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# *Peterborough City Council*

*External Audit Plan 2013/14*

13

Government and Public Sector

March 2014



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

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

# Executive summary

## Background

We have prepared this audit plan to provide the Audit Committee of Peterborough City 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 ended 31 March 2014.

## Framework for our audit

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

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

We look forward to discussing our report with you on 24 March 2014.

## 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 of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.*

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

*Determine whether any other action should be taken in relation to 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 & continuance database' which highlights an overall engagement risk score and highlights areas of heightened risk.

## Audit approach

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2013/14 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

We determine if risks are significant, elevated or normal and whether we are concerned with fraud, error or judgement as this helps to drive the design of our testing procedures:

- |                      |   |
|----------------------|---|
| ● <b>Significant</b> | 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. |
| ● <b>Elevated</b>    | Although not considered significant, the nature of the balance/area requires specific consideration.  |

The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2014.

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*

- **Revenue 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 considered as part of our risk assessment, as detailed below.

## Financial Statements risks

Risk	Categorisation	Audit approach
<p><b>Management override of controls</b></p> <p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	Significant ●	<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"> <li>• Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;</li> <li>• Test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus;</li> <li>• Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);</li> <li>• Evaluate the business rationale underlying any significant transactions outside the normal course of business; and</li> <li>• Perform unpredictable procedures targeted on fraud risks.</li> </ul> <p>We may perform other audit procedures if necessary.</p>
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Under ISA (UK&amp;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 in local government.</p>	Significant ●	<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 Practice on Local Authority Accounting.</p> <p>We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p>

Risk	Categorisation	Audit approach
<p data-bbox="604 215 1093 279"><b>Property valuation and accounting for capital</b></p> <p data-bbox="604 311 1093 638">The scale and complexity of the Council's estate presents a number of accounting challenges. The Council's measurement of its properties at fair value involves a range of assumptions and the use of external valuation expertise. ISAs (UK&amp;I) 500 and 540 require us, respectively, to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p data-bbox="604 654 1093 877">In our previous audits, we have identified accounting issues in this area including the assumptions and methodologies used by the Council's external valuation expert and the accounting for the construction of new Academy schools. This therefore represents an area of elevated risk.</p>	Elevated ●	<p data-bbox="1377 215 2110 247">We will:</p> <ul data-bbox="1377 255 2110 406" style="list-style-type: none"> <li data-bbox="1377 255 2110 343">• use valuations experts to review the assumptions used in determining the fair value of assets recorded within the Council's financial statements; and</li> <li data-bbox="1377 351 2110 406">• consider the accounting treatment within the financial statements.</li> </ul>

**Risk****Council Tax Benefit reform**

From 1 April 2013/14, Council Tax Benefit (CTB) was replaced by local authorities' own council tax support and reduction schemes.

Prior to the CTB reforms, national rules were set by the Government and therefore standard calculations and system parameters would have applied to the assessment and processing of all claims. Following the abolition of CTB, the Council has introduced a Council Tax Support (CTS) scheme having set their own rules (subject to a number of restrictions imposed by the Government). Changes have therefore been made to claimants' entitlement and processes for assessment, and then to the underlying calculations and parameters within the Academy system (which the Council uses to process claims). Previously such system amendments have been part of a national system upgrade, but this year have been undertaken by the Council reflecting their local rules. This has also involved increased manual processes to apply these parameters and updates from Academy.

There is a risk that the new scheme rules have not been appropriately implemented within the Council's controls for assessing entitlement, or have not been effectively applied within Academy, which would impact the accuracy of the CTS calculation.

**Categorisation**

Elevated ●

**Audit approach**

As a new scheme has been introduced we will need to perform additional audit procedures this year to:

- Understand the criteria the Council has set and the initial modelling performed to estimate the cost of the scheme;
- Test how this has been translated into new controls over eligibility assessment;
- Review the accuracy of budget monitoring and reporting of CTS;
- Understand and evaluate the change processes and access to the Academy system; and
- Review the parameters now used within the Academy system.

We envisage this work will be undertaken by procedures involving the core audit team and IT specialists. Assuming these processes have been well controlled and implemented, the majority of this work is expected to be non-recurrent in FY15.

We also need to undertake focused testing on a sample of transactions under the new arrangements. Council Tax Benefit was previously subsidised by the Department for Work and Pensions (DWP) and we undertook certification work on behalf of the Audit Commission as part of the Housing and Council Tax Benefit Return (BEN01). This work was also leveraged to support our work on the audit opinion.

However, due to the localisation of schemes it is anticipated that the Audit Commission will revise their certification instructions (as DWP involvement ceases with the new CTS schemes) and we will therefore need to perform additional detailed testing procedures as part of the financial statements' audit to gain assurance over the accuracy, completeness, cut-off and existence of a sample of Council Tax Support claims.

We have assessed this as an elevated rather than significant risk due to the level of Council Tax Support within the accounts, and that this is not expected to show material variance or sensitivity, nor to be overly reliant on management judgements.

## *Other matters affecting the financial statements audit which do not lead to Significant or Elevated risks*

### **National Non-Domestic Rates**

We note that there have also been changes within National Non-Domestic Rates (NNDR). The Council is responsible for the collection of NNDR and previously passed this in full to the Government. From 1 April 2013, the amount collected is split between the Government (50%), Cambridgeshire Fire and Rescue Authority (1%), with 49% retained by the Council.

The Council will therefore have to allow for the fact that a proportion of their receipts in 2013/14 will ultimately be repaid to ratepayers following successful appeals, through an appeals provision (as these sums should not be recognised as income). The Council should make a reasonable estimate of lost income following successful appeals, whether the appeal decisions are in 2013/14 or later years. In addition, estimated repayments that have to be made to ratepayers in respect of overpayments in respect of the years before 2013/14, this will create a further liability. Authorities will be able to choose whether to recognise the estimated liability in full in 2013/14, or spread the cost over five years (2013/14 to 2017/18). The Council's share of the provision is c.£2.6m in 2013/14.

The Government has implemented a 'safety net' payment which is funding from the central business rates pot that is used to support local councils whose rate income has fallen by more than 7.5% in any one year. Collection of rates would have to fall by £2.8m to trigger this payment. The maximum exposure to the Council and the Council's share of the provision would not be material to the accounts and as such we do not determine that this represents a significant or elevated risk for the purposes of the audit. We will however review management's estimates re the NNDR appeals provision.

### **Local Authority Mortgage Scheme**

We have previously discussed the accounting for the Local Authority Mortgage Scheme (LAMS) with you, and noted that the accounting treatment can be based on different interpretations of statute. The value of the amount paid into LAMS at 31 March 2013 was not material in the context of the truth and fairness of the accounts as a whole, and there was no impact on our audit opinion in 2012/13. We noted in our *ISA 260 report to those charged with governance 2012/13* that we would need to consider the views again in the light of any further advances, as accountancy practice and the interpretation of statute in this area develops. At this point, there have been no further advances or guidance. Given the immaterial values involved, the fact that the Council has not paid any further monies into the scheme or changed its approach to accounting, we have not identified this as a risk within our audit plan. We will provide a further update with regards to the accounting for LAMS to those charged with governance as and when further guidance in this area is available.



## Other Code responsibilities risks

Risk	Categorisation	Audit approach
<p><b>Savings targets</b></p> <p>The Council is experiencing increased pressures on many of its budgets in the current economic climate and savings are required to be made in the current and future years. Budget holders may feel under pressure to try and push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.</p> <p>There is a risk that saving plans may not be robust and the Council is unable to demonstrate that it has achieved value of money in its use of resources.</p>	<p>Elevated ●</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>review the Council's budget monitoring process to identify any areas of concern. We will also bear these risks in mind when carrying out cut-off testing;</li> <li>consider the accounting implications of any saving plans and would welcome early discussion of any new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure; and</li> <li>consider the impact of the Local Government Finance Settlement (LGFS) on the Council's budget and future service provision.</li> </ul>

**Overall  
Materiality:  
£10,958,000**

**Triviality:  
£350,000**

*Intelligent scoping  
Materiality*

	<b>£</b>
Overall materiality	£10,958,000
Clearly trivial reporting de minimis	£350,000

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 initially been set at 2% of 2012/13 expenditure for the year ended 31 March 2014. We will update this assessment as necessary in light of the Authority's actual results.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. As part of our audit planning procedures we have identified that all misstatements less than £350,000 could be classed as clearly trivial and we would like to seek the Audit 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 have set out some recent developments in Appendix C and we will provide other insights and observations to 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.

*There is a risk of fraud in any organisation. Here we set out the responsibilities of the relevant parties in relation to fraud.*

## **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:

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

## Conditions under which fraud may occur



## Your views on fraud

We enquire of the Audit 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 developing longer term relationships with you.

The core members of your audit team are:

Audit Team	Responsibilities
<p><i>Engagement Leader</i> Julian Rickett <a href="mailto:julian.c.rickett@uk.pwc.com">julian.c.rickett@uk.pwc.com</a> 01603 883321</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> Jacqui Dudley <a href="mailto:jacqui.dudley@uk.pwc.com">jacqui.dudley@uk.pwc.com</a> 01223 552340</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>
<p><i>Team Leader</i> Kotesh Choudary <a href="mailto:kotesh.choudary@uk.pwc.com">kotesh.choudary@uk.pwc.com</a> 01223 552463</p>	<p>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.</p>

# Your audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2014. No changes to the work programme have been proposed therefore scale audit fees have been set at the same level as the fees applicable for 2012/13.

Our indicative audit fee, as agreed in our audit fee letter dated April 2013, compared to the actual fee for 2011/12 and 2012/13 is as follows:

Audit fee	Actual fee 2011/12 £	Actual fee 2012/13 £	Indicative fee 2013/14 £
<b>Audit work performed under the Code of Audit Practice</b>	239,400	163,640	143,640
- Statement of Accounts			
- 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			
<b>Certification of Claims and Returns</b>	36,300	30,278*	18,800**
<b>Total Audit Code work</b>	<b>275,700</b>	<b>193,918</b>	<b>162,440</b>

*\*this amount is over and above the scale fee published by the Audit Commission. We are currently in the process of agreeing this fee with the Audit Commission and these discussions remain in progress at the time of writing this report.*

As set out in our section on audit risks on page 6, we will also need to undertake additional non-recurrent work to respond to additional audit risks this year related to the new arrangements and system changes on Council Tax Support. An additional fee will need to be agreed with the Audit Commission in relation to audit work to review the design and establishment of new assessment procedures and amendments to the Academy system. It does not however cover related work on transaction testing, which is discussed below.

\*\*We anticipate that the Audit Commission will reduce the certification fee for the Housing and Council Tax Benefit Grant Claim to reflect the fact that arrangements for Council Tax Benefits have been localised in 2013/14. We also anticipate that the LA01 (National Non Domestic Rates) claim will no longer require certification given the localisation of Business Rates. The indicative certification fee figure has therefore been reduced significantly compared to the prior year, but is subject to change depending on the final certification requirements. We will liaise with management as guidance is issued and report back to the Audit Committee with the final position.

Because of these expected certification changes, it is uncertain therefore the extent to which we will be able to obtain assurance over Council Tax Support expenditure and Business Rates income in the statement of accounts from our certification testing (as we have in prior years). We anticipate that this may not be possible or may be significantly reduced due to timing or scope of certification work. If this is the case we will perform additional audit procedures over these items, which will result in an increase in our fee for the financial statements and which will need to be agreed with the Audit Commission. We will update those charged with governance



regarding the impact of this on our proposed audit fees in due course.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We do not review more than three iterations of the statement of accounts and accounting statements;
- We are able to obtain assurance from your management controls;
- No '40+' testing is required for the certification of the Housing Benefit return;
- 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.

#### *Questions and Objections*

In our capacity as appointed auditors, we are required to consider questions and objections raised by local electors. We have been required to undertake additional work to consider matters brought to our attention. These matters have been discussed with management and we will be proposing an additional fee and agreeing this with you in due course.

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# *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 and 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

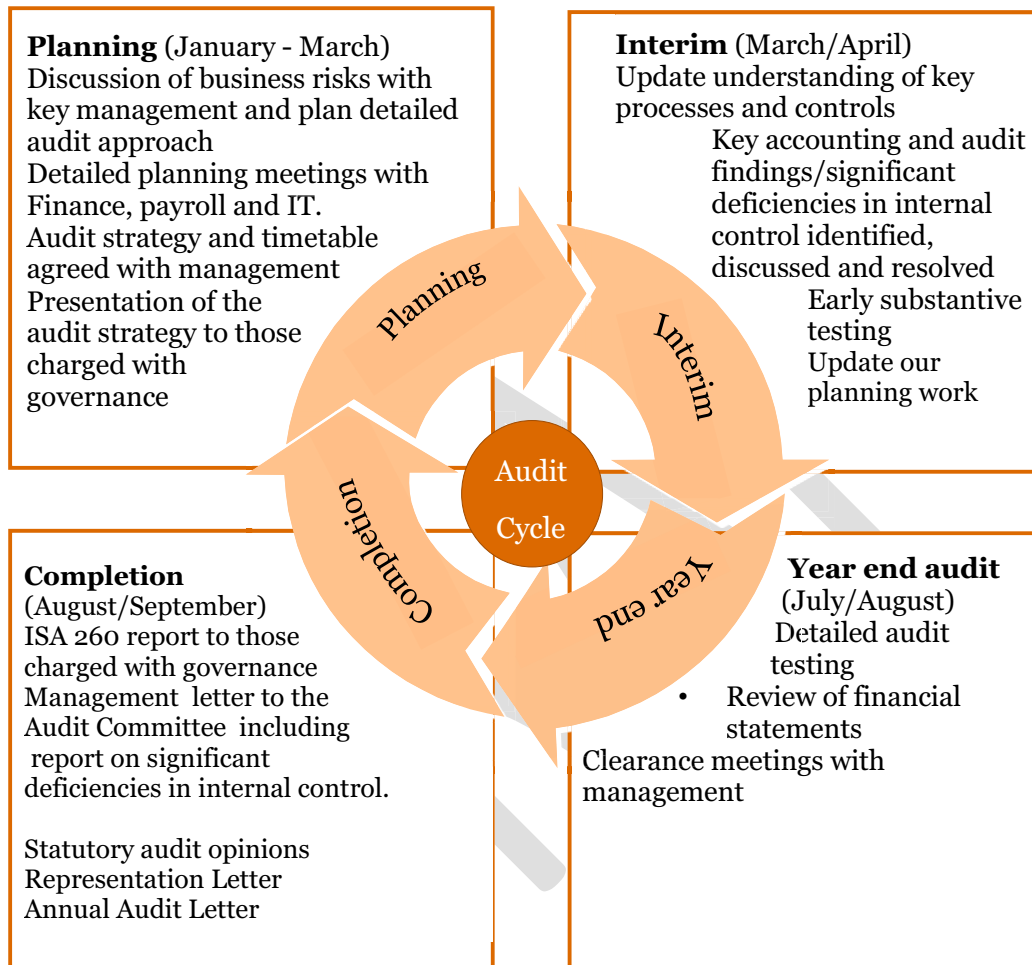
Support provided by PwC	Value	Threats to independence and safeguards in place
Certification of claims and returns	£19,700	<p><b>Self Review Threat:</b> The audit team will conduct the certification of claims and returns and this has arisen due to our appointment as external auditors. There is no self review threat as we are certifying management completed grant returns and claims.</p> <p><b>Self Interest Threat:</b> As a firm, we have no financial or other interest in the results of the Council. We have concluded that this work does not pose a self-interest threat.</p> <p><b>Management Threat:</b> PwC is not required to take any decisions on behalf of management as part of this work.</p> <p><b>Advocacy Threat:</b> 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><b>Familiarity Threat:</b> Work complements our external audit appointment and does not present a familiarity threat.</p> <p><b>Intimidation Threat:</b> 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; and
- Bringing you experience of sector and best practice.

# Appendix C: Recent developments

## The Future of Government



### Delivering on the Citizen Promise

In the face of recurrent budget cuts to reduce fiscal deficits in many countries, affordable government has become the watchword. This means doing more for less – meeting rising citizens' expectations by doing things differently to deliver services more effectively and efficiently.

### Where Next for public services?

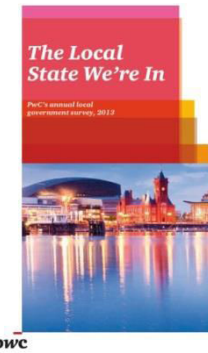
Public sector organisations need to re-evaluate their purpose and role and decide if current visions and missions, and ways of operating to achieve them, are relevant enough to ride the waves of these shifts, or be overwhelmed by them. Government and public sector organisations will also need to respond to these shifts proactively and pre-emptively, to avoid falling one or more steps behind.

### What guides and shapes the future public body?

As such, tomorrow's public bodies need to navigate themselves by first formulating a strong and clear vision and mission. Together, these will capture the organisation's

strategic ambition and purpose and serve to influence decisions and behaviour within the organisation.

## The Local State We're In



Over the past few years, local government has demonstrated its ability to deliver ambitious and far reaching savings programmes. While council Chief Executives are still holding on to their confidence in meeting savings targets for 2013/14, our third annual local government survey shows that confidence in being able to protect services as well has fallen by 40% over the past year. Beyond 2013/14, confidence in meeting savings targets falls further.

Tough choices are ahead as the cracks begin to show and decisions get closer to the frontline. Councils need to act urgently to transform themselves into agile organisations and shape a role for themselves through a future of continued austerity.

## Appendix D: 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.

<b>Procedure</b>	<b>Description</b>
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"> <li>• A weekly publication covering the week's accounting and business developments;</li> <li>• A periodic publication providing in-depth analysis of significant accounting developments; and</li> <li>• A publication issued shortly after meetings of standard setters, including IFRIC and the EITF, to provide timely feedback on issues discussed at the meeting.</li> </ul> <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 2013 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 2012/13 audits are expected in early 2014 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 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; and
- The production of a journals 'insight report' which shows the comparable use of journals across the organisation and explores some of the root causes. We use the data gathered as part of our journals testing to share our findings and observations with management.

### *Centre of Excellence*

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

Your audit manager and engagement leader are directly part of this Centre of Excellence and can therefore bring real time thought leadership to you quickly and ensure we are executing the best possible audit approach.

### *Delivery centres*

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

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

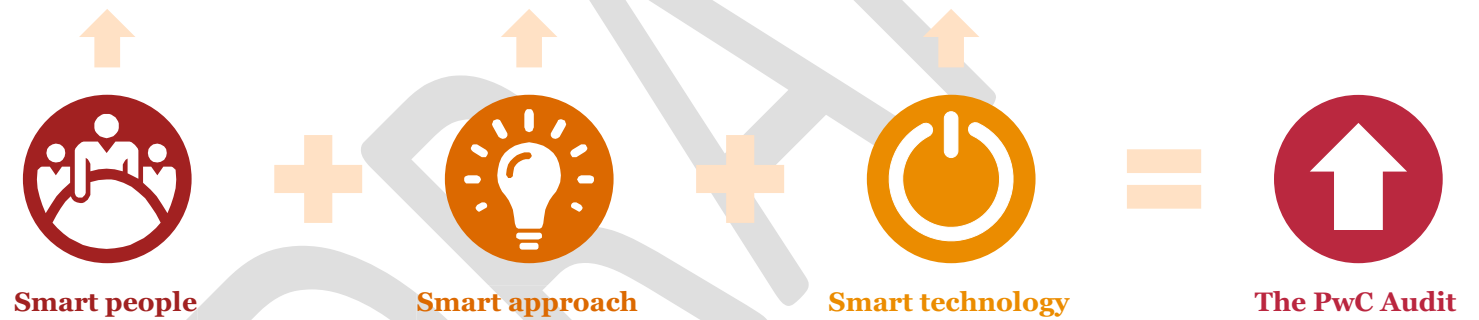


We have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service delivery Centres in Poland and Germany for the facilitation of basic audit tasks, as highlighted earlier. We have also agreed with the Audit Commission how this will be regulated, together with their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

### Smart Technology

We have designed processes that automate and simplify audit activity wherever possible. Central to this is PwC's Aura software, which has set the standard for audit technology. It is a powerful tool, enabling us to direct and oversee audit activities.

Aura's risk-based approach and workflow technology results in a higher quality, more effective audit and the tailored testing libraries allow us to build standard work programmes for key Authority audit cycles.



**Our 'smart' approach underpins your audit**

## *Appendix E: Other engagement information*

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

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

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

### *Electronic communication*

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

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

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

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

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

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

### *Access to audit working papers*

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

### *Overseas processing of information*

Recently, as with other firms, we have agreed a process with the Audit Commission, under which data can be off-shored to PwC Service Delivery Centres in Poland and Germany 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 Jacqui Dudley.

### *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.



Private & Confidential

John Harrison, S151 Officer  
Peterborough City Council  
Town Hall  
Bridge Street  
PETERBOROUGH  
PE1 1HG

March 2014

Dear John

**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, for example, in Poland and Germany 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

Julian Rickett

Engagement Leader

DRAFT

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