
Leicestershire County Council

External Audit Plan 2013/14

Government and Public
Sector

November 2013

Members of the Corporate Governance Committee
Leicestershire County Council
County Hall
Glenfield
Leicester
LE3 8HD

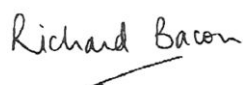
Ladies and Gentlemen,

We are pleased to present our Audit Plan, which shows how your key risks and issues drive our audit and summarises how we will deliver. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

We would like to thank Members and Officers of the Council for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Richard Bacon or Matthew Elmer.

Yours faithfully,



PricewaterhouseCoopers LLP

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In March 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 and on the Audit Commission’s website. 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 are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to directors or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any director or officer in their individual capacity or to any third party.

Introduction

The purpose of this plan

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2013/14 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Corporate Governance Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

Our work in 2013/14

We will:

- audit the annual report and statutory accounts, assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- consider whether the disclosures in the Annual Governance Statement (AGS) are complete;
- see whether the other information in the accounts is consistent with the financial statements;
- report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources; and
- tell you promptly when we find anything significant during the audit, directly to management and as soon as practicable to the Corporate Governance Committee throughout the year.

We are required to report information on your accounts to the National Audit Office (NAO) which is used as part of the assurance process for compiling the Whole of Government Accounts (WGA).

Risk assessment

We considered the Council's operations and assessed:

- business and audit risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies.

Responsibilities

Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Audit Commission's website.

It is your responsibility to identify and address your 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 assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

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

We work smart to ensure a quality, efficient audit. Our unique methodology involves our people, a tailored audit approach and our use of technology:

Smart People

We have deployed our best 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 Trust 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 Trust for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

We use dedicated IT specialists on the audit and share their insight and experience of best practices with you.

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight.

In 2013/2014 we anticipate the work will include:

- Testing manual journals using data analytics, ensuring we consider the complete population of manual 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 the Local Government sector 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.

Your audit team works 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 the areas of the audit that matter to you.

We have agreed a process with the Audit Commission, under which data can be off-

shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring. Further information is included in the Appendix.

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 Trust audit cycles.

Our 'smart' approach underpins your audit.***Client acceptance & independence***

Our audit engagement begins with an evaluation of the Trust on our 'acceptance & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk. We expect that by January 2014 we will be able to benchmark the risk score across our portfolio of Local Government appointments and we will be happy to share an analysis of how your risk score compares with other organisations across the country.

At the beginning of our audit process we are also required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters and there are no matters which we perceive may impact our independence and objectivity of the audit team. Therefore at the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Trust, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Risk Assessment

Risk Assessment Results

Leicestershire County Council faces a range of challenges. You continue to face external scrutiny on your services and have significant savings targets in current and future years. The environment is extremely difficult. We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine our audit effort should be focused and whether we can place reliance on the effective operation of your controls.

We have separately identified the significant risks for our audit based on the likelihood, nature and magnitude of the balance or transaction. Auditing Standards require us to include two fraud risks as Significant:

- Management override of controls:

“Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.” ISA 240 paragraph 31; and

- Income and expenditure recognition:

“When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.” ISA 240 paragraph 26.

Both are included in our risk assessment:

Significant audit risks for the audit of financial statements

- Fraud and management override of controls; and
- Recognition of income and expenditure.

Significant audit risks for our other Audit Code responsibilities

- Medium Term Financial Strategy

A summary of the risks we have identified, including significant risks (●), is included in the tables below.

Financial Statements risk

Risk	Audit approach
<p>● <u>Fraud and management override of controls</u></p> <p>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. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>We will review your internal control structure. In particular we will focus our work on testing of journals and will utilise computer assisted audit techniques to do this. This will provide you with assurance over the level of manual and automated journals together with the appropriateness of journals posted.</p> <p>We will also:</p> <ul style="list-style-type: none"> • review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform 'unpredictable' procedures – these are tests we have not carried out before to test the robustness of controls. <p>We will perform other audit procedures if necessary.</p>
<p>● <u>Recognition of income and expenditure</u></p> <p>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue and expenditure position.</p>	<p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the code of accounting for Local Government.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk when we develop our detailed plan.</p>
<p><u>Valuation of properties</u></p> <p>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.</p> <p>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</p>	<p>Where asset valuations are undertaken in-year we will:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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</p>

Risk	Audit approach
<p>value estimates.</p> <p>Specific areas of audit risk include:</p> <ul style="list-style-type: none"> • 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. 	
<p><u>East Midlands Shared Service (EMSS)</u></p> <p>On 7 September 2010, the Cabinet considered proposals for a new East Midlands Shared Service centre with Nottingham City Council. This project involves shared services for HR, payroll and financial transaction services, utilising the Oracle ERP system currently used by the Council.</p> <p>The shared service went live earlier this year and is now fully operational.</p>	<p>We will update our understanding of the processes and controls in place relevant to the audit. In particular, we will use the work of Internal Audit where possible to update our understanding of your transactional finance controls.</p> <p>We will focus our testing on:</p> <ul style="list-style-type: none"> • data migration; • access to data and information; • any relevant transition arrangements; and • understanding and evaluating the new control environment. <p>We will engage with our Risk Assurance team to provide support and insight into the new shared service where appropriate.</p> <p>We will also make available the Oracle GATE tool to provide added value and insight to the configuration of your Oracle system post-implementation if required by the Council.</p>
<p><u>Local Government Pension Scheme</u></p> <p>One of the most material estimates in the accounts is your share of the Leicestershire Pension Fund net liability.</p> <p>The trend over the past five years has been an increase in the net liability. There has been a significant increase in the pension fund net liability, as estimated by the actuary, due to changing demographics and other assumptions. The fair value of the scheme assets has remained broadly flat over the period, resulting in the increased liability.</p> <p>The actuarial assumptions are primarily driven by the results of the triennial funding review of the Pension Scheme as at March 2010. This information is updated for using a</p>	<p>We will review the assumptions you have used in your accounts to measure the pension fund liability.</p> <p>In particular, we will:</p> <ul style="list-style-type: none"> • test the source data used by your Actuary to supporting records; • assess the work of your Actuary through use of our own internal specialists where required; and • agree the outputs of the Actuary to your accounts. <p>We will also test the value of the pension fund assets which you recognise in your accounts.</p>

Risk	Audit approach
“roll forward” approach (where previous balances are adjusted to account for known trends) until the next full valuation. A new triennial valuation is due to be completed to inform the 2013/14 accounts.	
<u>Leicestershire Highways - Oracle</u> The financial information associated with Leicestershire Highways will be migrated onto Oracle from 6 January 2014.	We will update our understanding of the processes and controls in place relevant to the audit. We will focus our testing on the accurate migration of data onto Oracle.

Other Audit Code responsibilities risks

Risk	Audit approach
<p>● <u>Medium Term Financial Strategy (MTFS)</u></p> <p>The Authority has made significant strides 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 2013/14 to 2016/17. It includes savings of £79m. Growth of £24m has been included for service improvement, cost and demand pressures. Recent announcements on likely future funding mean that the total savings requirement for the next 5 year period starting in 2013/14 is likely to be around £110 million.</p> <p>There is a well-established Change Management Programme and Organisational Efficiency Programme which has helped deliver demonstrable value for money. A ‘Transformation Board’ has also been introduced on an all party-basis for members to engage with officers around the medium term transformation of the way the Council operates.</p> <p>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.</p> <p>During 2011/12 and 2012/13 you continued to deliver savings. The delivery of your savings plan has given you flexibility to direct resources towards ‘invest to save’ schemes. However, the environment continues to be challenging. You will need to ensure that a robust Medium Term Financial Strategy is approved before March 2014 so that you can demonstrate how you will be financially resilient in the years ahead.</p>	<p>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.</p> <p>In particular, we will review:</p> <ul style="list-style-type: none"> the governance structure in place to deliver your plans ; how you have managed your 2013/14 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.

Audit approach

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts, including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2013/14 accounts.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Materiality

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We propose to treat misstatements less than £100,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&I) 260 report.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Council. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit.

Robust Testing

Where we do our work

As previously mentioned our audit is risk based which means we focus our work on those areas which, in our judgement, are most likely to lead to a material misstatement. In summary, we will:

1. Consider the key risks arising from internal developments and external factors such as policy, regulatory or accounting changes;
2. 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;
3. Understand the control activities operating over key financial cycles which affect the production of the year-end financial statements;
4. Validate key controls relevant to the audit approach; and
5. Perform substantive on transactions and balances as required.

When we do our work

Our audit is designed to get ahead of issues 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 whilst not getting ahead of management's decision making.

Meaningful conclusions

We believe fundamentally in the value of the audit and its crucial position in providing confidence to the Council and other stakeholders. In addition, we believe that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

In designing the audit, our primary objective is to form an independent audit opinion on the financial statements; however, we also aim to provide insight which supports your evolution.

Audit value comes from the same source as audit quality so the work that we do in support of our audit opinion also means that we should be giving you value through our observations, recommendations and insights.

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

Internal Audit

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with recent guidance issued by the Audit Commission, in 2013/14 our conclusion will be based on 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 will be carrying out sufficient work to allow us to reach a conclusion on your arrangements based on your circumstances.

Local government pension fund

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 for the pension fund.

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

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 responsibility

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.

Responsibility of the corporate governance committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

**Why
commit
fraud?**

Opportunity

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

Rationalisation/attitude

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

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?

Your team and independence

Your audit team has been drawn from our government and public sector team based in the Midlands. Your audit team consists of the key members listed below, but is further supported by our specialists both in the sector, and across other services:

Audit Team	Responsibilities
Lead Partner Richard Bacon 5 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 Director Alison Breadon 1 st year as Engagement Director 0121 232 2598 richard.f.bacon@uk.pwc.com	Engagement Director responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions.
Engagement Senior Manager Matthew Elmer 7 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. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.
Engagement Team Leader 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.

Our team members

It is our intention that, wherever possible, staff work on the Leicestershire County Council audit each year, developing effective relationships and an in depth understanding of your 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 you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

As external auditors of the Authority we are required to be independent of the Authority in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the

appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and Investments

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

Independence conclusion

At the date of this plan we confirm that in our professional judgement, 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 team is not impaired.

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Corporate Governance Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Plan	November 2013
Audit findings	Internal control issues and recommendations for improvement (if applicable)	Throughout the audit
	ISA (UK&I) 260 report incorporating specific reporting requirements, including:	September 2014
	<ul style="list-style-type: none"> Any expected modifications to the audit report; Uncorrected 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; Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures; Any significant difficulties encountered by us during the audit; Any significant matters discussed, or subject to correspondence with, Management; Any other significant matters relevant to the financial reporting process; and Summary of findings from our use of resources audit work to support our value for money conclusion 	
Audit reports	Financial Statements opinion including Use of Resources	September 2014
Other public reports	Annual Audit Letter A brief summary report of our work, produced for Members and to be available to the public.	November 2014

Audit fees

The Audit Commission has provided indicative audit fee levels for the 2013/14 financial year. The base fee scale for your audit is £102,600. This does not include the fee for the audit of the pension fund which is subject to a separate plan.

The fee is broken down as follows:

	2013/14 Plan	2012/13 Actual
Accounts	90,000	90,000
Use of Resources/ Value for Money Conclusion	12,600	12,600
Sub-total	102,600	102,600
Response to East Midlands Shared Service (EMSS) audit risk, including Oracle GATE*	0	10,000
Certification of claims and returns (estimated)	6,700	5,500
Total Audit Fee	109,300	118,100
Planned non-audit work	0	0*
Total Fees	109,300	118,100

*In addition to the audit of the Statement of Accounts, PwC undertook some non-audit work for the Authority during 2012/13. This consisted of:

- Review of the upgrade of Oracle (£20,000) – we were successful in a competitive tender to support the Authority in reviewing the upgrade of your Oracle system.
- 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 also been asked to undertake some work to audit the 2012/13 accounts of the East Midlands Councils, for which Leicestershire is the administering authority. The fees are unknown at this stage and the cost will be borne by East Midlands Councils. We will update members as this work progresses.

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;
- Working papers and financial statements have been reviewed by officers before providing for audit;
- The quality of working papers being good;
- We are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based; and
- Our use of resources 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 in advance with you.

Appendix - 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 some 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.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at

our office at 7 More London, Riverside, London, SE1 2RT. 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 (revised) 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.

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India and Poland for the facilitation of basic audit tasks. Please refer to the letter at the end of this Appendix for further information on the types of tasks we may off-shore. We confirm that:

- When work is off-shored the firm delivering the audit remains entirely responsible for the conduct of the audit. As such the data will be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.
- All firms within the PricewaterhouseCoopers network, including the PwC Service Delivery Centres, have signed an intra-group data protection agreement which includes data protection obligations equivalent to those set out in the EU model contract for the transfer of personal data to data processors outside of the European Economic Area.
- We shall comply at all times with the seventh principle in Part 1 of Schedule 1 to the Data Protection Act 1998.
- Your audit team members will remain your key audit contacts, you will not need to communicate with our overseas delivery teams.
- The audit team members are responsible for reviewing all of the work performed by the overseas delivery teams.
- We already successfully use a UK based delivery centre for financial statements quality checks and that this service will remain in the UK.

If you have any questions regarding this process or if you require further information then please contact Matthew Elmer.



Private & Confidential

Members of the Corporate Governance Committee
Leicestershire County Council
County Hall
Glenfield
Leicester
LE3 8HD

November 2013

Dear Sir,

Working more efficiently

As you know the Audit Commission recently tendered the audit work previously delivered by the District Audit service. This realised significant savings which have been passed on to your organisation in a reduction to your scale fee of around 40%.

As a result of this tender, suppliers have sought for opportunities to increase efficiency, whilst maintaining the level of quality. One principle which has recently been established is that certain basic parts of the audit can be off-shored. This is common practice in the private sector. When work is off-shored the firm delivering the audit and thus your audit team, remains entirely responsible for the conduct of the audit. As such the data would be subject to similar data quality control procedures as if the work had not been off-shored, maintaining the security of your data.

Examples of the work that can be off-shored are:

- Request for confirmations (Receivables, Bank or Payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;
- Research; and
- Preparation of lead schedules.

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in India and Poland for the facilitation of basic audit tasks, as highlighted above. We have agreed with the Audit Commission how this will be regulated, together with their independent review of our internal processes to ensure compliance, with the Audit Commission requirements for off-shoring.

If you have any questions regarding the above, please do not hesitate to get in touch.

Yours sincerely

Richard Bacon, Engagement Leader

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.

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