Government and Public Sector

Sefton MBC

2010/11 Audit Plan

14 December 2010

PRICEWATERHOUSECOOPERS

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29 November 2010

Ladies and Gentlemen,

We are pleased to present to you our Audit Plan, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting Sefton MBC.

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

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Peter Chambers or Stuart Baron.

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's website.

The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas.

Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to 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.

Introduction

The purpose of this plan

Our Audit Plan has been prepared to inform the officers and Members of Sefton MBC (the Council) about our responsibilities as your external auditors and how we plan to discharge them.

We issued our audit fee letter, setting out our indicative fees for 2010/11, on 15 March 2010 in accordance with Audit Commission requirements. This plan sets out in more detail our proposed audit approach for the year.

Every Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Council. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our plan has been drawn up to consider the impact of these developments and risks.

Period covered by this plan

This plan outlines our audit approach for the period 1 April 2010 to 31 March 2011, including the 2010/11 final accounts audit which we will undertake in July/August 2011.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission's website.

Risk assessment

Planning of our audit

We have considered the Council's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources audit work.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Council and our response to these risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

Risk assessment results

The following table summarise the results of our risk assessment and our planned responses.

Risks	Audit approach
Significant Risks	
Revenue Recognition There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported revenue position.	We will understand and evaluate controls relating to this risk We will consider the accounting policies adopted by the Council and subject income and expenditure to the appropriate level of testing to identify any material misstatement.
Management Override of Controls In any organisation, management may be in a position to override the financial controls that you have in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this significant risk and adapt our audit procedures accordingly.	We will understand and evaluate internal control processes and procedures as part of our planning work We will review the appropriateness of journals processed during the year. We will also look carefully at any management estimations and consider if they are subject to bias. We will design and perform procedures in relation to the business rationale for significant transactions. Our audit procedures are also planned to include an unpredictable element that varies year on year.
2010/11 – the first year of reporting under IFRS The 2010/11 financial statements will be prepared in accordance with IFRS. The 2009/10 financial statements will need to be restated under IFRS as comparatives in the 2010/11 financial statements. As the implementation of IFRS requires the financial statements to be prepared in accordance with a new set of financial standards, there is an increased risk that the accounts could be misstated. Our early work has identified that the Council is behind in its plans to implement IFRS with particular audit risks identified in the following areas: • First time adoption and accounting policies • Leases • Fixed asset accounting • Group accounts • Employee benefits	We are working closely with the Council to ensure that you are aware of the main differences between IFRS and UK GAAP and to resolve any accounting issues on a timely basis. We will perform a review of draft restated statements to identify disclosure issues at the planning stage of the audit. We will communicate the results of this review to management so they may take action to address issues in advance of the final audit. At the final audit stage we will perform an independent 'hot review' of the financial statements and disclosures.

Risks	Audit approach
Elevated Risks	
Increasing Pressure on Financial Position The economic climate has caused falls in the value of many land and building assets, and the risk of such assets being overvalued on the balance sheet remains high. We will expect the Council to have carried out impairment reviews to ensure that assets are not overvalued at the year end, and to process downward revaluations where appropriate. Increased pressures on budgets The Council is likely to be experiencing increased pressures on many of its budgets as economic conditions have worsened. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes. Local government bodies are expected to make significant efficiency savings over the next three years. There is a risk that savings plans may not be robust or based on long term solutions which could result in short term, year end actions to ensure that the targets are met. There are also risks in relation to financial reporting, that the requirement to report particular financial results overrides best financial reporting practice. Increased demand for services The Council is likely to be experiencing increased demand for its services at a time when funding service provision may be under strain. This may lead to increased risks related to the processing and documentation of financial data.	We will review the procedures the Council have in place for reviewing its estate value and ensure that the Council are performing revaluations in line with IFRS5, whilst considering the Council's procedures for identifying and assessing potential downward revaluations. We will review the accounting treatment of any downward revaluations as part of our audit of the financial statements. We will review the Council's budget monitoring processes to identify any areas of concern. We will also bear these risks in mind when carrying out cut-off testing. As part of our use of resources work as well as our work on financial standing, we will consider the entity's savings plans and consider their robustness. We will also consider the accounting implications of any savings plans and would welcome early discussion of any new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure. As auditors we will discuss with management the costs pressures that are identified during the financial year and discuss with management the actions they plan to manage such demands.
Valuation of Assets and Revaluation Reserve The economic climate has caused falls in the value of many land and building assets, and the risk of such assets being overvalued on the balance sheet remains high. We will expect the Council to have	We will review the procedures the Council have in place for reviewing its estate value and ensure that the Council are performing revaluations in line

Risks	Audit approach
carried out impairment reviews to ensure that assets are not overvalued at the year end, and to process downward revaluations where appropriate. The introduction of the revaluation reserve in 2007/08 will have ongoing implications for the treatment of assets revalued during the year. Particular care will need to be taken over the treatment of any downwards revaluations which exceed revaluation gains recognised since the start of 2007/08. These will need to be charged to the Income and Expenditure Account.	with IFRS5, whilst considering the Council's procedures for identifying and assessing potential downward revaluations. We will review the accounting treatment of any downward revaluations as part of our audit of the financial statements.
Pericles to Northgate Data Migration The Council are transferring its revenue and benefits system from Pericles to Northgate during the year. Risks exist in ensuring that the data from the existing system is completely and accurately transferred to the new Northgate system.	We are working with the Arvarto, the project team and internal audit to ensure that we and the Council obtain the required assurance over the accuracy and completeness of the data transferred.
Normal Risks	
Treasury Management The collapse of the Icelandic banks in 2008/09, and the potential losses suffered by numbers of local authorities on apparently safe deposits, has highlighted the importance of robust treasury management procedures and active and informed management of risk. Weaknesses in this area could lead to losses of assets invested, or held as cash deposits. Risks may not be adequately disclosed in the notes relating to financial instruments.	We will update our understanding of the Council's treasury management procedures, and perform any work necessary to assess their adequacy. We will review the financial instruments disclosures to assess whether the Council has taken appropriate steps to understand the instruments and the related risks, and adequately reflected these in the notes to the accounts.
Prudential Framework The Council has adopted an incremental approach to taking up the freedoms and flexibilities offered by the Prudential Framework for the delivery of services and capital investment. It is our understanding that the Council will continue to develop arrangements to manage the new risks and take advantage of the new opportunities offered by the Framework in 2010/11. For example, many authorities have yet to enter into substantial amounts of prudential borrowing that is supported by future projections of income generation/efficiency savings rather than Government funding. In continuing to develop arrangements, the Council will need to consider the effectiveness of its controls over expenditure and its plans for developing / extending prudential borrowing. Where prudential borrowing is planned, the Council needs to be assured that this is based on robust projections of affordability.	We will review the Council's borrowing levels against the prudential borrowings limits set by management. We will discuss with management the Council's intentions to extent its current borrowings level.
PFI The Council has entered into a PFI scheme in respect of a Crosby leisure centre. With all PFI	We will discuss with management the performance of the PFI arrangement to identify any potential risks arising. We will

Risks	Audit approach
schemes there are risks that: • Value for money will not be achieved; • In partnership arrangements, management does not have sufficient influence or has failed to secure sufficient risk transfer; and • Financial standing will be compromised as governance arrangements are not in place.	review the financial standing of the Council as part of our audit procedures.
Redundancies, severance and ex-gratia payments Terminating the contracts of senior staff could be high profile and costly. Common issues that may arise include: • Contract of employment; • Reasons for termination; • Entitlement on severance, ex-gratia agreements and discretionary benefits; • Value for money; and Compromise agreements, gardening leave, pay in lieu of notice and confidentiality and clawback clauses.	We will review any redundancy, severance and ex-gratia payments as part of our work on the accounts, including consideration of the legality and value for money of any such payments.
Bad debt The economic downturn is likely to have increased the risk of the Council suffering losses due to bad debt. The Council will need to have assessed the collectability of debts, and reviewed its bad debt provision, to avoid overstating its debtors.	We will assess the robustness of the Council's assessment of its exposure to bad debts, and review evidence as to the collectability of year end debtors.

Our approach to the audit

Code of Audit Practice

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

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

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

Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2010/11 accounts.

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

Our overall materiality for the Group is set at £7,025,000, calculated as a percentage of gross operating expenditure; this represents the level at which we would consider qualifying our audit opinion. However, our audit work is planned to a lower materiality level of around £4,918,000.

However, ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial. We propose to treat misstatements less than £50,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&I) 260 report.

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

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

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

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

Our Risk Assurance specialists will undertake a review of the general IT controls. The scope of this review will be:

- IT control activities;
- IT programme changes;
- IT computer operations;
- IT access to programmes and data; and
- IT programme development.

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

Use of Resources

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

In accordance with recent guidance issued by the Audit Commission, in 2010/11 our conclusion will be based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and

- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we will not be required to reach a scored judgement in relation to these criteria and the Audit Commission will not be developing 'key lines of enquiry' for each criteria. Instead, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements.

The Audit Commission will be issuing further information on the scope of the criteria and guidance to auditors. We will review that guidance to determine the exact scope of our work and we will communicate that to you.

We will determine our approach to VFM and discuss this with management.

Our team and independence

Audit Team	Responsibilities
Engagement Partner Peter Chambers 0161 247 4311 peter.p.chambers@uk.pwc.com	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Principal David Newman 0161 247 4130 david.a.newman@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.
Manager Stuart Baron 07809 755 749 stuart.d.baron@uk.pwc.com	Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the use of resources.
Team Leader Matthew Chandler 07595 610 299 matthew.s.chandler@uk.pwc.com	Manager on the audit responsible for coordinating the use of resources audit programme including preparing and presenting reports.

Our team members

It is our intention that wherever possible staff work on the Sefton MBC audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team’s awareness and understanding of your requirements.

Independence and objectivity

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

Relationships and Investments

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

Independence conclusion

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

Communicating with you

Communications Plan and timetable

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

Stage of the audit	Output	Date
Audit planning	**Audit Fee letter**	March 2010
	Audit Plan	December 2010
Audit findings	Internal control issues and recommendations for improvement (if applicable - may form part of the Audit Memorandum)	June 2011
	ISA (UK&I) 260 report incorporating specific reporting requirements, including: • Any expected modifications to the audit report • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust • Material weaknesses in the accounting and internal control systems identified as part of the audit • Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures. • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; • Any other significant matters relevant to the financial reporting process; and • Summary of findings from our use of resources audit work to support our value for money conclusion.	September 2011
Audit reports	**Financial Statements including Use of Resources**	September 2011
Other public reports	**Annual Audit Letter** A brief summary report of our work, produced for Members and to be available to the public.	December 2011

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Councils for the 2010/11 financial year, which depend upon the level of expenditure and potential risk. Based on your expenditure, the indicative fee scale for audit for the Council is £320,704.

Our audit fee letter dated 15 March 2010 we therefore agreed an audit fee of £310,604, which is broken down as follows:

	2010/11	2009/10
Accounts	£198,758	£181,443
Use of Resources/VFM Conclusion work	£80,029	£78,460
Data Quality	£31,817	£31,193
Sub-total	***£310,604***	***£291,096***
Data migration support	£9,500	-
Response to the accounts objection	-	TBC
Total	**£320,104**	**TBC**

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based; and
- Our use of resources conclusion and accounts opinion being unqualified.

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

Certification of grant claims

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Director of Finance and his team.

Fees update for 2009/10

We reported our fee proposals as part of our Audit Plan for 2009/10, which we presented to Audit and Governance Committee on 16 December 2009. These fee proposals covered the year ending 31 March 2010.

We varied our fee as a result of additional work on the accounting treatment of PFI and addressing the objection received to the financial statements.

Our fees charged were therefore:

	2009/10 Outturn	2009/10 Fee proposal
Accounts	£181,443	£177,943
Use of Resources	£78,460	£78,460
Data Quality	£31,193	£31,193
Sub-total	***£291,096***	***£287,596***
Response to the accounts objection	TBC	-
Total	**TBC**	**£287,596**

Appendices

Appendix A: Clarity ISAs: What do they mean for Sefton MBC?

What do "Clarity ISAs" mean?

Since 2005, the International Auditing and Assurance Standards Board (IAASB) have been clarifying the **International Standards on Auditing (ISAs)**. The primary aim was to improve the clarity of the ISAs leading to more consistency in their application and to facilitate their adoption throughout the world. As a result, a new set of ISAs were developed and will apply to our 2010/11 audit of the Trust.

Regulators around the world have monitored the project and support the changes, and as a result **their** expectations have been raised. The UK Auditing Practices Board has adopted Clarity ISAs, and issued its own ISAs for use in the UK and Ireland.

Key changes in terminology

Existing PwC Term	To be replaced with	Relevant ISA
Control weakness	Deficiency in internal control	ISA 265.6
Material control weakness	Significant deficiency in internal control	ISA 265.6
Audit difference	Identified misstatement	ISA 450.4
Unadjusted difference	Uncorrected misstatement	ISA 450.4

Key changes which will impact upon your audit

A number of the changes made as a result of the clarity ISA project are minor adjustments or clarifications. Others more expressly require levels of quality which have already been embedded in our audit methodology. These changes will, therefore, have a minimal impact upon the delivery of the Trust's audit.

However there are changes which will have a more noticeable impact on the level of work we are required to perform in certain areas, and may require additional input from members of the finance team. A number of these changes are as a result of an increased focus on assessing risk. The diagram on the following page shows a heat map of the level of change from the previous ISA requirements and the impact on our audit approach. The following points summarise some of the most significant changes.

ISA (UK&I) 450 – Evaluation of misstatements

This standard now requires more explicit consideration of the qualitative aspects of misstatements, for example whether a misstatement impacts upon statutory duties, such as break even. We are also required to undertake greater consideration of potential management bias in financial reporting.

ISA (UK&I 540 – Auditing Estimates

The updated standard requires consideration of the actual outcome against previous estimates when considering the appropriateness of current estimates. Deeper consideration of alternative assumptions is required to be documented along with the decision process used by management to select the estimation technique. We are also required to discuss with management where they consider key estimates and judgements to be and how the level of uncertainty has been assessed.

ISA (UK&I 550) – Related Parties

The wording of the standard places greater onus on management to identify and disclose related parties. If, through the course of our other audit work, we identify a related party which was not reported to us, this necessitates the completion of additional work to address the risk of completeness of related party disclosures. Demonstration of the authorisation and approval process followed where related party transactions have occurred is vital in addressing the requirements of the revised standard. In addition, where transactions with related parties are disclosed as having occurred at "arms length", audit procedures are required to confirm that this disclosure is appropriate.

Work is currently underway to identify how these new requirements will be implemented in public sector audits, where there are particular related party disclosures and policies which must be adhered to.

Using the work of specialists and experts
(ISA (UK&I) 500 – Relevance and reliability of audit evidence
ISA (UK&I) 620 – Using the work of an expert
ISA (UK&I) 220 – Quality control for an audit of financial statements)

A number of changes have been made which clarify the work required when we use the work of experts hired by management or where we have engaged internal specialists to support us in our audit work. The majority of the requirements are already encapsulated in the PwC audit methodology; however there will be some instances where we will need to probe arrangements with management's experts in more detail than previously.

How you will benefit from these changes

We will gain a greater understanding of the risks faced by the Council and your controls to manage these risks, which will make our audit findings more relevant and interesting for you, and will also support the Audit Committee in their work.

Clarity ISAs (UK&I) set a level playing field for auditors in the UK and globally, eliminating ambiguity and helping consistency. They are a robust response to the financial crisis, and in this period of significant turmoil for the NHS, consistent focus on key risk areas such as related party transactions and management areas will ensure that the audit process continues to add value in these difficult times.

Impact on your audit fee

As can be seen by the summary of changes above, the new Clarity ISAs will have a significant impact upon the level of work we will need to perform in certain areas.

Based upon initial considerations of the impact of the additional requirements and the clarifications which have been made, it is anticipated that the additional work required to address the Clarity ISAs will equate to between 2% and 10% of the cost to complete an audit under the previous standards.

We are currently assessing where in this range the impact on our public sector audits is likely to fall. This will then be considered alongside other developments such as the changes in Value for Money work to ascertain the overall impact on our fee. The result of this deliberation will be communicated to the Council.

Appendix B: Other engagement information

The Audit Commission appoint us as auditors to Sefton Metropolitan Borough Council and the terms of our appointment are governed by:

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

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

Electronic communication

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

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

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

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

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

Access to audit working papers

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

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6RH. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

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

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

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