

Audit Committee

External Audit Plan 2015/16

Item no: 05

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Date:	24 March 2016		
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Summary

This report presents the draft external audit plan for 2015/16 prepared by London Councils' new external auditor, KPMG. The draft audit plan informs the Audit Committee of the scope of the external audit for London Councils for 2015/16. Philip Johnstone and Stephen Lucas from KPMG will attend the meeting to present the plan and answer any questions the Audit Committee may have.

Recommendations

The Audit Committee is asked:

- To approve the draft audit plan for 2015/16 as detailed in Appendix A.
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Audit Plan 2015/16

Introduction

1. This report informs members of the proposed audit plan for the 2015/16 financial year, which is attached at Appendix A to this report. The purpose of the plan is to inform both the officers and the members of London Councils of the strategy for the external audit of the 2015/16 financial accounts.
2. The provisions of the Local Audit and Accountability Act 2014 which replaced the Audit Commission Act 1998 do not require joint committees, such as London Councils, to produce audited accounts. However, London Councils has other legal obligations that require it to produce audited accounts outside of those derived from the Audit Commission Act. KPMG was appointed as London Councils' external auditor by the Leaders' Committee in December 2015 following a procurement exercise and recommendation from this Committee. The 2015/16 accounts will be the first set of accounts audited by KPMG.

Scope of the Audit

3. The audit plan provides details of the approach KPMG intends to adopt in order to express an opinion on whether or not the financial statements represent a true and fair view of London Councils affairs for the year ended 31 March 2016. The audit will be conducted in accordance with the International Standards on Auditing (UK and Ireland).

Annual Governance Statement

4. London Councils will continue to prepare an Annual Governance Statement (AGS) in accordance with the CIPFA/SOLACE Framework - *Delivering Good Governance in Local Government*. The framework requires authorities to review their governance arrangements at least annually to ensure continuing compliance with best practice. The audit will include a review of the AGS to consider the completeness of disclosures included in the statement. Along with the Chief Executive, those charged with governance will have to take ownership of this process and responsibility for the governance arrangements. As external auditor, KPMG will need assurance that members are fully engaged in this process and with the governance of the organisation in general. This includes:
 - The process defined for the review of the effectiveness of internal control and the involvement of appropriate members and officers;

- The arrangements for committee meetings at which corporate governance, internal control and risk management matters are considered; and
 - The expectation of a formal annual report to those charged with governance by the Head of Audit and Risk Management at the City of London, which includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
5. In practical terms this means that London Councils Audit Committee will be required to be actively engaged in the assessment of corporate governance and internal controls within London Councils. The annual review of the governance arrangements will be carried out at the end of the 2015/16 financial year and the outcome and revised AGS for 2015/16 will be presented to the Audit Committee for review and approval at their meeting in June 2016.

Significant Audit Risks

6. KPMG has carried out a risk assessment of London Councils operations and identified potential audit risks that need to be addressed during the course of its audit. The results of its risk assessment and its planned audit approach are detailed on pages 3 to 4 of the audit plan. In summary, the main risks identified are as follows:
- Management override of controls;
 - Fraudulent revenue recognition;
 - Accounting for pension assets and liabilities; and
 - Opening balances.

Materiality Levels

7. The materiality levels for the audit are set out on page 5 of the plan. The materiality levels set for the consolidated accounts are as follows:
- Planning materiality: £1.4 million;
 - Performance materiality: £980,000; and
 - Trivial reporting materiality: £70,000.

The materiality levels for the individual entities can also be found on page 5 of the plan.

Audit Fees

8. The audit fee is detailed on page 6 of the plan. A comparison of the proposed fees for 2015/16 with previous years are detailed in the table below:

	2015/16 (£)	2014/15 (£)	2013/14 (£)
Audit fee (including AR27 certification)	36,000	55,558	55,558

9. The proposed fees can be met from within approved revenue resources.

Audit Report

10. Following the conclusion of the final audit, PwC will issue an ISA(UK&I) 260 Report to those Charged with Governance which will be presented to the Audit Committee at their meeting in September 2016. The report will provide a summary of the results of the audit work and the detail of any significant matters, which have arisen.

Financial Implications for London Councils

None

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A Draft External Audit Plan 2015/16

Background Papers

Final Accounts working file 2015/16