

Leicestershire County Council 2005/06 Indicative Audit and Inspection Plan - DRAFT



Leicestershire County Council

County Hall
Glenfield
Leicester
LE3 8RA

PricewaterhouseCoopers LLP

Donington Court
Pegasus Business Park
Castle Donington
East Midlands
DE74 2UZ
Telephone +44 (0) 1509 604000
Facsimile +44 (0) 1509 604010
www.pwc.com/uk

10 May 2005

Ladies and Gentlemen

Indicative Audit and Inspection Plan 2005/06

We are required by the Audit Commission to provide an indicative audit and inspection fee at the start of the financial year. We are therefore pleased to present this with our Indicative Plan for 2005/06, which includes an analysis of key risks, our audit strategy, reporting and anticipated audit timetable and other matters we consider to be relevant to you.

We will finalise our Plan and fee during the summer of 2005 when we have received Audit Commission guidance on work required for 2005/06. The Audit Commission are currently undertaking pilot schemes to ascertain the extent and cost of work involved in the new auditor scored judgement of use of resources and the audit opinion on economy, efficiency and effectiveness in the use of resources. At that time we will also be able to review risks in the light of issues identified during the 2004/05 audit and following our detailed planning for 2005/06.

Discussion of our plan with you ensures that we understand your concerns and that we agree on mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting Leicestershire County Council.

Yours faithfully

PricewaterhouseCoopers LLP

Encs

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DE74 2UZ
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In April 2000 the Audit Commission issued a revised version of the Statement of Responsibilities of Auditors and 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. This statement is currently under further revision by the Audit Commission to reflect the new Code of Audit Practice applicable from 1 April 2005.

Our reports and management letters are prepared in the context of this statement and / or any subsequent revision to the 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.

Introduction

The purpose of this Indicative Plan

Our Indicative Audit and Inspection Plan (our Indicative Plan) has been prepared to inform the officers and members of Leicestershire County Council about our responsibilities as your external auditors and how we plan to discharge them. Every local authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the members and officers of the Council.

Our principle objective is to carry out an audit in accordance with the Audit Commission's code of Audit Practice (the Code). Also included is the inspection programme as discussed with Nigel Toms your Relationship Manager.

Based upon discussion with management and our understanding of Leicestershire County Council and the local government sector, we note the recent key developments outlined below. Our Indicative Plan has been developed to consider the impact of these developments.

Key Risks

E-Government

Freedom of Information (FoI)

Prudential Framework for Capital Expenditure

Charging for Discretionary Services

Partnerships

Early Closing and Whole of Government Accounts

Group Accounts

Payroll System

Children's Trusts

Education Capital Programme

Budgetary Pressures within Social Services

Waste & Materials Recycling Facility (MRF)

The Indicative Plan has been discussed and agreed with the Leicestershire County Council's Relationship Manager.

Our Responsibilities

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

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which has been revised with effect for the 2005/06 audit year. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies (the Statement), which was issued in 2005.

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 audit letters are prepared in the context of this Statement and in accordance with the Code. 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.

The Audit Commission's activities with regard to best value inspection and audit comply with the statutory requirements of the Local Government Act 1999.

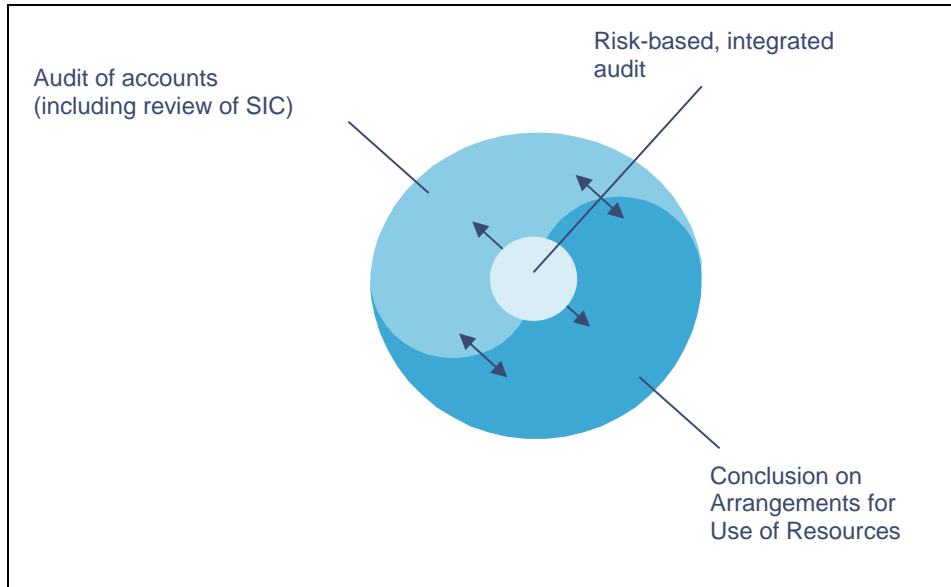
New Code of Audit Practice

The Audit Commission has issued a new Code of Audit Practice that is applicable from the 2005/06 financial year.

There are now 2 objectives to our work under the new Code:

- Accounts including a review of the Statement of Internal Control (SIC); and
- Use of Resources.

This is illustrated in the diagram below:



- with the relevant requirements; and
- Any other exercise of powers in relation to the BVPP under the Local Government Act 1999

We provide a more detailed summary of the main changes from the previous Code in Appendix A to this Indicative Plan and will provide further guidance during the year on what the new Code means in practice for our work at the Council.

Within the Use of Resources objective, we are now required to confirm that we are satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in the use of resources. This conclusion will be based on supporting criteria, outside the Code, which will be published and updated as necessary by the Audit Commission.

We will subsequently issue a new two part audit report at the end of our accounts audit for 2005/06, including the following aspects:

- Part A: Financial Statements 'presents fairly' opinion
- Part B: Any report, by exception, on:
 - The Statement of Internal Control;
 - Any matters that prevent the auditor from being satisfied that the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources;
 - Any matters that prevent the auditor from concluding that the best value performance plan (BVPP) has been prepared and published in accordance

Key business and audit risks

Planning of our audit

To determine the nature and extent of the audit work required we have considered each area of operations and assessed the extent that we believe there are potential business and audit risks that relate to one of our Code objectives. We have then considered our understanding of how management's control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is the responsibility of the Council to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we consider and assess the significant operational and financial risks that are relevant to our responsibilities under the Code. This exercise is only performed to the extent required to prepare our Indicative Plan so that it properly tailors the nature and conduct of audit work to the circumstances of the Council. It is not designed to identify all risks affecting the operations of the Council or all internal control weaknesses.

This Indicative Plan details those areas which we consider to be high risk and includes our response to those risks. Our response also explains where we are intending to rely upon internal controls, the work of inspectors and other review agencies and the work of internal audit, if applicable.

CPA and inspections

Following the Council's classification as an 'excellent' council in December 2004, the Audit Commission have applied the principles of strategic regulation recognising the key strengths/weaknesses in the Authority's performance. Positive points identified in the Corporate Assessment included:

- high levels of service performance
- strong leadership and clearer priorities.

An area for improvement was:

- clearer linkages between some plans and policies.

The Audit Commission's inspection activity will focus on the following:

Inspection activity	Reason
Routine monitoring of improvement activities by the Relationship Manager	Progress monitoring
Direction of travel statement	To provide focus for continuous improvement.

Financial Statements audit

Our financial statements audit is carried out in accordance with our Accounts

Code objective, which requires us to comply with auditing standards. We are required to adopt International Standards of Auditing (ISAs) for the first time in our financial statements audit for 2005/06. We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial transactions and position of the Council. The assessment of what is material is a matter of professional judgement and includes consideration of both the amount and nature of transactions.

The adoption of ISAs in 2005/06 means that work previously undertaken as part of our Financial Aspects of Corporate Governance Code objective will now be undertaken as part of our audit of the financial statements. In particular, specific procedures will be carried out in respect of fraud and corruption, laws and regulation and going concern/financial standing.

Use of Resources audit

Our Use of Resources audit objective requires us to carry out sufficient and relevant audit work in order to form a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility we review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on these arrangements. We also have a responsibility to consider, and report on, the Council's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

Our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources will be based on a number of criteria specified by the Audit Commission. When forming our conclusion we will seek to rely on:

- **A self assessment performed by the Council against the criteria**
- Internal control mechanisms in place at the Council;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and

- Targeted audit work to address specific risks and validate arrangements in place at the Council.

We will discuss the criteria on which our conclusion will be based with the Council when they are finalised by the Audit Commission.

Our conclusion will be issued as part of the audit opinion and report on the 2005/06 financial statements of the Council.

Mandatory work

In 2005/06 we will also be required to carry out mandatory work at the Council in respect of the Comprehensive Performance Assessment in respect of the use of resources

The use of resources assessment is a key part of the Comprehensive Performance Assessment and will be conducted in all councils, including district councils. It involves judgments on financial planning and management, internal controls, and financial standing. **It will also provide a value for money (VFM) judgment drawing on a self-assessment by the Council.** It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the council's priorities and improve services.

The work required for the use of resources judgment will be based on annual audit work. The Audit Commission will define the scope and methodology for the work required to form the use of resources assessment and the links between this judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

We will discuss the key lines of enquiry on which our judgement will be based with the Council when they are finalised by the Audit Commission.

We anticipate that we will be required to carry out our assessment in autumn this year to support the Audit Commission's annual CPA reports.

Risk assessment results

The following table summarise the results of our overall initial risk assessment in respect of our Code responsibilities in terms of the significant financial and operational risks facing the Council and our planned response.

Business risks	Audit approach for 2005/06
<p>Corporate</p>	
<p><u>E-Government</u></p> <p>A cornerstone of the Government's e-government policy is the commitment that 100% of dealings capable of electronic delivery should be provided electronically by December 2005. Progress towards the 2005 target has required a step change in the rate at which services and transactions are offered in electronic forms, including transactions between councils and citizens, and between councils and businesses. The Government has issued guidance on priorities (April 2004) with specific outcomes targeted for the end of 2005.</p> <p>In addition to perpetuating ineffective working, failure to meet targets may result in loss of Government grants.</p>	<p><i>Dependent upon authority's progress to date and work still needing to be done</i></p>
<p><u>Freedom of Information (Fol)</u></p> <p>Although the provisions of the Freedom of Information Act 2000 allowing the public to request information came into effect on 1 January 2005, authorities will be refining their Fol arrangements during 2005/06 for:</p> <ul style="list-style-type: none"> • dealing with requests • ensuring compliance by partner organisations • monitoring and updating the publication scheme • auditing archived information. <p>Ineffective implementation of Fol introduces risk of loss arising from inefficient processes for dealing with requests and from legal action where the authority fails to comply with the 2000 Act.</p>	<p><i>Review of the authority's arrangements and experience to date with Fol issues.</i></p>
<p><u>Prudential Framework for Capital Expenditure</u></p> <p>The Prudential Framework was introduced on 1 April 2004, but authorities have adopted an incremental approach to taking up all the freedoms and flexibilities that it offers for the delivery of services and capital investment. It is likely that the Authority will continue to develop arrangements to manage the new risks introduced and take advantage of the new opportunities offered by the Framework throughout 2005/06.</p> <p>In particular, the Authority will be considering the effectiveness of its controls over</p>	<p><i>Continuing review of the authority's progress in implementing the Prudential Framework and developing the authority's processes for delivering an effective capital strategy.</i></p> <p><i>Review of management of position against limits and</i></p>

<p>expenditure and borrowing after the first year of the Framework and developing/extending plans for prudential borrowing.</p> <p>Where prudential borrowing is planned, the Authority needs to be assured that this is based on robust projections of affordability.</p>	<p><i>indicators throughout 2005/06.</i></p> <p><i>Review of major expenditure/borrowing decisions taken in 2005/06.</i></p>
<p><u>Charging for Discretionary Services</u></p> <p>The Local Government Act 2003 introduced new powers to charge for services that the Authority was not required to provide and for which charging was not prohibited. Use of these powers requires effective accounting arrangements to ensure that users are not overcharged. The Authority also needs to have recognised the effects that charging could have on patterns of demand for a service and have in place arrangements for recovering unpaid charges.</p>	<p><i>Review of the propriety and value for money of any substantial decisions to charge for discretionary services.</i></p>
<p><u>Partnerships</u></p> <p>Local authorities are being given greater encouragement to work in partnership with other parts of the public services and the private and voluntary sectors. The risks of entering into any partnership are that:</p> <ul style="list-style-type: none"> •The purpose of the partnership is unclear •The partnership is dominated by one body so the needs of all the partners are not met •Accountability arrangements are unclear, resulting in no-one taking responsibility and unnecessary exposure to loss •There are inadequate arrangements to monitor the outcome of the partnership arrangements. 	<p><i>We will review the authority's arrangements for ensuring appropriate involvement in partnerships.</i></p>
<p><u>Early Closing and Whole of Government Accounts</u></p> <p>HM Treasury has confirmed an intention that local authorities will participate in a second dry run for WGA in relation to 2005/06. The dry run will concentrate on testing arrangements for full audited WGA in 2006/07. Together with a requirement for the approval (30 June) and publication (30 September) of the accounts to be brought forward by another month in 2005/06, new and/or stronger pressures will be applied to the authority's framework for preparing the statement of accounts.</p> <p>A Treasury/ODPM letter of 22 November 2004 confirms that returns prepared for the 2005/06 dry run will be subject to audit. Amounts for the additional audit costs have been included in the 2004 Spending Review settlement.</p>	<p><i>Review of authority's preparations for bringing forward its accounts preparation and publication dates.</i></p> <p><i>Analysis of any risks that might be introduced by new arrangements for earlier closing.</i></p> <p><i>Certification of the Authority's returns for the 2005/06 WGA dry run.</i></p>

<p><u>Group Accounts</u></p> <p>The 2004 SORP contains new provisions that require authorities with material interests in other entities to prepare group accounts from 2005/06 (including full comparative figures for 2004/05), consolidating the financial performance of subsidiaries, associates and joint ventures.</p> <p>The authority will need to carry out substantial work to identify the entities that are within its group, mobilise those entities to provide the required consolidation information in good time and compile the group accounts by 30 June 2006.</p>	<p><i>Review the authority's preparations for group accounts and progress in collecting the necessary information.</i></p> <p><i>Audit of the completed accounts.</i></p>
<p><u>Payroll system</u></p> <p>The Council have been dual running a new payroll/personnel system for approximately three years. The planned implementation date for the new system to go live and solo is during Autumn 2005.</p>	<p><i>We will review progress with implementation and any impact on our audit.</i></p>
<p>Education</p>	
<p><u>Children's Trusts</u></p> <p>During 2005/06, authorities with responsibilities for education and social services must:</p> <ul style="list-style-type: none"> • make arrangements to promote co-operation with partner organisations in areas of crime, justice, health, education and careers • prepare a Children and young People's Plan for implementation on 1 April 2006 <p>Closer working between education and social services within the authority and the wider participation in partnerships will present the authority with new challenges in corporate governance and financial management, in addition to the expense of budgeting for the changes</p>	<p><i>Review of the authority's preparations for Children's Trust, including measures proposed for governance and accountability in its internal and external arrangements for partnership, schemes for financial management and pooled budgets, and preparations for performance management.</i></p> <p><i>Use of the LGA/IdeA/Audit Commission diagnostic "fit for purpose" tool to be considered with the authority.</i></p>
<p><u>Education Capital Programme</u></p> <p>The Council's capital programme includes a number of education schemes, including the building of a number of new schools.</p>	<p><i>We will monitor the Council's progress in delivering their Education capital programme and ensure all costs/financing is properly accounted for within the 2005/06 financial statements.</i></p>
<p>Social Services: budgetary pressures</p>	
<p><u>Supporting People Grant</u></p> <p>Social Services are planning to carry out detailed financial and budgetary forecasting in light of the anticipated further reduction by government in the Supporting People Grant in</p>	<p><i>We will monitor the Council's response to these issues and the relevant impact on social services financial position.</i></p>

<p>2005/06.</p> <p><u>Home Care Contracts Overspend</u></p> <p>In 2003/04 the costs of new home care contracts overspend by £1.4m on a budget of £140m. Social Services have a recovery plan built into 2004/05 budget but anticipate it may take two years to recover this overspend.</p>	
<p>Highways, Waste and Transportation</p>	
<p><u>Waste & Materials Recycling Facility (MRF)</u></p> <p>The Council is in the process for tendering for a new MRF. Eastern Shires Purchasing Organisation (ESPO) will procure the MRF on behalf of the Council and enter into a joint working arrangement.</p> <p>The Council has a number of challenging waste performance indicators to meet.</p>	<p><i>We will continue to monitor the progress of procuring the MRF and ensure all financial transactions are properly presented within the financial statements.</i></p>

Our team and our independence

Our Team Members

It is our intention that staff work on the Council audit year on year, developing effective relationships and an in depth understanding of the business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with the Council to gather your feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews will form a valuable overview of our service and its contribution to the business, which we will use to brief new team members and enhance the awareness and understanding of the existing team.

Our audit team is outlined in the table below.

Audit Team	Responsibilities
<p>Engagement Partner <i>Steve Valentine</i> 0121 232 2500 <i>steve.valentine@uk.pwc.com</i></p>	<p>Engagement leader responsible for independently delivering the audit in accordance with the Code of Audit Practice, including agreeing the Audit Plan, quality of outputs and signing opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p>
<p>Engagement Senior Manger <i>Tracey Adam</i> 0121 232 2453 <i>tracey.adam@uk.pwc.com</i></p>	<p>Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan and management of contribution to the Annual Audit and Inspection Letter.</p>
<p>Audit Manager <i>Jane Jones</i> 01509 604040</p>	<p>Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, the review of the financial systems, work on the performance indicators and work in relation to fraud</p>

<p><i>jane.m.jones@uk.pwc.com</i></p>	<p>and corruption.</p> <p>Manager on the audit responsible for co-ordinating the use of resources audit programme including preparing and presenting reports and the BVPP audit.</p>
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The Audit Commissions Relationship Manager (responsible for the Inspection elements of this plan) is Nigel Toms.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to the Council and of those responsible in the UK Firm for compliance matters. We are aware of the following relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit engagement leader and staff:

Services provided to the Council

In addition to our audit under the Code, the Firm has undertaken no other work for the Council.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for an audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence Conclusion

We confirm that in our professional judgement, as at the date of this Indicative Plan, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Communicating with you

Communications Plan and anticipated timetable

Statement of Auditing Standard (SAS) 610: 'Communication of audit matters to those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications to them. We have assumed that 'those charged with governance' will be Cabinet.

Our team works on the engagement throughout the year to provide the Council with a timely and responsive service. Below are the estimated dates when we expect to provide you with the outputs of our audit.

Stage of the audit	Output	Provisional Date
Audit Planning	Indicative audit plan	31 April 2005
	Final audit Plan	31 Aug 2005
Audit Findings	Internal control issues and recommendations for improvement	June 2006
	Use of resources issues and preliminary conclusion for discussion	To be determined

	SAS610 Report, including: <ul style="list-style-type: none"> • Expected moderations to the audit report; • Unadjusted misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust; • Material weaknesses in the accounting and internal control systems identified as part of the audit together with recommendations for improvement; • Our views about the qualitative aspects of the Council's accounting practices and financial reporting; • Any other relevant matters relating to the financial statements audit; and • Summary of findings from our use of resources audit work to support our value for money conclusion 	October 2006
Audit Opinions	Audit Report (incorporating financial statements opinion, best value performance plan opinion and use of resources	October 2006

	conclusion)	
	Annual Audit and Inspection Letter (issued by the Relationship Manager)	December 2006

Indicative Audit and Inspection Fees

The Audit Commission has provided indicative audit and inspection fee levels for Authorities for the 2005/06 financial year, which depend upon the level of expenditure, CPA category and potential risk. Based on your budgeted expenditure for 2005/06, the indicative base fee for audit and inspection for the Council is approximately £167,000 for 2005/06 (+/- 30%).

However, given the following factors we anticipate that the actual fee for 2005/06 will be higher than the base:

- New code of practice responsibility to produce an opinion on economy, efficiency and effectiveness of use of resources, and;
- A revised auditor scored judgement approach (use of resources) for 2005/06 which will require an initial baseline assessment in the first year.

Work is being piloted in both these areas by the Audit Commission at present, and we are expecting to receive further guidance (including resource/fee guidance) from the Commission in due course.

	2005/06 £	2004/05 £	2003/04 £
Accounts	150,000	153,500	Not split on New Code basis
Value for Money	20,000 - 40,000	16,500	
Total Audit Fee (billed by PwC)	170,000 - 190,000	170,000	208,340
Inspection Fee (billed by Audit Commission)	9,500	37,000	36,838
Total Audit and Inspection Fee	179,500 - 199,500	207,000	245,178

The fee is payable in twelve monthly instalments from 1 July 2005 and excludes VAT and grant claims.

Our fee for the value for money work includes the following:

- Audit of your 2005/06 BVPP and BVPIs;
- Completion of new auditor scored judgements on use of resources; and
- Opinion on use of resources.

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 place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from the management controls within the Council;
- We are able to place reliance on the work of inspectors and internal audit in respect of our use of resources conclusion;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Statement of Internal Control (SIC) being available for us to review;
- The Council providing a fully supported and robust self assessment against the new auditor scored judgement (this is likely to be in summer 2005 pending guidance from the Audit Commission);
- The Council providing a fully supported and robust self assessment against use of resources criteria (prior to 31 March 2006); and
- Our use of resources conclusion being unqualified.

If any of these assumptions prove to be unfounded, we will seek a variation to the agreed fee, to be discussed in advance with you.

Our fee for the audit of grant claims is based on the amount of time required to complete individual claims standard hourly rates. We will discuss and agree this with the Director of Finance and his team at the conclusion of our 2005/06 audit.

Appendix A: Main Changes to the Code of Audit Practice for 2005/2006

New Code of Audit Practice

The Audit Commission has issued a new Code of Audit Practice that is applicable from the 2005/06 financial year.

There are two objectives to our work under the new Code:

- Accounts including a review of the Statement of Internal Control (SIC); and
- Use of Resources.

The most important changes from the previous Code are:

- A new form of two part audit opinion in which an explicit assurance will be provided (rather than implicitly as at present) on an authority's arrangements to secure value for money in the use of resources;
- A recognition of the central role of the Statement of Internal Control as a source of assurance on controls over financial and corporate management, which together redefine the concept of "value for money";
- The identification of a set of criteria (outside the Code itself), which represent a satisfactory standard of financial and corporate management. Auditors will need to ensure that these criteria are met at each authority and report in the audit opinion where they are not. This will mean some additional work, at

least in the first year, for Authorities which have not had value for money work in recent years because of their "excellent" CPA status;

- Recognition of the new International Standards on Auditing (ISAs), which will converge with UK standards. The relatively stronger guidance on compliance with laws and regulations, fraud, systems and going concern mean that the four components of Financial Aspects of Corporate Governance (in short, legality, fraud, systems and financial standing) can be reintegrated into the financial statements audit. In future they may be reported on by exception, where appropriate, although current levels and standards of work will continue. This means that the three part audit (accounts, financial aspects of corporate governance and use of resources, also known as value for money or performance) will become two parts, accounts and value for money, which come together in the Statement of Internal Control;
- Formalisation of the Joint Audit and Inspection letter and of the requirement that auditors rely on work performed by inspectors in forming their conclusions on value for money;
- Removal of much of the guidance on the exercise of auditors' special powers, which will instead be contained in supporting guidance. The importance of dealing with electors in a proportionate way is emphasised;

- A proposal that, where feasible, recommendations should be costed, which will require the support of the Council; and
- A requirement for an enhanced report to those charged with governance at the Council prior to the signing of accounts, containing key points on our use of resources work as well as on the accounts.

Appendix B: 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;
- The Standing Guidance for Auditors; and
- The Annual Letter of Guidance.

There are four 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 or 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 confirm that we each 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 any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective directors, members, partners, employees, agents or servants.

Access to audit working papers

We may be required to give access to our audit working papers for regulatory purposes or because of other statutory obligations. Typically, in the case of a local government or health body, this would be to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

It is our desire 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 to you 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 Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL. In this way we are able to 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

Statement of Auditing Standard (SAS) 150 includes a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. For us to fulfil these requirements, management need to inform us of any such matters that arise.

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.

Freedom of Information Act

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

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