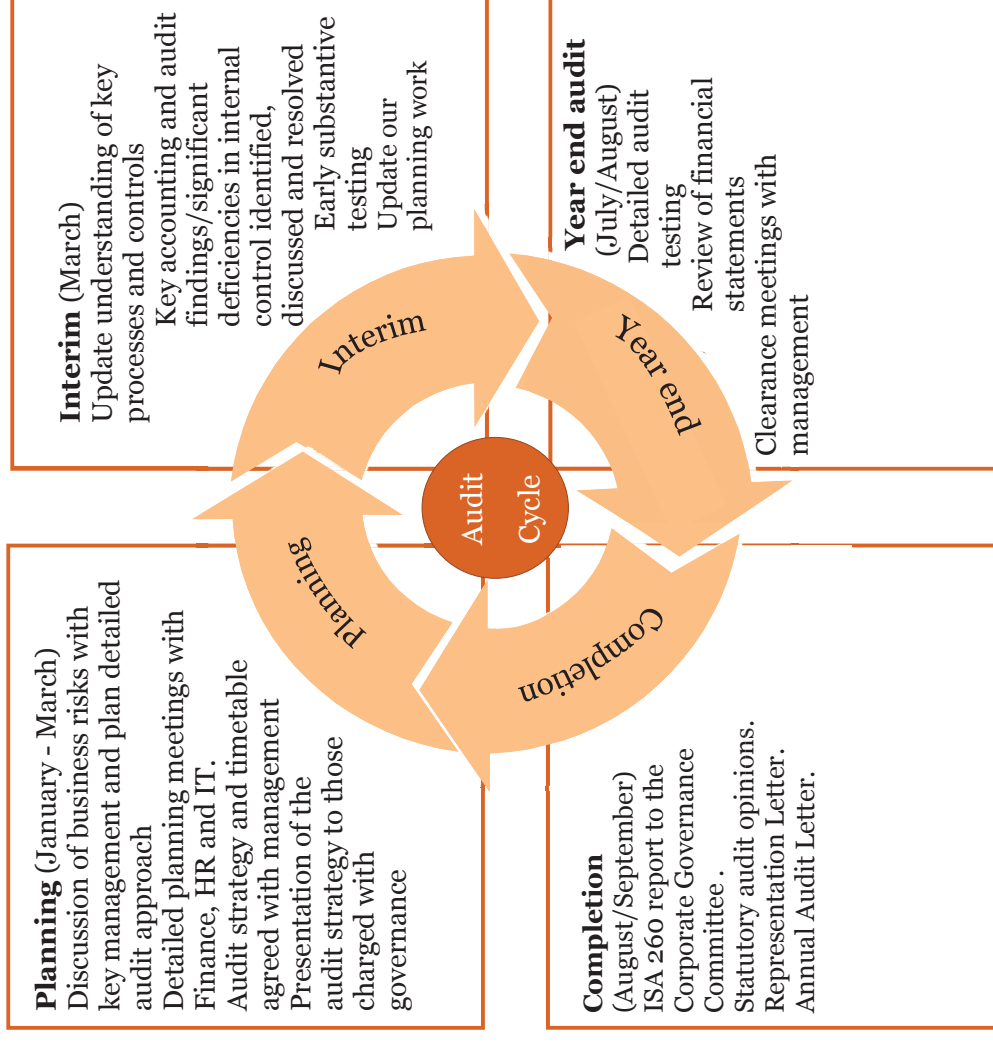
Familiarity Threat: This work does not present a familiarity threat. Intimidation Threat: We have concluded that this work does not pose an intimidation threat. No such threat has been identified in our previous work with the Council.	
Certification of claims and returns	Self Review Threat: The audit 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 Council. 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. No such threat has been identified in our previous work with the Council.

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 auditors 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.

Procedure	Description
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.

Procedure	Description
Technical updates	PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance. These include: • A weekly publication covering the week's accounting and business developments; • A periodic publication providing in-depth analysis of significant accounting developments; and • A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting. 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.
Independence standards	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.
Ethics	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.
Independent review	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. 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.

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.

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.

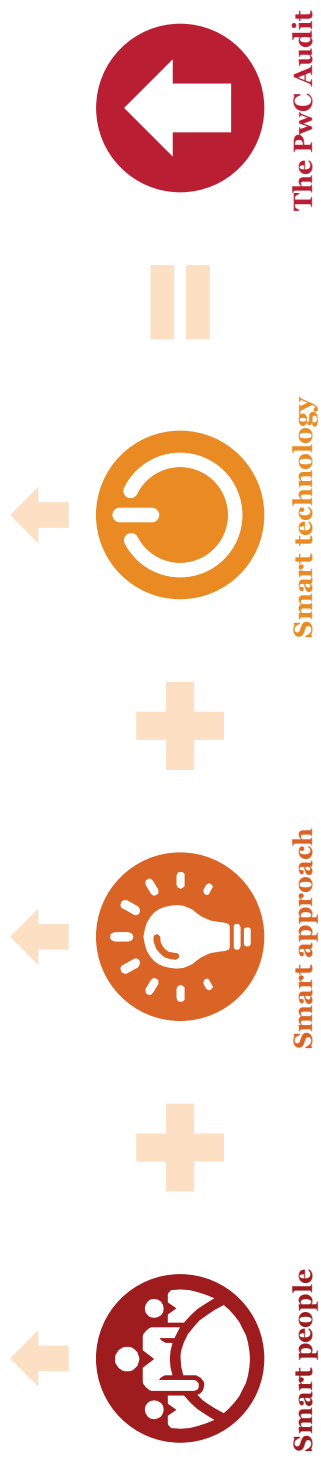
We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this

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.

Appendix D: Other engagement information

The Audit Commission appoint us as auditors to Leicestershire County Council and the terms of our appointment are governed by:

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

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or

in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in Poland for the facilitation of basic audit tasks. This arrangement was approved by the Corporate Governance Committee in 2014. 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 Richard Bacon.

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

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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.



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