

LEICESTERSHIRE

FIRE and RESCUE SERVICE

Status of Report: Public Agenda Item: 9

Meeting: Overview and Scrutiny Committee

Date: 28th January 2015

Subject: External Audit Plan 2014/15

Report by: The Treasurer

Author: Trevor Peel

For: Discussion

1. Purpose

The Combined Fire Authority's (CFA's) external auditors, PricewaterhouseCoopers (PwC), have requested that their Audit Plan for 2014/15 (the Plan) is presented to the Overview and Scrutiny Committee for consideration.

2. Executive Summary

The plan for the 2014/15 external audit of the CFA includes an analysis of the Audit approach, PwC's assessment of the risk of fraud, the composition of the PwC team and proposed fees. Discussion of the Plan with Members ensures that PwC understand Members' views and concerns and that agreement is reached on both parties' mutual needs and expectations to enable PwC to provide the CFA with the highest level of service quality.

3. Report Detail

3.1 The CFA was notified by the Audit Commission on the 31st July 2012 that PwC had been reappointed as external auditors for the CFA with effect from the 1st September 2012. This appointment was made under Section 3 of the Audit Commission Act 1998 and was approved by the Audit Commission Board at its meeting on the 26th July 2012. The appointment was for five years and commenced with PwC auditing the 2012/13 accounts. The Audit Commission announced on the 2nd April 2013 that it would be retendering the contracts with the audit firms which it first awarded in 2006 and 2007 and which were extended in 2010. The appointment of PwC will now only run until completion of the audit of the 2014/15 accounts.

3.2 The Plan has been prepared to inform Members and Officers of the CFA about PwC's responsibilities as the CFA's external auditors and how they plan to discharge them. Every public authority is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and

Officers of the CFA. PwC's principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice. Based upon discussion with management and their understanding of the CFA and the Local Government sector, PwC have noted recent developments and other relevant risks. The Plan has been drawn up to consider the impact of these developments and risks.

- 3.3 PwC provided the Treasurer with details of their indicative fees for the 2014/15 audit in May 2014. The Plan sets out in more detail PwC's audit approach for the period 1st April 2014 to 31st March 2015, including the 2014/15 final accounts audit which PwC will undertake in summer 2015. PwC will continue to review this plan during the course of the audit year, and update it where necessary, to reflect developments at the CFA or any changes in their understanding of the issues that it faces.
- 3.4 A representative from PwC will be attending the meeting to answer any questions Members may have on the Plan which is attached as **the Appendix**.

4. Report Implications / Impact

4.1 *Legal (including crime and disorder)*

These are included in the main body of the report.

4.2 *Financial (including value for money, benefits and efficiencies)*

- a) PwC propose a total audit fee of £38,996, which is broken down further in the Plan. PwC will also be carrying out the assessment of the CFA to determine a local value for money conclusion and this cost is included in the overall price. The planned fee for the accounts work is the same as the outturn fee for 2013/14 fee of £38,996. The total cost can be contained within the 2014/15 budget for external audit, which is £48,340.
- b) From 2010/11, the CFA is required to prepare accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS increased audit work, particularly in the first year when the previous year's accounts had to be restated on the new basis, to provide prior year comparatives. The Audit Commission subsidised Authorities for the costs of implementation of IFRS in 2010/11 but have not provided any long term funding for this increased cost of regulation.

4.3 *Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)*

External Audit provides reassurance to the general public that the CFA is meeting its statutory obligations. They also work with Internal Audit and the Treasurer in ensuring that effective internal control procedures are in place.

4.4 **Staff, Service Users and Stakeholders (including the Equality Impact Assessment)**

None.

4.5 **Environmental**

None.

4.6 **Impact upon Our Plan Objectives**

The CFA's Strategic Objective 4 is the attainment of efficiency and the provision of a value for money service. The provision of external audit assists both effective and efficient management and good corporate governance. It also externally validates the CFA's progress in this area.

5. Recommendations

The Overview and Scrutiny Committee is asked to note the External Audit Plan for 2014/15.

6. Background Papers

- a) External Audit Plan 2013/14 (Policy Report - 5th March 2013)
- b) Letter from the Audit Commission to the Chief Fire and Rescue Officer dated 31st July 2012 notifying the appointment of the external auditor.
- c) Letter from PwC to the Treasurer dated 30th April 2014 proposing the Annual Audit Fee 2014/15

7. Appendix

Draft 2014/15 PwC Audit Plan

Leicester, Leicestershire and Rutland Combined Fire Authority

External Audit Plan 2014/15

DRAFT

Government and
Public Sector

January 2015

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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.

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Executive summary

Background

We have prepared this audit plan to provide Leicester, Leicestershire and Rutland Combined Fire Authority (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 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 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 the Overview and Scrutiny Committee on 28th January 2015. Attending the meeting from PwC will be Alison Breadon.

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

The PwC Audit

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

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



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

Our unique methodology involves our people, a tailored audit approach and our use of technology. Our 'smart' approach underpins your audit. The core elements of our audit are outlined below:

Client acceptance & independence

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

At the beginning of our audit process we are also required to assess our independence as your external auditor. We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance. We have set out in Appendix A the relationships that, in our professional judgement, may be perceived to impact upon our independence and the objectivity of our audit team, together with the related safeguards.

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

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 having to find alternative ways of working to deliver their services.

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

Our audit is risk based which means that we focus on the areas that matter. We have carried out a risk assessment for 2014/15 prior to considering the impact of controls, as required by auditing standards, which also draws on our understanding of your business.

Understanding your business issues

You continue to face significant financial pressures as a result of the reducing Local Government Finance Settlement. Revised notification of the Local Government Finance Settlement for 2015/16 was received by the Authority on the 18th December 2014. The revised notification shows an additional reduction to the expected funding reductions of £103,179, making 2015/16 Department for Communities and Local Government (DCLG) funding £1.6 million lower than that received in 2014/15. No illustrative details were provided about the settlement for 2016/17 due to the impending General Election in May 2015.

In addition the Authority's bid for £1.24 million Fire Transformation Fund 2015-16 capital grant has been unsuccessful and a reduction in Section 31 grant for Urban Search and Rescue (USAR) of £102,560 has also been notified to the Authority.

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. However previous members of the pool have now indicated to DCLG that they may renew the pool for 2015/16 subject to clarification around the implications of the financial settlement.

The Authority received reports in December 2014 that revenue and capital budgets for 2014/15 are anticipated to be underspent. As a result of in-year savings identified through the Organisational Change Project (OCP), the 2014/15 revenue budget has been reduced by £263,218. Further review of budgets has identified adjustments across many budgets with approximately £100,000 net additional underspend projected overall. The forecast net underspend on the capital programme was £2.274 million. This mainly results from combined underspends on completed projects at Hinckley, Coalville and Shepshed, removal of the Urban Search and Rescue (USAR) Training Rig at Southern Station from the planned capital programme and late starting works for construction of a Day Crewing Plus Station at Castle Donington.

Future financial plans therefore continue to be under pressure and the Authority continues to review its savings plans and capital schemes. It is now reviewing responses to its consultation on efficiency changes proposed in its 2015-2020 Integrated Risk Management Plan. If the savings set out in that consultation document are implemented fully, the Authority still projects a longer term funding gap of £1,767,508 in total through to the end of 2019/20 (assuming council tax increases are fixed at 1.5%). Therefore members are likely to face further difficult decisions as future funding levels are confirmed.

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 if the Authority is to achieve its strategic objectives. The Authority's current Corporate Risk Register is in the process of being updated. It shows the following "red" rated residual risks:

- Supply chain issues may result in a Fire Control Centre that does not meet Service requirements.
- Lack of capacity amongst existing staff may have a significant impact on the projected time line for completion of the Fire Control Centre.
- Loss of key staff resulting in potential failure to complete the Sharepoint 2010 project (to upgrade the Authority's information management systems and internal communications platform).
- Lack of finance will have a significant impact on the Service budget.
- Risk of industrial action by operational staff starting September 2013.

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

The Authority's ability to manage its risks is clearly of great interest to us, as external auditors, but for the purpose of planning our work on the Authority's statement of accounts, our own assessment of risk is focused on potential for material misstatement in the accounts. We discuss our assessment of audit risk in more detail below.

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

● Significant	Those risks with the highest potential for material misstatement due to a combination of their size, nature and likelihood and which, in our judgement, require specific audit consideration.
● Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.

The table below highlights all risks which we consider to be either significant or elevated in relation to our audit for the year ended 31 March 2015.

Main Authority 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>	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">- review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards;- test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus;- review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions);- evaluate the business rationale underlying significant transactions outside the normal course of business; and- perform unpredictable procedures targeted on fraud risks. <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 in local government.</p>	<p>Significant ●</p>	<p>We will obtain an understanding of revenue and expenditure controls.</p> <p>We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of 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>Meeting the financial challenge 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, in respect of national changes, such as the worsening position of the Local Government Finance Settlement and uncertainties of funding beyond 2015/16, Council Tax Freeze Grant and Business Rates retention. The Authority has also been unsuccessful in its recent bid for capital funding and has been notified of cuts to the section 31 USAR grant.</p> <p>As a result, the following risks are increased:</p> <ul 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 savings 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>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>Elevated ●</p>	<p>We will continue to review the savings plans, their robustness and performance against these plans in year.</p> <p>We will specifically consider:</p> <ul style="list-style-type: none"> ● the impact of new operational arrangements in relation to the Authority; ● impact of business rates on the Authority's financial position; ● the Authority's intentions to take advantage of the Council Tax Freeze Grant; ● the governance structure in place to deliver the targets; ● the level and extent of accountability; and ● how the assumptions applied in the Authority's plan compare to other organisations and best practice. <p>We will consider any relevant accounting assumptions and whether they are realistic and reasonable.</p>

**Overall
Materiality:
£1,166,020**

**Proposed trivial
reporting
threshold:**

£43,750

*Intelligent scoping
Materiality*

	£'000
Overall materiality	1,166
Clearly trivial reporting de minimis	44

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 actual expenditure for the year ended 31 March 2014. We are aware that your spending levels have changed this year and therefore we expect to update this assessment 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. We would like to seek the Overview and Scrutiny Committee's views on this de minimis threshold. In the previous year the Policy Committee agreed in March 2014 to the adoption of a de minimis threshold of £53,038.

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.

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

Conditions under which fraud may occur



Your views on fraud

We enquire of the Overview and Scrutiny Committee, on behalf of the Combined Fire Authority:

- 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.

Team Leader

Belle Haywood
+44 (0) 7814 492 699
belinda.e.haywood@pwc.c.uk.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.

The core members of your audit team are:

Audit Team	Responsibilities
<p><i>Engagement Leader</i> Alison Breadon +44 (0) 1509 604246 +44 (0) 7740 894817 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> Jane Jones +44 (0) 1509 604040 +44 (0) 7736 599771 jane.m.jones@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>

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 30 April 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	38,996	38,996
- 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		
Total Audit Code work	38,996	38,996
Planned non-audit work (see Appendix A)	16,800	5,500
Total fees (audit and non-audit work)	55,796	44,496

We have based the fee level on the following assumptions:

- officers meeting the timetable of deliverables, which we will agree in writing;
- we are able to 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.

We are currently discussing a review of the accuracy of the Authority's Organisational Change Programme model. As this has not yet been finalised and has still to go through our approval processes for non audit work we have not included details in the table below. If the services proceed as expected there will be a planned fee of between £5,000 and £6,000.

The other services shown below have been approved to proceed as indicated.

Other services

<i>Nature of service</i>	<i>2014/15 £</i>	<i>2013/14 £</i>	<i>Potential threat to independence</i>	<i>Safeguards in place</i>
Tax helpline This service runs from 1 September and is renewed annually. It was approved to renew for 2014/15 by the engagement leader in August 2014.	2,000	2,000	A self-review threat could arise if we provide you with tax planning advice which either depends on a specific accounting treatment or has a material effect on the financial statements of an entity. A management threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.	Members of the engagement team providing the tax services are not members of the audit engagement team. If the tax advice depends on a specific accounting treatment, this fact will be brought to the attention of the engagement leader so that, if it is material to the financial statements, a second assurance partner independent of the audit team can specifically review the audit work done in relation to the appropriateness of that accounting treatment. A specified member of the Authority's Finance Team receives the results of this service and makes all significant judgements connected with the services. This individual has a sufficient level of understanding of the work and has responsibility for evaluating the service delivered and determining what actions to take.

Our service constitutes advice and recommendations only. We will not make decisions on behalf of management. Our recommendations are justified by objective and transparent analyses or management are provided with the opportunity to decide between reasonable alternatives.

Pension and tax advice as follows:

<p>Advice in connection with pension tax, and other aspects of pension provision. Update of previously supplied pensions tax modeller. The 2014/15 work was approved by the engagement leader in December 2014.</p>	<p>3,500</p>	<p>2,000</p>	<p>A management threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.</p>	<p>We have made our respective responsibilities clear and the Treasurer has agreed under the terms of our engagements to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.</p> <p>Our advice and recommendations are for consideration and decision by management. Our recommendations are justified by objective and transparent analyses. The Treasurer is provided with the opportunity to decide between reasonable alternatives where appropriate.</p> <p>An appropriate client representative is responsible for signing tax returns on behalf of the Authority. We understand the limits of our role and what we are and are not permitted to do.</p>
<p>Voluntary disclosure to HMRC to settle tax arising on an unauthorised pension payment. This work was approved by the engagement leader in 2013/14.</p>	<p>nil</p>	<p>5,300</p>	<p>A management threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.</p>	<p>We have made our respective responsibilities clear and the Treasurer has agreed under the terms of our engagements to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.</p> <p>Our advice and recommendations are for consideration and decision by management. Our recommendations are justified by objective and transparent analyses. The Treasurer is provided with the opportunity to decide between reasonable alternatives where appropriate.</p> <p>An appropriate client representative is responsible for signing tax returns on behalf of the Authority. We understand the limits of our role and what we are and are not permitted to do.</p>
			<p>A self-review threat could</p>	<p>Members of the engagement team providing the tax</p>

			<p>arise if the Authority uses tax calculations prepared by us to help support material transactions or disclosures in its financial statements.</p> <p>An advocacy threat can arise if we communicate with a tax authority on your behalf, or if you require our assistance in the resolution of a dispute with the tax authority.</p>	<p>services are not members of the audit engagement team. If there is a continuing prior year dispute with HMRC the relevant disclosures in the financial statements are reviewed as part of the audit by individuals who are not members of the engagement team carrying out the pension services.</p> <p>We will not propose or agree settlements with the tax authority without client approval. The third party will be made aware of our position as a tax adviser.</p>
<p>The employment tax implications of employees working from home. This work was approved by the engagement leader in 2013/14.</p>	<p>nil</p>	<p>2,500</p>	<p>A management threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.</p> <p>A self-review threat could arise if the Authority uses tax calculations prepared by us to help support material transactions or disclosures in its financial statements.</p> <p>An advocacy threat may arise when providing reward and compensation services if PwC represents the client or its management in negotiations with employees or other representatives.</p>	<p>We have made our respective responsibilities clear and the Treasurer has agreed under the terms of our engagements to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.</p> <p>Our advice and recommendations are for consideration and decision by management. Our recommendations are justified by objective and transparent analyses. The Treasurer is provided with the opportunity to decide between reasonable alternatives where appropriate.</p> <p>Members of the engagement team providing the tax services are not members of the audit engagement team.</p> <p>If the tax advice depends on a specific accounting treatment, this fact will be brought to the attention of the engagement leader so that, if it is material to the financial statements, a second assurance partner independent of the audit team can specifically review the audit work done in relation to the appropriateness of that accounting treatment.</p> <p>The Authority's own representatives will be present at any roll-out meetings and present PwC as independent technical consultants and not as promoters of the arrangements. Our role is focused on presenting an objective explanation of the technical aspects of the arrangements and answering technical questions.</p>

				Managements own representative will be responsible for explaining the client's strategic and organisational objectives, specific performance targets and the performance evaluation process.
Employment tax compliance advice, including answering queries from tax authorities and answering management questions. This work was approved by the engagement leader in 2013/14.	nil	2,500	<p>A management threat would exist if we did something that is a management responsibility. This could occur if we were to make decisions for the Authority.</p> <p>A self-review threat could arise if the Authority uses tax calculations prepared by us to help support material transactions or disclosures in its financial statements for this or future years.</p> <p>An advocacy threat can arise if we communicate with a tax authority on your behalf, or if you require our assistance in the resolution of a dispute with the tax authority.</p>	<p>We have made our respective responsibilities clear and the Treasurer has agreed under the terms of our engagements to receive and evaluate the results of our work and to make all decisions in connection with the services and our recommendations.</p> <p>Our advice and recommendations are for consideration and decision by management. Our recommendations are justified by objective and transparent analyses. The Treasurer is provided with the opportunity to decide between reasonable alternatives where appropriate.</p> <p>An appropriate client representative is responsible for signing tax returns on behalf of the Authority. We understand the limits of our role and what we are and are not permitted to do.</p> <p>Members of the engagement team providing the tax services are not members of the audit engagement team. If the tax advice depends on a specific accounting treatment, this fact will be brought to the attention of the engagement leader so that, if it is material to the financial statements, a second assurance partner independent of the audit team can specifically review the audit work done in relation to the appropriateness of that accounting treatment.</p> <p>We will not propose or agree settlements with the tax authority without client approval. The third party will be made aware of our position as a tax adviser.</p>
VAT seminar This work was approved by the engagement leader in 2013/14.	nil	2,500	A self-review threat could arise if our tax advice has a material effect on the financial statements.	The seminar presented is on general VAT awareness for local authorities rather than on advice around specific VAT accounting for particular transactions the Authority is undertaking. The seminar covered why we have VAT, general VAT liabilities, how to

deal with VAT on income and expenditure, partial exemption, HMRC visits and errors.

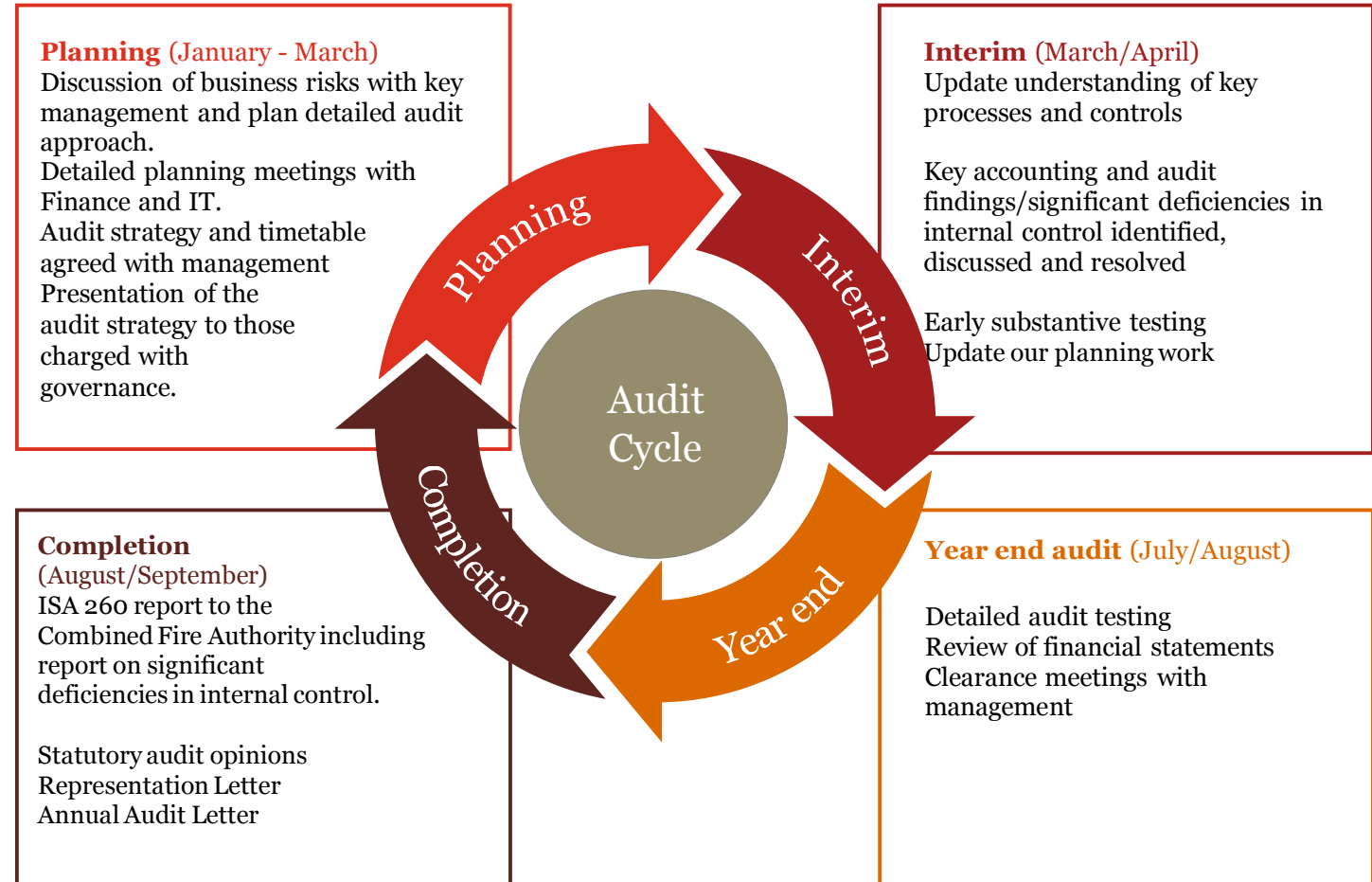
Total non-audit fees	5,500	16,800
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Relationships and Investments

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 early 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

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.

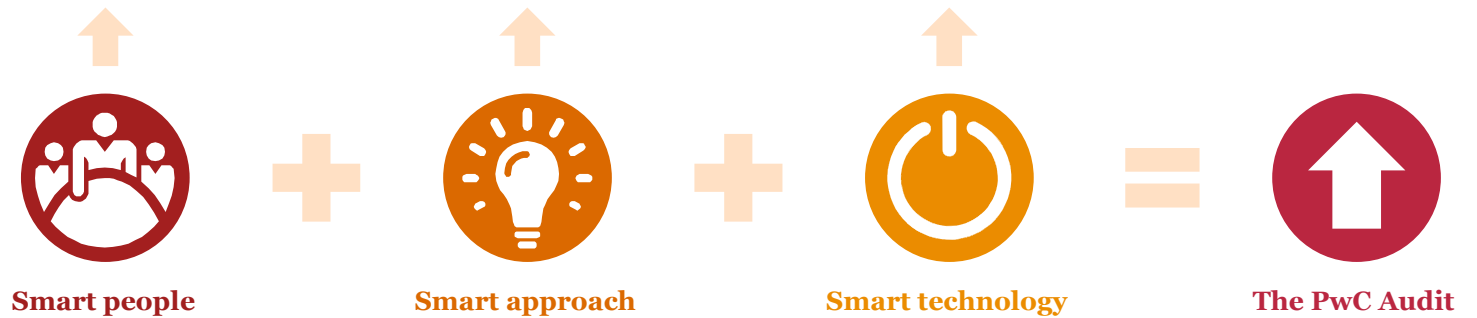
Benefits of the audit

The key benefits of our approach for your audit have been to improve the quality of your annual financial statements. By using the delivery centre to help check the Statement of Accounts and to perform other specialist disclosure checking services before and during the final audit, we have been able to free up the time of our onsite audit team allowing them to spend more time with your finance staff understanding the accounts and balances.

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 appoints us as auditors to Leicester, Leicestershire and Rutland Combined Fire Authority 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. 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 Jane Jones.

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 Leicester, Leicestershire and Rutland Combined Fire Authority 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. Leicester, Leicestershire and Rutland Combined Fire Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Leicester, Leicestershire and Rutland Combined Fire Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Leicester, Leicestershire and Rutland Combined Fire Authority 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 Leicester, Leicestershire and Rutland Combined Fire Authority 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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