External Audit Plan 2016/17

LGSS

June 2017

Headlines

Financial statement audit

LGSS does not have a statutory responsibility to produce Financial Statements for the year ending 31 March 2017. Our Financial Statements audit is therefore being completed as a 'non-statutory' audit of a set of non-statutory Statement of Accounts, prepared under the CIPFA Code of Practise, agreed in our Engagement Letter with LGSS.

Materiality

Materiality for planning purposes has been based on the gross expenditure from the September 2016 outturn report and set at **£775,000.**

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 **£38,000.**

Significant risks

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

— Integration of Milton Keynes Council.

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:

— System change from Oracle to Agresso; and

— Disclosures associated with retrospective restatement of Comprehensive Income and Expenditure Statement ('CIES'), Expenditure and Funding Analysis ('EFA') and Movement in Reserves Statement ('MiRS').

Logistics

Our team remains unchanged from last year and consists of:

— Andrew Cardoza - Director

— Daniel Hayward – Senior Manager

— Harry Organ – Assistant Manager

— Laura Tilley – In Charge Auditor

More details are on **page 10.**

Our work will be completed in four phases from May 17 to November 17 and our key deliverables are this Audit Plan and a Report to Those Charged with Governance as outlined on **page 9.**

Our fee for the audit is **£22,450** (£34,703 in 2015/16, including £10,203 of additional audit work fees) see **page 8** for more details.

Introduction

Background and Statutory responsibilities

This document supplements our Engagement Letter, issued by ourselves to LGSS and signed on behalf of LGSS in April 2017. It describes how we will deliver our financial statements audit work for the LGSS Joint Committee (‘LGSS’). We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

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.

The main purpose of our audit, which is carried out in accordance with International Standards on Auditing (ISAs) issued by the Auditing Practices Board, is to issue a report to LGSS that expresses our opinion on whether the financial statements give a true and fair view and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

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

Financial Statements Audit Planning

Our planning work takes place in May and June 2017. Our planning work involves the following key aspects:

— Risk assessment;

— Determining our materiality level; and

— Issuing this audit plan to communicate our audit strategy.

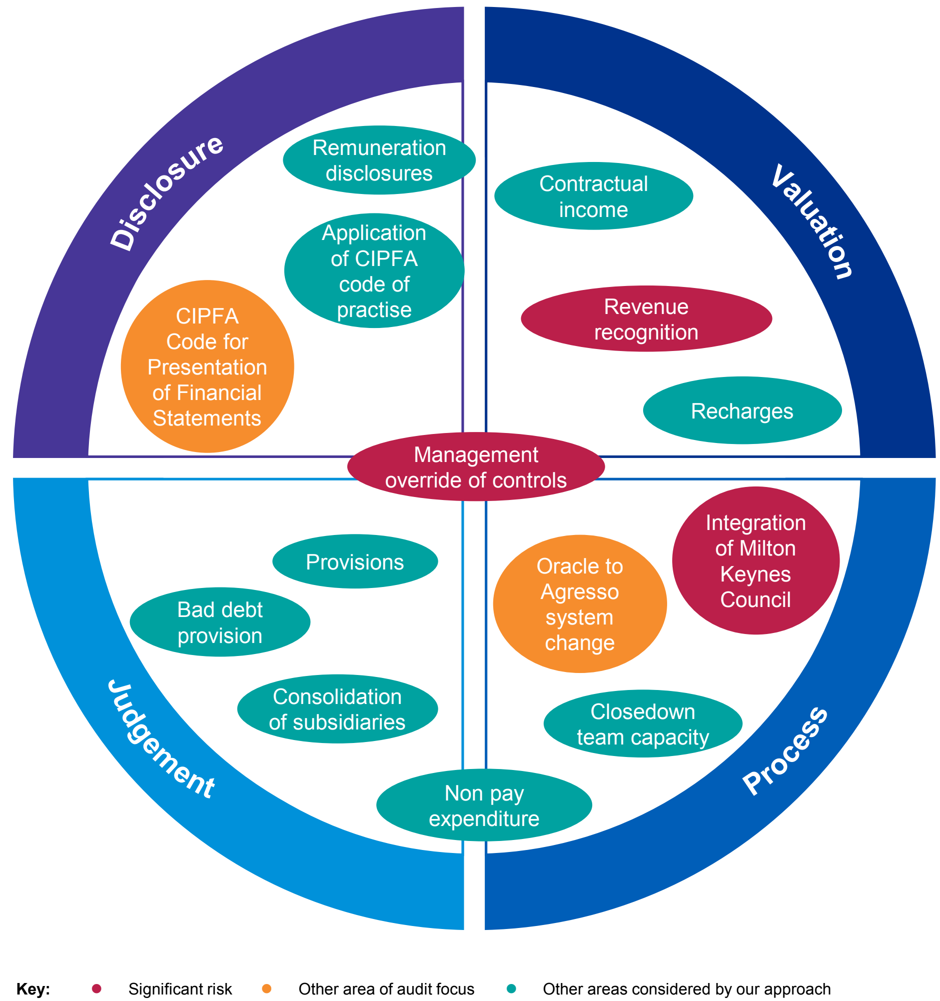
Risk assessment

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 do not consider this to be a significant risk for LGSS (and its constituent local authorities) as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

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.



Financial statements audit planning (cont.)

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

Risk: Incorporation of Milton Keynes Council

From 1st April 2016 Milton Keynes Council was added as a third partner within LGSS and member of the LGSS Joint Committee. Milton Keynes Council will therefore provide additional budget to LGSS and these transactions will be recognised on the Milton Keynes Council general ledger.

Milton Keynes Council uses SAP for their general ledger, different to the Oracle general ledger system used by both Cambridgeshire County Council and Northamptonshire County Council. This will create a more complex accounts production process for LGSS that will need to incorporate all transactions completed on the Milton Keynes Council ledger. There is therefore a risk that LGSS is not set up correctly on the Milton Keynes Council ledger and LGSS transactions for inclusion in the accounts are not complete or include transactions that do not relate to LGSS.

Approach:

As part of our audit:

- We will hold discussions with key officers to understand the approach to integrating LGSS into the Milton Keynes Council general ledger in order to recognise transactions applicable to LGSS;
- We will review the Closedown team's process for incorporating the Milton Keynes Council ledger in the financial statements production process; and
- We will undertake additional substantive testing on LGSS transactions recognised in the Milton Keynes Council ledger to verify they are appropriate LGSS transactions.

Financial statements audit planning (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.

Disclosures associated with retrospective restatement of CIES, EFA and MiRS

During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its ‘telling the whole story’ project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Councils are funded and how they use the funding to serve the local population. The outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (‘the Code’) as follows:

- Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and
- Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note.

As a result of these changes, retrospective restatement of CIES (cost of services), EFA and MiRS is required from 1 April 2016 in the Statement of Accounts.

New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable Accounting Standards.

Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year’s accounts.

Approach:

As part of our audit:

- We will assess how LGSS has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code; and
- We will check the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance.

System change from Oracle to Agresso

From 1 September 2017 LGSS will transfer its financial systems from Oracle to Agresso. Although this is happening during the 2017/18 financial year the preparation and project management occurs in 2016/17 and therefore we have identified this as an area of audit focus for 2016/17. This will focus on the governance and controls over the migration process that will then impact our 2017/18 audit opinion.

Approach:

We will review the governance, project management and delivery arrangements that LGSS has in place over the system transfer. We will use this to inform our testing of the completeness and accuracy of the general ledger transfer to Agresso for 2017/18.

Due to the nature of this project Internal Audit have been significantly involved therefore we will work with Internal Audit to understand the work they have performed and utilise that where appropriate for our external audit.

Financial statements audit planning (cont.)

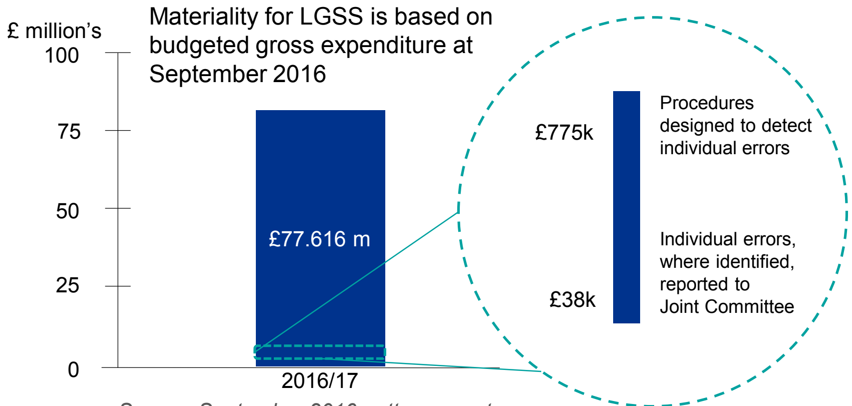
Materiality

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 judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £775,000 which equates to just below 1% percent of the gross expenditure budget.

We design our procedures to detect errors in specific accounts at a lower level of precision.



Source: September 2016 outturn report

Reporting to the Joint Committee

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 Joint Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. 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 LGSS, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £38,000.

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

Other matters

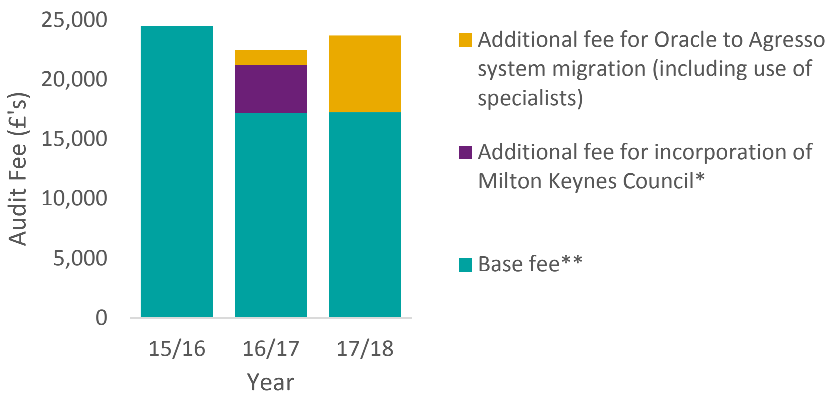
Our audit team

Our audit team will continue to be led by Andrew Cardoza. Andrew will be supported by Daniel Hayward, Harry Organ and Laura Tilley providing continuity and consistency. Appendix 2 provides more details on specific roles and contact details of the team.

Audit fee

Our Engagement Letter 2016/17 issued to you in April 2017 first set out our fees of £22,450 for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

We recognise the LGSS continue to improve their accounts production process compared to previous years. This is reflected in a reduction in our base audit fee for 2016/17. We anticipate maintaining our base fee in 2017/18 subject to the successful inclusion of Milton Keynes Council in the accounts production process.



* The Milton Keynes District Council fee is based on full provision of PBC items and appropriate supporting records

** Our base fee is reduced for 2016/17 and 2017/18 due to efficiencies

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 Joint 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.

Appendix 1: Key elements of our financial statements audit approach

Communication

Continuous communication involving regular meetings between Joint Committee, Senior Management and audit team

- Audit strategy and plan (Joint Committee)
- Draft PBC shared
- Year end audit of financial statements
- ISA 260 (UK&I) Report

May | Jun | Jul | Aug | Sep | Oct

Audit workflow

- Initial planning meetings and risk assessment
- Draft Accounts prepared by management
- Sign audit opinion

Planning

- Perform risk assessment procedures and identify risks.
- Determine audit strategy.
- Determine planned audit approach.

Control evaluation

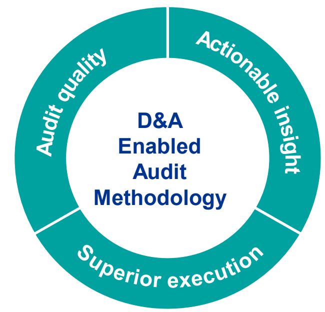
- Understand accounting and reporting activities.
- Evaluate design and implementation of selected controls.
- Test operating effectiveness of selected controls.
- Assess control risk and risk of the accounts being misstated.

Substantive testing

- Plan substantive procedures.
- Perform substantive procedures.
- Consider if audit evidence is sufficient and appropriate.

Completion

- Perform completion procedures.
- Perform overall evaluation.
- Form an audit opinion.
- Joint Committee reporting.



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 journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. Our senior audit team has remained the same as last year, with some changes to the onsite delivery team in 2016/17.

Andy Cardoza
Director
andrew.cardoza@kpmg.co.uk
+44 77 1186 9957

Name	Andy Cardoza
Position	Director
	'My role is to lead our team and ensure the delivery of a high quality, value added external audit opinion. I will be the main point of contact for the Joint Committee and Managing Director.'

Daniel Hayward
Manager
daniel.hayward@kpmg.co.uk
+44 77 7610 1412

Name	Daniel Hayward
Position	Senior Manager
	'I am responsible for the management, review and delivery of the audit of LGSS. I will liaise with the Managing Director and Director of Finance'

Harry Organ
Assistant Manager
harry.organ@kpmg.co.uk
+44 74 6836 9664

Name	Harry Organ
Position	Assistant Manager
	'I will provide quality assurance for the audit work and lead the delivery of our work. I will work closely with Andrew and Dan to ensure we add value.'

Laura Tilley
In-Charge Auditor
laura.tilley@kpmg.co.uk
+44 78 2688 4722

Name	Laura Tilley
Position	In-Charge Auditor
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Joint Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, 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.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

KPMG is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG 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 professional practice rules of the APB Ethical Standards by whom we are regulated for audit purposes. In addition, we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management;
- Independent reviews.

Further safeguards include regular review of the composition of the audit team including rotation in accordance with the relevant regulations. Any significant new engagement undertaken for the company is subject to acceptance procedures, requiring consultation with Andrew Cardoza and compliance with the company's non-audit services policies.

We also consider the fees paid to us by LGSS and its related entities for professional services provided by us. We will report on our fees for the period ending 31 March 2017 at the relevant Joint Committee meeting.

Confirmation statement

We confirm that as of June 2017 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.

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