

London Borough of Bromley

External Audit Plan 2014/15

Government Industry
Group

April 2015

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 the Audit Sub-Committee of the London Borough of Bromley (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.

This document also includes our planned audit approach to the audit of the pension fund accounting statements.

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 1 April 2015. Attending the meeting from PwC will be Katy Elstrup and Charlie Martin.

Our Responsibilities

Our responsibilities are as follows:

Perform an audit of the accounts and pension fund accounting statements 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.

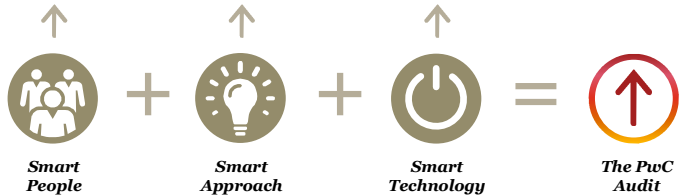
Our audit engagement begins with an evaluation of the Authority on our ‘acceptance & continuance database’ which highlights an overall engagement risk score and highlights areas of heightened risk.

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.



Our unique methodology involves our people, a tailored audit approach and our use of technology. Our ‘smart’ approach underpins our audit. The core elements of our audit are outlined on the following pages.

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 matters. 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 understanding of the Authority

Our understanding of your key issues and our wider work in the local government sector have both been considered when producing our audit plan and risks for the Authority.

Area	Point	Associated risks identified
Medium term financial plan	The Authority is operating in an increasingly challenging environment where many Local Government organisations are facing a continued reduction in funding from central government and increasing demand for their services, in particular in relation to social care.	Value for Money Conclusion - Savings Plans – financial resilience criterion
LAAP Bulletin 101: Accounting for Non-Current Assets Used by Local Authority Maintained Schools	CIPFA's Local Authority Accounting Panel has issued a bulletin ("LAAP 101") that provides guidance on the accounting treatment of non-current assets used by schools.	Accounting for schools
Complex supplier arrangements	<p>Following a technical release from the Financial Reporting Council ('FRC') in January 2015, all audits are now required to consider the risk of 'complex supplier arrangements' as a presumed significant risk.</p> <p>The term 'complex supplier arrangement' has not been defined by the FRC but attributes include: fees, contributions, discounts, multiple offers and volume rebates.</p> <p>We are considering the guidance from the FRC on the audit of complex supplier arrangements, and whether there is any action we need to take in respect of our audit of the Authority. We plan to perform such an assessment during our interim visit in April 2015.</p>	We will communicate to you any changes we make in our audit plan.
Economic Development and Investment Fund	<p>A key strand of the Authority's financial strategy relates to economic development and generating alternative income streams.</p> <p>In pursuit of this strategy the Authority established an Economic Development & Investment Fund to look at key regeneration opportunities and other key investments which can be made in support of</p>	There are no significant or elevated risks applicable.

the overall financial strategy and promote wider economic growth within the Authority.

This fund was then split during 2014/15 to represent a Growth fund (£10m) and Investment fund (balance remaining). This was reported to Executive during 2014/15.

Crystal Palace	<p>In July 2013, the ZhongRong Group announced proposals for the Crystal Palace Project and entered into a period of exclusivity with the Authority while it developed proposed plans for the scheme.</p> <p>Following slow progress and the failure of the ZhongRong Group to meet a deadline to produce plans, the exclusivity agreement was ended.</p> <p>We are aware that the Authority continues to meet with community stakeholders to review possible options.</p>	Valuation of Property, Plant and Equipment ('PPE') and Investment Properties
May 2014 Local Elections	<p>Local council elections took place across all London Local Authorities in May 2014, with the 22 wards of the Authority returning 60 councillors.</p> <p>As related parties are an area of increased importance, there is a need for the Authority to refresh and update its register of interests.</p> <p>As part of our planning procedures, we have shared a letter with the Director of Finance to ensure that a complete list of related parties is tracked by the Authority.</p>	There are no significant or elevated risks applicable.

Relevant risks

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

●	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.
●	Normal	We perform standard audit procedures to address normal risks in all other material financial statement line items.

We are required by International Standards on Auditing (UK&I) to consider management override of controls and the rebuttable risk of fraud in revenue recognition as significant risks to the integrity of the Authority's financial reporting. We will specifically review manual intervention in these areas, as well as applying a level of unpredictability into our testing.

The table starting on the next page 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. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant ●</p>	<p>As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements.</p> <p>We will perform procedures to:</p> <ul style="list-style-type: none"> - review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; - test the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus; - 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 perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.</p> <p>We will:</p> <ul style="list-style-type: none"> - evaluate the accounting policies for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting; - conduct tests of detail to obtain a high level of assurance over the significant risk areas described above; - conduct test of details over accounting estimates for income and expenditure; and - obtain an understanding and evaluate the controls relevant to the significant risks described above.
<p>Accounting for schools</p> <p>LAAP 101 notes that it is generally the case that for religious schools, non-current assets (such as the school buildings) are not owned by the school but by another legal body.</p> <p>The Authority therefore needs to carry out an exercise to ensure that it applies the guidance in LAAP 101 to its schools.</p>	<p>Elevated ●</p>	<p>We will audit the Authority's approach to addressing the guidance in the LAAP 101 bulletin.</p> <p>We will check that the Authority has obtained sufficient evidence to enable it to form a conclusion as to whether the non-current assets of individual schools should be included within its balance sheet.</p>

Risk	Categorisation	Audit approach
<p>Valuation of Property, Plant and Equipment ('PPE') and Investment Properties</p> <p>ISAs (UK&I) 500 and 540 require us to undertake certain procedures on the use of external expert valuers and processes and assumptions underlying fair value estimates.</p> <p>As at 31 March 2014, the value of the Authority's PPE portfolio was £610m and the Authority held £72m of Investment Properties. These are highly significant balances.</p> <p>In the prior year, the Authority utilised the expertise of Wilks, Head & Eve LLP ('WH&E') in evaluating the valuation of the Authority's Investment Properties and PPE. Our internal valuation experts reviewed the assumptions and methodologies used by WH&E.</p>	Elevated ●	<p>We will:</p> <ul style="list-style-type: none"> - challenge how management has satisfied itself that the key assumptions driving the revaluation of PPE and Investment Property at 31 March 2015 are appropriate for the circumstances of the Authority; - utilise our own valuation experts to review the work of the valuation experts engaged by the Authority; - test the source data used by the valuation experts engaged by the Authority; and - challenge how management has satisfied itself that the element of PPE portfolio not subject to a formal revaluation at as 31 March 2015 is materially correct.

Pension Fund 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. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant ●</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; - review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; - evaluate the business rationale underlying significant transactions; and - perform 'unpredictable' procedures. <p>We will also understand and evaluate controls relevant to management override risks identified above.</p> <p>We may perform other audit procedures if necessary.</p>
<p>Valuation of diversified growth funds</p> <p>We are aware that the Authority is considering the diversity of its investment portfolio for its Pension Fund.</p> <p>A portion of the Pension Fund's investments are held in diversified growth funds.</p> <p>These assets tend to be inherently risky to value, include high estimation techniques and are subject to judgement by the fund managers to value the assets.</p>	<p>Elevated ●</p>	<p>We will:</p> <ul style="list-style-type: none"> - review the investment portfolio to consider the extent of diversified growth funds held; and - agree the value assigned to the diversified growth funds by the fund managers.

Intelligent scoping

Materiality

	£
Overall materiality – Main accounts	12,900,000
Overall materiality – Pension fund	12,700,000
Clearly trivial reporting de minimis – Main accounts	645,000
Clearly trivial reporting de minimis – Pension fund	500,000

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

Overall materiality has been set at 2% of total expenditure for the year ended 31 March 2014. We will update this assessment as necessary in light of the Authority's actual results for the year ended 31 March 2015.

Overall materiality for the pension fund audit has been set at 2% of net assets for the year ended 31 March 2014. We will update this assessment as necessary in light of the Pension Fund's actual results for the year ended 31 March 2015.

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 Audit Sub-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;
- have regard to the findings of Internal Audit on our risk assessment and testing approach;
- 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.

The Authority in common with many local authorities is experiencing increased pressures on many of its budgets. Current and forecast reductions in funding and changing demand for services requires the Authority to deliver significant savings in 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.

There is a risk that saving plans may not be robust and the Authority is unable to demonstrate that it has achieved value for money in its use of resources.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. Therefore, we will review your medium term financial plan and consider:

- how you manage the plan, and will investigate the reasons behind any significant variations from the plan;
- what arrangements are in place around financial governance, financial control and financial planning;
- your record in delivering savings;
- the judgements and assumptions underpinning the plan;
- the governance structure in place to deliver the targets (including extent of Member involvement and capacity of the management team);

- the level and extent of accountability;
- project management arrangements;
- monitoring and reporting; and
- progress on delivering the plan.

We will also consider the accounting implications of your savings plans and we will consider the impact of the efficiency challenge on the recognition of both income and expenditure.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: “Delivering Good Governance in Local Government”. The AGS is required to be presented by the Authority with the Statement of Accounts.

We will review the AGS to consider whether it complies with the CIPFA / SOLACE “Delivering Good Governance in Local Government” framework and whether it is misleading or inconsistent with other information known to us from our audit work.

Whole of Government Accounts

We are required to examine the Whole of Government Accounts schedules submitted to the Department for

Communities and Local Government and issue an opinion stating in our view if they are consistent or inconsistent with the Statement of Accounts.

Meaningful conclusions

We believe fundamentally in the value of the audit and that audits need to be designed to be valuable to our clients to properly fulfil our role as auditors.

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

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

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

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility	Management's responsibility	Responsibility of the Audit Sub-Committee
<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 Audit Sub-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.

In March 2015, Janet Dawson resigned and left the firm to take on a new opportunity. Katy Elstrup has taken over as engagement leader for the audit. With Katy previously being the engagement director for the audit, Katy has a deep knowledge of the Authority and is known to management. Katy will be attending the Audit Sub-Committee on 1 April 2015 with Charlie Martin. Katy is looking forward to meeting members and discussing the content of our update paper with you then.

The core members of your audit team are:

Audit Team	Responsibilities
<i>Engagement Leader</i> Katy Elstrup 02072 133070 katy.elstrup@uk.pwc.com	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.

Engagement Manager

Charlie Martin
07732 864 402
charles.martin@uk.pwc.com

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.

Team Leader – Main Audit

Gavin Patti
07717 528 304
gavin.m.patti@uk.pwc.com

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

Team Leader – Pension Fund

David Hagger
07756 028 236
davig.j.hagger@uk.pwc.com

Responsible for leading the field team for the Authority's Pension Fund. Regular liaison with the finance team and the main audit team.

Your audit fees

The Audit Commission has provided indicative scale fees for Local Authorities for the year ended 31 March 2015.

We previously wrote to the Authority on 6 May 2014 to inform you of the proposed audit fee based on the risk-based approach to audit planning set out in the Audit Commission's Code of Audit Practice and work mandated by the Commission for 2014/15.

The Audit Commission undertook a consultation that ended in November 2014, in relation to a supplementary audit fee due to additional audit work required on business rates. This is due to the fact that auditors are no longer required to undertake certification work for the Department of Communities and Local Government on national non-domestic rates, following the introduction in April 2013 of new arrangements for collecting and distributing business rates. Prior to 2013/14 in completing work on the financial statements we were able to place reliance on certification work relating to national non-domestic rates. In the absence of this work, we need to undertake additional audit procedures on material business rates balances and disclosures in the financial statements. This additional work requires an additional fee, which the Commission have included within the planned audit fee for the 2014/15 audit.

In addition to the fact that auditors are no longer required to undertake certification work relating to national non-domestic rates, 2013/14 also saw changes to the certification requirements in relation to BEN01. Previously we were able to rely on the certification work undertaken surrounding BEN01. However, due to the changes in the certification requirements, additional audit procedures are required to gain assurance over the material benefit balances. In 2013/14

a fee variation of £1,950 was agreed with the Authority and the Audit Commission for undertaking this work. Such additional work will be required as part of our audit of the 2014/15 financial statements. We will keep the Authority informed of, and proactively agree, any fee variations with you in advance of completing our audit work. Any fee variations proposed are subject to receiving agreement from the Audit Commission.

Lastly, the fee for the certification of claims and returns has increased by £5,710. This follows a national consultation led by the Audit Commission. The base year for the 2014/15 fee is 2012/13 when the BEN01 return was qualified, while the based year for 2013/14 fee was 2011/12 when the BEN01 return was not qualified.

Our indicative audit fee for 2014/15 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	159,318	160,718*
- 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		
Pension Fund	21,000	21,000
Certification of Claims and Returns	14,520	20,230
Total Audit Code work	194,838	201,948

** The indicative scale fee includes an additional element of £1,950 for the additional work required to gain assurance over the material benefit balances in the Authority's financial statements. Any fee variations proposed are subject to receiving agreement from the Audit Commission.*

We have based the fee level on the following assumptions:

- there is no significant deterioration in the efficiency of the accounts production process. This includes the Authority being able to provide a complete and thorough set of working papers and other agreed deliverables at the start of our work;
- we do not review more than 3 iterations of the Statement of Accounts;
- there is no significant deterioration in the Authority's control environment, and we are therefore able to draw comfort from the management controls within the Authority as in the previous year;

- there are no changes in auditing standards which impact on the level of work we need to undertake.
- 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 unmodified.

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.

In 2013/14, we also undertook work on the reasonable assurance report for the Teachers Pensions claim. This was not part of the Audit Commission certification process for 2013/14 and therefore was undertaken via a separate PwC engagement letter. The fees for this work were £8,750.

The work related to the elector's objections to the 2012/13 and 2013/14 financial statements is ongoing and therefore the fee for this is not finalised. At the time of presenting this report, the total cost to date for this work is £34,000. We will provide a verbal update to members on the matter, addressing any questions you may have on the work ongoing as well as the costs incurred to date.

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 within the scope of the Audit Commission Code of Audit Practice This will be occurring in 2014/15.	20,230	<p>Self-review Threat: The audit team will conduct the grant certification 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>Self-interest Threat: As a firm, we have no financial or other interest in the results of the Authority. We have concluded that this work does not pose a self-interest threat.</p> <p>Management Threat: PwC is not required to take any decisions on behalf of management as part of this work.</p> <p>Advocacy Threat: We will not be acting for, or alongside, management and we have therefore concluded that this work does not pose an advocacy threat.</p> <p>Familiarity Threat: Work complements our external audit appointment and does not present a familiarity threat.</p> <p>Intimidation Threat: We have concluded that this work does not pose an intimidation threat as all officers and members have conducted themselves with utmost integrity and professionalism</p>
Work outside the scope of the Audit Commission Code of Audit Practice – procedures on the 2013/14 Teachers' Pensions return This is expected to re-occur in 2014/15.	8,750	<p>Self Interest Threat: Fees are not material in relation to the audit fees and PwC's total income.</p> <p>Self-review Threat: This does not arise as the work we undertook provided reasonable assurance over the accuracy of the teachers' pension return for and will not be relied upon by the PwC audit team as part of the audit of the main accounts.</p> <p>Management Threat: PwC is not required to take any decisions on behalf of management as part of this work.</p> <p>Advocacy Threat: This does not arise as the work will be limited to the testing of information provided by the client and does not result in advocacy. PwC are</p>

carrying out reasonable assurance procedures and not providing assurance or advocacy on behalf of the client.

Familiarity Threat: This does not arise as a separate team from the audit team is being used to carry out this work.

Intimidation Threat: We have concluded that this work does not pose an intimidation threat.

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

ISA (UK&I) 260 ‘Communication of audit matters with those charged with governance’ requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that ‘those charged with governance’ are the Audit Sub-Committee and the General Purpose and Licensing Committee (‘GP&L’). Our team works on the engagement throughout the year to provide you with a timely and responsive service.

We will produce two key documents reporting on the progress and overall results of the engagement:

Report	Purpose	Presentation to the Audit Sub-Committee or GP&L
Audit plan	Sets out our planned audit approach and response to the risks we have identified for the audit to date. This includes a summary of key issues arising from our planning work.	April 2015
ISA260: Report to those Charged with Governance	Update to our procedures for both the main audit and pension fund Summarises the key issues arising from the annual audit. This will be presented to the GP&L.	September 2015

Below is a summary of when we expect to provide the Audit Sub-Committee or GP&L with the outputs of our audit.

Required Communication	Planning	Completion	As required
Independence and objectivity confirmation	✓	✓	
Detail of all non-audit work performed by the firm and related fees	✓	✓	
Nature and scope of work together with timing of expected reports	✓		
Expected modifications to the auditors’ report		✓	✓
Uncorrected misstatements		✓	
Significant deficiencies in internal control identified during the audit		✓	✓
Views about the qualitative aspects of the Authority’s accounting practices and financial reporting		✓	

Required Communication	Planning	Completion	As required
Matters specifically required by other ISAs (UK&I) to be communicated to those charged with governance	✓	✓	✓
Final draft of representation letter		✓	
Any other audit matters of governance interest		✓	✓
Annual audit letter			✓
Annual certification report			✓

Appendix C: Audit quality

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

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

Procedure	Description
People	Quality begins with our people. To ensure that every engagement team provides quality, we use carefully designed protocols for recruiting, training, promoting, assigning responsibility and managing and overseeing the work of our people. We invest significant amounts of time and money for the training and development of our audit professionals. Every new team member is carefully selected to ensure they have the right blend of technical expertise and industry experience to support the Authority audit.
Client acceptance and retention	Our client acceptance and retention standards and procedures are designed to identify risks of a client or prospective client to determine whether the risks are manageable.
Audit methodology	The same audit methodology is used for all Local Authority audit engagements, thereby ensuring uniformity and consistency in approach. Compliance with this methodology is regularly reviewed and evaluated. Comprehensive policies and procedures governing our accounting and auditing practice – covering professional and regulatory standards as well as implementation issues – are constantly updated for new professional developments and emerging issues, needs and concerns of the practice.
Technical consultation	Consultations by engagement teams, typically with senior technical partners unaffiliated with the audit engagement, are required in particular circumstances involving auditing, accounting or reporting matters including matters such as going concern and clinical quality issues. In addition, we regularly consult with our industry specialists in the Local Government Centre of Excellence and our accounting technical experts that sit on the Audit Commission Auditors' Group.

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

Smart People

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

Key members of the audit team including the engagement manager and team leaders 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 2014/15 we anticipate the work will include testing journals using data analytics, ensuring we consider the complete population of journals and target our detailed testing on the items with the highest inherent risk.

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 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.

Appendix D: Other engagement information

The Audit Commission appoint us as auditors to The London Borough of Bromley 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

Katy Elstrup, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although Katy Elstrup 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 Katy Elstrup.

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.



Appendix E: Use of service centres

Private & Confidential

Audit Sub-Committee
London Borough of Bromley
Civic Centre
Stockwell Close
Bromley
BR1 3UH

March 2015

Dear Ladies and Gentlemen,

Working more efficiently

As we communicated in the prior year, one principle which has 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 (e.g. receivables, bank or payables);
- Verification/vouching of information to source documentation (e.g. agreeing a payable balance to invoice);
- Financial statements review;
- Mathematical accuracy checks of data;
- Research; and
- Preparation of lead schedules.

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

London Borough of Bromley

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

Yours sincerely

Katy Elstrup

Engagement Leader



In the event that, pursuant to a request which the London Borough of Bromley has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The London Borough of Bromley agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Bromley shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the London Borough of Bromley 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 the London Borough of Bromley 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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