



# External Audit Plan 2015/2016

London Councils

March 2016

## Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Councils need to comply with.

### Materiality

Materiality for planning purposes has set at £1,480,000 for the London Councils Joint Committee. Further, materiality has also been set at the following levels;

- Joint Committee core transactions - £270,000
- Grants Committee - £220,000
- Transport and Environment Committee - £950,000
- London Councils Limited - £30,000

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £70,000 for the Joint Committee.

**See page 5 for more details**

### Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Risk of fraud in revenue recognition
- Management override of controls
- Accounting for pension assets and liabilities

**See pages 3 to 4 for more details.**

## Financial Statement Audit (cont.)



### Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Opening Balances

**See pages 3 to 4 for more details.**

## Logistics



Our team is:

- Andy Sayers – Partner
- Philip Johnstone - Director
- Steve Lucas – Senior Manager
- Christian Turnbull – Assistant Manager

**See page 8 for more details.**

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 7**.

Our fee for the audit of the Joint Committees is £35,100 and the fee for the audit of London Councils Limited is £900. **See page 6 for more details.**

## Background

This document supplements our Engagement Letter for 2015/16 which has been provided to management and sets out the terms of our engagement with the Councils.

The Local Audit and Accountability Act, which introduced new local public audit arrangements, does not apply to joint committees. The three Joint Committee accounts are prepared in accordance with proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the company accounts are prepared in accordance with UK Generally Accepted Accounting Practice and the Companies Act 2006.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

## Acknowledgements

We look forward to working with officers and Members during the course of the year.

## Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



## Financial Statements Audit Planning

Our planning work took place during January to February 2016. This involved the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

## Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We will obtain an understanding of revenue controls. We will evaluate and test accounting policies for income recognition to ensure they are consistent with the requirements of the Code of Practice on Local Authority Accounting. We will perform detailed testing of revenue transactions, focusing on the areas we consider to be of greatest risk, for example, revenue streams other than Borough subscription fees and rental income as these revenue streams are predictable in nature.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

## Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

### Accounting for pension assets and liabilities

Risk: London Councils staff are eligible to participate in the Local Government Pension Scheme (LGPS), administered by the London Pension Fund Authority. There is an inherent valuation estimate in respect of the Councils' defined benefit liability. Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.

Approach: Our audit will include:

- Confirming the information provided to the actuary from London Councils.
- Reviewing the actuarial valuation and considering the disclosure implications.
- Considering the assumptions made by your actuaries to benchmarks, which are collated by our KPMG actuaries, and to the assumptions used for 2014/15 for consistency.
- Review management's assessment of the accounting requirements to satisfy ourselves that they comply with the requirements of the Local Government SORP for 2015/16; and
- Report to the Audit Committee the findings from our work.

## Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

### Opening Balances

- Risk: The balances reported as the opening position and comparators in the 2015/16 financial statements comprise an integral part of your financial statements and are included within the assurance opinion we provide to you. As this is our first year of your audit, we have to conduct further work over these balances to be able to assure those charged with governance that they are free from material misstatement due to fraud or error.
- Approach: A requirement of the professional auditing standards is that we meet with the outgoing auditor to ensure that key information and significant findings are communicated to us. We will complete the handover process with the predecessor firm and where possible we will seek to place reliance upon their findings to ensure that the burdens placed upon the finance team resulting from the change in auditor are minimised.  
As a part of our interim audit we will perform analysis of the opening balances recorded within the accounting system and agree these to the audited 2014/15 financial statements. We may seek to agree significant balances to accounting records and other third party sources of information.

## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgment to represent 'misstatements' unless the application of that judgment results in a financial amount falling outside of a range which we consider to be acceptable.

## Reporting to the Audit Committee

For London Councils, materiality for planning purposes has been set at £1,400,000 which equates to 2% percent of gross expenditure for the Joint Committee in 2014/15.

	Benchmark	Materiality	Performance materiality	Trivial reporting materiality
Joint Committee	Gross Expenditure	£1,400,000	£980,000	£70,000

We design our procedures to detect individual errors at a lower level of precision by setting our performance materiality benchmark. This has been set at a level of £980,000 for London Councils.

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Further to the materiality discussed above, we have determined a separate materiality level for each Committee, including the core transactions of the Joint Committee, alongside the limited company. This affords us the opportunity to assess each Committee/company with an adequate level of scrutiny.

	Benchmark	Materiality	Performance materiality	Trivial reporting materiality
Joint Committee core	Gross Expenditure	£270,000	£190,000	£13,000
Grants Committee	Gross Expenditure	£220,000	£155,000	£11,000
Transport & Environment Committee	Gross Expenditure	£950,000	£650,000	£45,000
London Councils Ltd	Gross Expenditure	£30,000	£20,000	£1,500

Under ISA 260 (UK&I), we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance, and to request that adjustments are made to correct such matters. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

- In the context of the consolidated Joint Committee we propose to report all individual unadjusted differences greater than £70,000 to the Audit Committee.
- In the context of the London Councils Limited we propose to report all individual unadjusted differences greater than £1,500 to the Audit Committee.
- We will also have regard to other errors below this amount if evidence of systematic error or if material by nature.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

### Certification of AR 27 Return

London Councils, as an employer's association, has an obligation under the Trade Union and Labour Relations (Consolidation) Act 1992 to submit an annual return (AR27) to the Certification Officer. The information included in the return is based on the audited financial accounts. The act imposes a duty on London Councils to appoint an auditor to audit the accounts included in the return. We will certify London Councils AR 27 return.

### Our audit team

Our audit team will be led by Philip Johnstone (Director) and Steve Lucas (Senior Manager). Appendix 2 provides more details on specific roles and contact details of the team.

### Reporting and communication

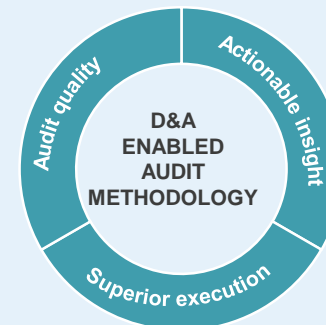
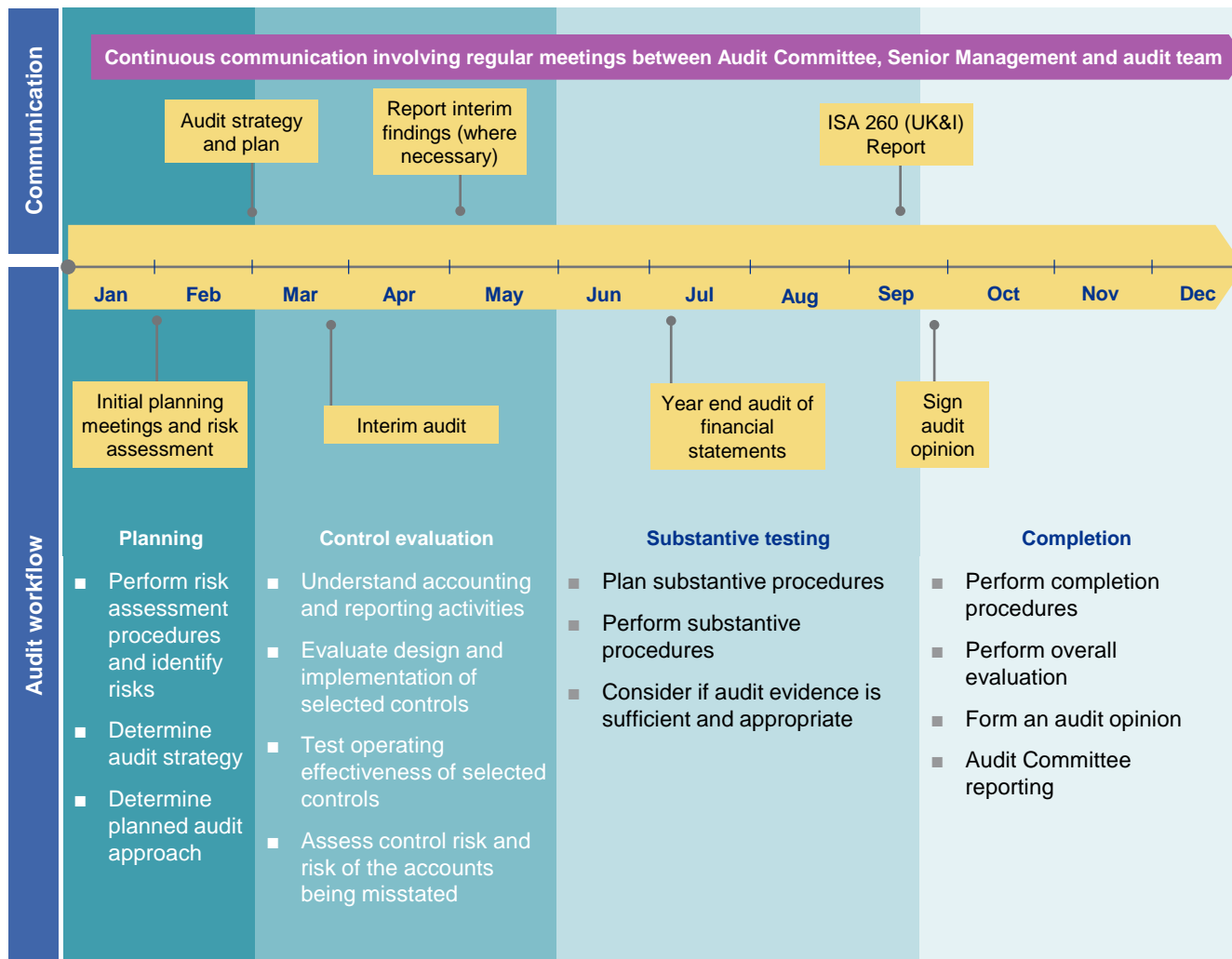
Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

### Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

### Audit fee

Our tender submission provided to London Councils in October 2015 set our proposed audit fee for the Joint Committees and company at £36,000. We have agreed the split with officers at £35,100 for the Joint Committees and £900 for London Councils Limited..



## Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals.

Your audit team has been drawn from our specialist public sector assurance department. Phil Johnstone and Steve Lucas will lead the audit at a senior level, with Christian providing on-site support. Details of each individual and their roles within the team are set out below. Andy Sayers will lead the London Councils Limited audit.



<b>Name</b>	Philip Johnstone philip.johnstone@kpmg.co.uk
<b>Position</b>	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Audit Committee, Executive and Committee Members.'</p>



<b>Name</b>	Christian Turnbull christian.turnbull@kpmg.co.uk
<b>Position</b>	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>



<b>Name</b>	Steve Lucas stephen.lucas@kpmg.co.uk
<b>Position</b>	Senior Manager
	<p>'I will work closely with your staff to ensure we add value.</p> <p>I will liaise with the Director of Finance and the Finance Team'.</p>



<b>Name</b>	Andy Sayers andrew.sayers@kpmg.co.uk
<b>Position</b>	Partner
	<p>'My role is to lead our team on the London Councils Limited audit and sign off the audit opinion'.</p>

### Independence and objectivity

We are required to communicate to you in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

We have considered the fees paid to us by London Councils for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

### Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance*, *UK Ethical Standard 1 (Revised) Integrity, objectivity and independence* and *UK Ethical Standard 5 (Revised) Non-audit services provided to audited entities* issued by the UK Auditing Practices Board when carrying out the audit of the accounts.

ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff.
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on London Councils' financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on London Councils' financial statements.
- Material uncertainties related to event and conditions that may cast significant doubt on London Councils' ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to London Councils' financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.

As part of our communications to you in our ISA 260 report that we will issue later in the year we will confirm to you that we have made enquiries of all KPMG team members whose work will contribute to us forming our opinion on the truth and fairness of the financial statements.

In addition to the accounts opinion we will also confirm to you in our ISA 260 report any other work that has been undertaken by KPMG on behalf of London Councils. At this planning stage we can confirm that KPMG has not been engaged to provide any non-audit services to London Councils.

### Confirmation statement

We confirm that as of 1 March 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



© 2016 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.

This report is addressed to London Councils and has been prepared for the sole use of the London Councils. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Philip Johnstone the engagement lead to London Councils, who will try to resolve your complaint.