

Melton Borough Council

DRAFT

External Audit Plan 2014/15

Government and
Public Sector

February 2015

Contents

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

In April 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and 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 Governance Committee of Melton Borough Council (the 'Authority') with information about our responsibilities as external auditors and how we plan to discharge them for the audit of the financial year ending 31 March 2015.

Framework for our audit

We are appointed as your auditors by the Audit Commission as part of a national framework contract and consequently we are required to incorporate the requirements of:

- the Audit Commission Act 1998;
- the Code of Audit Practice 2010 for local government bodies (the 'Audit Code'); and
- the 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 in February 2015.

Our Responsibilities

Our responsibilities are as follows:

Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).

Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.

Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.

Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information from our work and consider whether it complies with CIPFA / SOLACE guidance.

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

Determine whether any other action should be taken in relation to our other responsibilities under the Audit Commission Act.

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

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

Audit approach

The PwC Audit

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

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



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

Our unique methodology involves using:

- people who understand your organisation and the environment you work in;
- a tailored audit approach designed to meet the requirements of auditing standards and designed around local government audits;and
- use of technology to identify issues quickly, maintain security of the information we hold and increase efficiency for you and us.

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 and Continuance system' which highlights an overall engagement risk score and areas of heightened risk.

At the beginning of our audit process we are also required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters and concluded that there are no matters which we perceive may impact our independence and objectivity of the audit team.

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Deep business understanding

Strategic context

The Authority is operating in an increasingly challenging environment where many Local Government organisations are facing a continued reduction in funding from central government and increasing demand for their services, in particular in relation to vulnerable people. Our risks identified later in this plan have been considered in this context.

Understanding your business issues

The Authority is facing significant pressures on central government funding which are affecting the services it provides to the local community. Welfare reform (such as the benefits cap and universal credit) and changes to the way the Authority administers income from business rates have tested the Authority's resilience to change. In response, the Authority is developing the Melton Local Plan. The Local Plan will be used to guide decisions on planning applications for development as well as setting out the strategic direction of the area on social economic and environmental matters. Through public consultation, the Authority will be able to prioritise the services and infrastructure improvements that are most required by the Community.

The Authority received reports in December 2014 that showed that the estimated year end position for General Expenses was over the original budget by £60,000 The variances between the original estimated outturn and the estimated year end

position primarily relate to additional income (planning, car parking and land charges fees), wheels to work scheme (reduction in cost and increase in funding) and un ring-fenced grant income received. In addition there has been an increase in the amount of interest received on the Council's investments and it is currently estimated that only part of the inflation contingency provided will be required to cover a portion of the pay award. These are offset by reduced income estimated on the cattle market, additional waste contractor costs and reduced income from co-mingled waste.

The Leicester and Leicestershire Business Rates pool ended in March 2014 due to risks and uncertainties around pooling arrangements, in particular, uncertainty around both the accounting and 'pool' treatment of appeals and compensatory grants. Since March 2014, further clarity has been obtained on future funding and previous members of the pool have decided to reform for 2015/16.

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

Your current Corporate Risk Register shows the following "red" rated risks:

- Delays and excessive costs and reputational consequences of the Melton Local Plan not being adopted in the future.
- Inability to deliver the Cattle Market project in accordance with agreed timescales, objectives, and budgets.
- Uncertainty and risks over future government funding and the resultant impact on the Authority's finances.
- Increased number of vulnerable families and individuals resulting from the impact of Welfare Reforms.
- Challenge of cultural issues which could undermine our ability to transform the Authority.

*Each of the five risks above has a likelihood rating of high (scale - almost impossible to very high) and an impact rating of critical (scale – negligible to catastrophic).

Our regular contact with the Authority across the year will ensure we keep updated with management's plans to mitigate these risks.

Our understanding of the Authority's ability to manage its risks helps us to plan our work on the Authority's statement of accounts. Our own assessment of risk is focused on potential for material misstatement in the accounts and we discuss this in more detail below.

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 the Authority's 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 on pages 6 to 8 highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2015.

Main Council Audit

Risk	Categorisation	Audit approach
<p>Management override of controls</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. In every organisation, management may be in a position to override the routine day to day financial controls.</p> <p>Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant ●</p>	<p>As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> • 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 and manual journals; • 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. <p>We may perform other audit procedures if necessary.</p>

Risk	Categorisation	Audit approach
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to the recognition of expenditure for local government audits.</p>	<p>Significant ●</p>	<p>We will understand, evaluate and test the relevant revenue and expenditure controls to confirm they are well designed and operating effectively.</p> <p>We will:</p> <ul style="list-style-type: none"> • continue our regular dialogue with the statutory officers of the Authority; • seek to place reliance on internal audit work on key income and expenditure controls; • evaluate the accounting policies for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting; • test the appropriateness of journal entries and other adjustments, including high risk and manual journals; • review accounting estimates for income and expenditure, for example, provisions, valuations and impairments; • perform cut-off tests at year end and after date cash testing to ensure items have been recorded in the appropriate period; and • perform unrecorded liabilities testing.

Risk	Categorisation	Audit approach
<p data-bbox="618 220 1010 245">Meeting the financial challenge</p> <p data-bbox="618 277 1039 437">All local government organisations are faced with increased challenges in their medium term financial outlook. There continues to be a number of risks to the delivery of the plan, particularly in respect of national changes, such as;</p> <ul data-bbox="667 469 1032 635" style="list-style-type: none"> • the Council Tax Freeze Grant; • the New Homes Bonus; • Welfare Reform Act, the effects of the benefits cap and the universal credit; and • business rates retention. <p data-bbox="618 667 981 715">As a result, the following risks are increased:</p> <ul data-bbox="667 751 1039 1193" style="list-style-type: none"> • slippage- the Authority may not be able to achieve the savings planned either from service reductions or through efficiencies; • timing- the timing of planned savings, service reductions and funding announcements may impact delivery against the Comprehensive spending review targets; and • assumptions- significant policy changes might impact on the Authority's ability to deliver a balanced budget over the period of the plan. <p data-bbox="618 1225 1010 1385">There is also a risk of deteriorating operational performance and quality due to reduced resources and management capacity where cost savings are made without careful consideration.</p>	<p data-bbox="1104 220 1218 245">Elevated ●</p>	<p data-bbox="1386 220 2085 272">We will continue to review the savings plans, their robustness and performance against these plans in year.</p> <p data-bbox="1386 304 1697 330">We will specifically consider :</p> <ul data-bbox="1435 362 2085 703" style="list-style-type: none"> • the impact of new arrangements in relation to Authority; • retention of business rates on the Authority's financial position; • the Authority's use of the Council Tax Freeze Grant and the New Homes Bonus; • the governance structure in place to deliver the targets; • the level and extent of accountability; • project management arrangements; • monitoring and reporting; • progress on delivering the plan; and • how the assumptions applied in the Authority's plan compare with other organisations and best practice. <p data-bbox="1386 735 2007 788">We will consider any relevant accounting assumptions and whether they are realistic and reasonable.</p>

**Overall
Materiality:
£542,000**

**Triviality:
£30,000**

*Intelligent scoping
Materiality*

	£
Overall materiality	£542,000
Clearly trivial reporting de minimis	£30,000

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

Overall materiality has been set at 2% of total expenditure shown in the 2013/14 accounts. We will update this assessment as necessary in light of performance shown in the Authority's draft accounts for 2014/15.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We would like to seek the Governance Committee's views on this de minimis threshold.

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 Governance Committee
<p>Our objectives are to:</p> <ul style="list-style-type: none">• identify and assess the risks of material misstatement of the financial statements due to fraud;• obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and• respond appropriately to fraud or suspected fraud identified during the audit.	<p>Management's responsibilities in relation to fraud are to:</p> <ul style="list-style-type: none">• design and implement programmes and controls to prevent, deter and detect fraud;• ensure that the entity's culture and environment promote ethical behaviour; and• perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.	<p>Your responsibility as part of your governance role is to:</p> <ul style="list-style-type: none">• evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate 'tone at the top'; and• 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 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 PwC 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 continuing to develop long term relationships with you. The core members of your audit team are:

Team Leader

Thomas Hann
07789 374761
thomas.o.hann@uk.pwc.com



Responsible for leading the field team, including the audit of the statement of accounts, and governance aspects of our work. Regular liaison with the finance team.

Audit Team	Responsibilities
<p><i>Engagement Leader</i></p> <p>Alison Breadon 01509 604246 alison.breadon@uk.pwc.com</p> 	<p>Engagement Leader responsible for independently delivering the audit in line with the Audit Code (including agreeing the Audit Plan, ISA 260 Report to Those Charged with Governance and the Annual Audit Letter), quality of outputs and signing of opinions and conclusions.</p>
<p><i>Engagement Manager</i></p> <p>Ben Connor 07889 644 879 benjamin.e.connor@uk.pwc.com</p> 	<p>Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA 260 Report and Annual Audit Letter.</p>

Our audit fees are consistent with those set for the previous year

Your 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 for have been set at the same level as the fees applicable for 2013/14.

Our indicative audit fee, as agreed in our audit fee letter dated October 2014, compared to the actual fee for 2013/14 is as follows:

Audit fee	Actual fee 2013/14 £	Indicative fee 2014/15 £
Audit work performed under the Code of Audit Practice		
- Statement of Accounts	56,558	57,558
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources		
- Whole of Government Accounts		
Total Audit work	56,658	57,558
Planned non-audit work	-	18,000*
Certification of Claims and Returns	20,522	18,460
Total fees (audit and non-audit work)	77,180	94,018

* In 2014/15 we performed:

- a review of the Authority's creditors and payments systems. The fee for this work was £15,000; and

- a certification review of the Authority's application for Backlog funding to the Homes and Communities Agency. The fee for this work was £3,000.

In both cases, we assessed the threats and safeguards around our independence as the Authority's external auditors and agreed with the Authority how the risks could be mitigated. Further details on this are shown on pages 17 and 18.

Our indicative fees for 2014/15 are based on the following assumptions:

- officers meeting the timetable of deliverables, which we will agree in writing;
- we are able to use, as planned, the work of internal audit;
- we do not review more than 3 iterations of the statement of accounts;
- we are able to obtain assurance from your management controls;
- no significant changes being made by the Audit Commission to the local value for money work requirements; and
- our value for money conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed and agreed in advance with you and the Audit Commission.

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

Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns	18,460 <i>(indicative for 2014/15)</i>	<p>Self Review Threat: The audit team will conduct the grant certification and this has arisen due to our appointment as external auditors.</p> <p>There is no self review threat as we are certifying management completed grant returns and claims.</p> <p>Self Interest Threat: As a firm, we have no financial or other interest in the results of the Council.</p> <p>We have concluded that this work does not pose a self interest threat.</p> <p>Management Threat: PwC is not required to take any decisions on behalf of management as part of this work.</p> <p>Advocacy Threat: We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: Work complements our external audit appointment and does not present a familiarity threat.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism</p>
Creditors and Payments review	£15,000	<p>Self Review Threat: The review was completed by members of PwC's counter fraud team. None of the members of the external audit team contributed to the fieldwork for this review.</p>

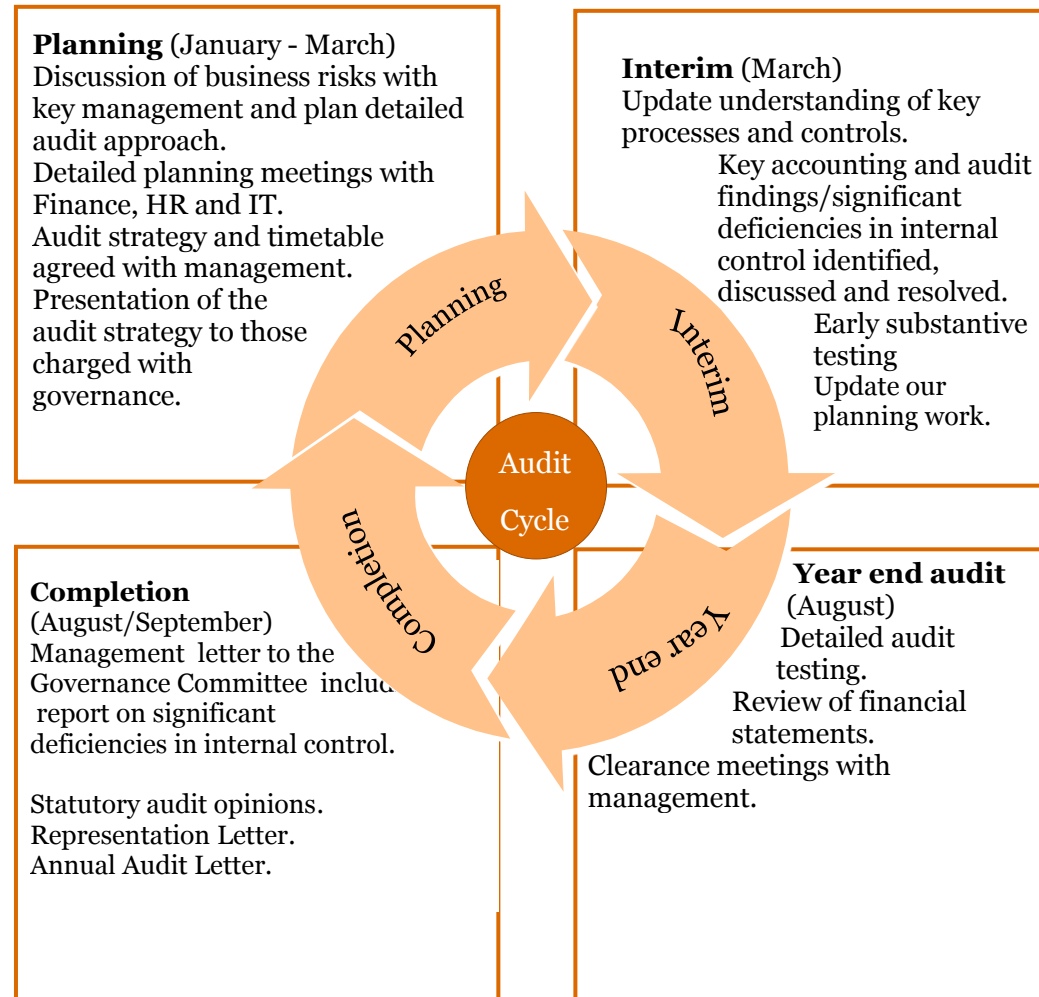
		<p>Self Interest Threat: PwC did not have a financial interest relating to the results of the review for the Authority. The work was completed on a fixed fee and under a separate engagement contract.</p> <p>Management Threat: The review did not involve PwC taking decisions on behalf of management.</p> <p>Advocacy Threat: We did not be act for, or alongside, management and we concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: This work is separate to our external audit appointment and does not present a familiarity threat.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.</p>
HCA Backlog Claim certification	£3,000	<p>Self Review Threat: The review was completed by members of PwC's certification team. None of the members of the external audit team contributed to the fieldwork for this exercise.</p> <p>Self Interest Threat: PwC did not have a financial interest relating to the results of the certification for the Authority. The work was completed on a fixed fee and under a separate engagement contract.</p> <p>Management Threat: The review did not involve PwC taking decisions on behalf of management.</p> <p>Advocacy Threat: We did not act for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: This work is separate to our external audit appointment and does not present a familiarity threat.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism.</p>

Relationships and Investments

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

Therefore at the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix B: Communications Plan



Continuous Communication

- Continuous proactive discussion of issues as and when they arise; 'no surprises'.
- Continuous evaluation and improvement of the audit.
- Bringing you experience of sector and best practice.

Appendix C: Audit quality

Quality is built into every aspect of the way that we deliver the Authority audit. We take great pride in being your auditors and in the value of assurance that the audit opinion provides. A timely, independent and rigorous audit is fundamental. This in turn necessitates getting the basics right – clarity on audit risks, scope, resource, timetables, deliverables and areas of judgement – which is supported by our team that has extensive experience and relevant training.

The table below sets out some of the key ways in which we ensure we deliver a high quality audit.

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	<p>PwC prepares numerous publications to keep both PwC staff and our clients abreast of the latest technical guidance.</p> <p>These include:</p> <ul style="list-style-type: none"> • 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. <p>We also provide Local Government specific technical updates through regular publications issued by our Local Government Centre of Excellence and weekly conference calls for all Local Authority engagement teams during the final audit period. We will share our technical updates with you throughout the year.</p>
Independence standards	<p>PwC has policies and systems designed to comply with relevant independence and client retention standards. Before a piece of non-audit work can begin for the Authority, it must first be authorised by the engagement leader who evaluates the project against our own internal policies and safeguards and against your policy on non-audit services. Above a certain fee threshold, we then seek approval from the Audit Commission before proceeding with any work.</p>
Ethics	<p>Our Ethics and Business Conduct Programme includes confidential communication channels to voice questions and concerns 24 hours a day, seven days a week. Confidentiality helps us to ensure that we receive the candid information and that we respond with the appropriate technical and risk management resources.</p>
Independent review	<p>Our audits are subject to ongoing review and evaluation by review teams within PwC and also by the Audit Quality Review Team (AQRT, formerly the Audit Inspection Unit). The most recent report on PwC was issued in May 2014 and although there are some areas for development identified the general theme was that audit quality has continued to improve. The firm has developed action plans for all areas for development identified by the AQRT.</p> <p>As auditors appointed by the Audit Commission we are also required to comply with their annual Regulatory Compliance and Quality Review programme. The results for our 2013/14 audits are expected in 2015 and will be publicly available on the Audit Commission’s website should you wish to take a look.</p>

Smart People

We deploy quality people on your audit, supported by a substantial investment in training and in our industry programme. The members of staff deployed on your audit have been primarily taken from our dedicated Government and Public Sector team. These staff members have a wide and deep knowledge both of the Authority and the local government sector.

Key members of the audit team including the engagement manager and team leader have been involved in the audit of the Authority for a number of years. This ensures continuity which is beneficial both for our people and your audit through ensuring that accumulated knowledge remains within the audit team, improving the quality of the audit we deliver.

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

Smart Approach

Data auditing

We use technology-enabled audit techniques to drive quality, efficiency and insight. In 2012/13 we investigated the possibility of using data auditing to review income from council tax and NNDR. We concluded that the Authority could not provide the appropriate data to complete the analysis and given that no major systems changes have taken place in 2014/15, it is unlikely that data analysis can be incorporated into our audit approach.

Centre of Excellence

We have a Centre of Excellence in the UK for Local Government which is a dedicated team of specialists which advises, assists and shares best practice with our audit teams in more complex areas of the audit.

Our team has been working side by side with the Centre of Excellence to ensure we are executing the best possible audit approach.

Delivery centres

We use dedicated delivery centres to deliver parts of our audit work that are routine and can be done by teams dedicated to specific tasks; for example these include confirmation procedures, preliminary independence checks and consistency and casting checks of the financial statements.

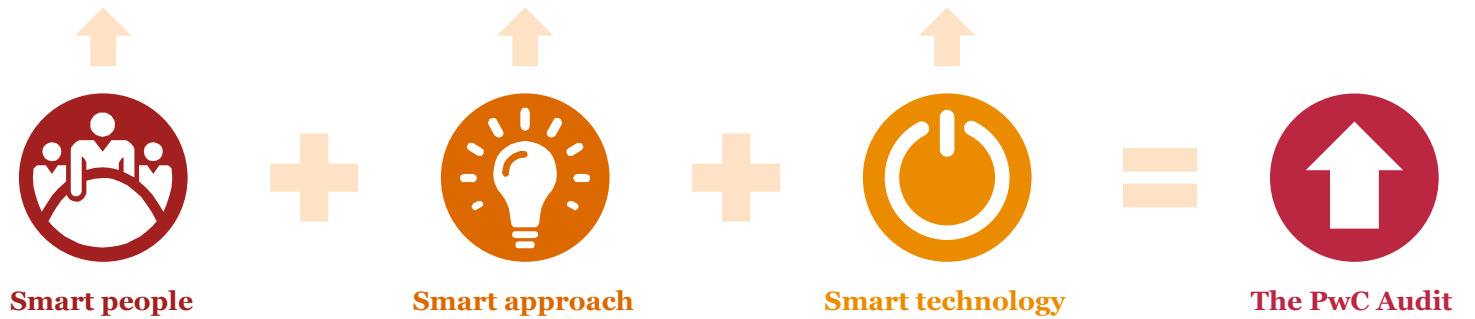
The use of our delivery centres frees up your audit team to focus on other areas of the audit.

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

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 Melton Borough Council and the terms of our appointment are governed by:

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

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

Electronic communication

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

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

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

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

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

Appointed auditor

Alison Breadon, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Alison Breadon is not a partner.

Access to audit working papers

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

Overseas processing of information

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in India and Poland for the facilitation of basic audit tasks. We agreed with the Authority's Section 151 Officer in 2012/13 that the use of overseas deliver centres was appropriate. As part of our use of overseas delivery centres, 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 Alison Breadon or Ben Connor.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Richard Bacon, our Government & Public Sector Assurance Lead Partner at our office at Cornwall Court, Birmingham, B3 2DT, or James Chalmers, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.



In the event that, pursuant to a request which Melton Borough Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Melton Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Melton Borough Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Melton Borough Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Melton Borough Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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