External Audit Plan 2015/2016

LGSS

August 2016

Headlines

Financial statement audit

LGSS does not have a statutory responsibility to produce Financial Statements for the year ending 31st March 2016. Our Financial Statements audit is therefore being completed as a 'private' audit agreed in our Engagement Letter with LGSS.

Materiality

Materiality for planning purposes has been based on last year's expenditure and set at **£650,000.**

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 **£32,000.**

Significant risks

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

— Group Accounts.

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:

— Non Pay Expenditure.

— VAT treatment

Logistics

Our team is:

— Andrew Cardoza - Director

— Daniel Hayward – Manager

— Phillipa Hunt – Assistant Audit Manager

— Harry Organ – In Charge Auditor

More details are on **page 9.**

Our work will be completed in four phases from March to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 8.**

Our fee for the audit is **£24,500** (£28,948 in 2014/2015, including £6,048 fees incurred with regards to work undertaken at the time in response to the objection raised in 2014/15 – our work is still continuing) see **page 7.**

Introduction

Background and Statutory responsibilities

This document supplements our Engagement Letter, issued to and signed in March 2016. It describes how we will deliver our financial statements audit work for the LGSS Joint Committee ('the Authority'). 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 the Authority 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 2015/16.

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 March and April 2016. This has been delayed compared to previous years due to the on-going 2014/15 objection work. Our planning work involves the following key aspects:

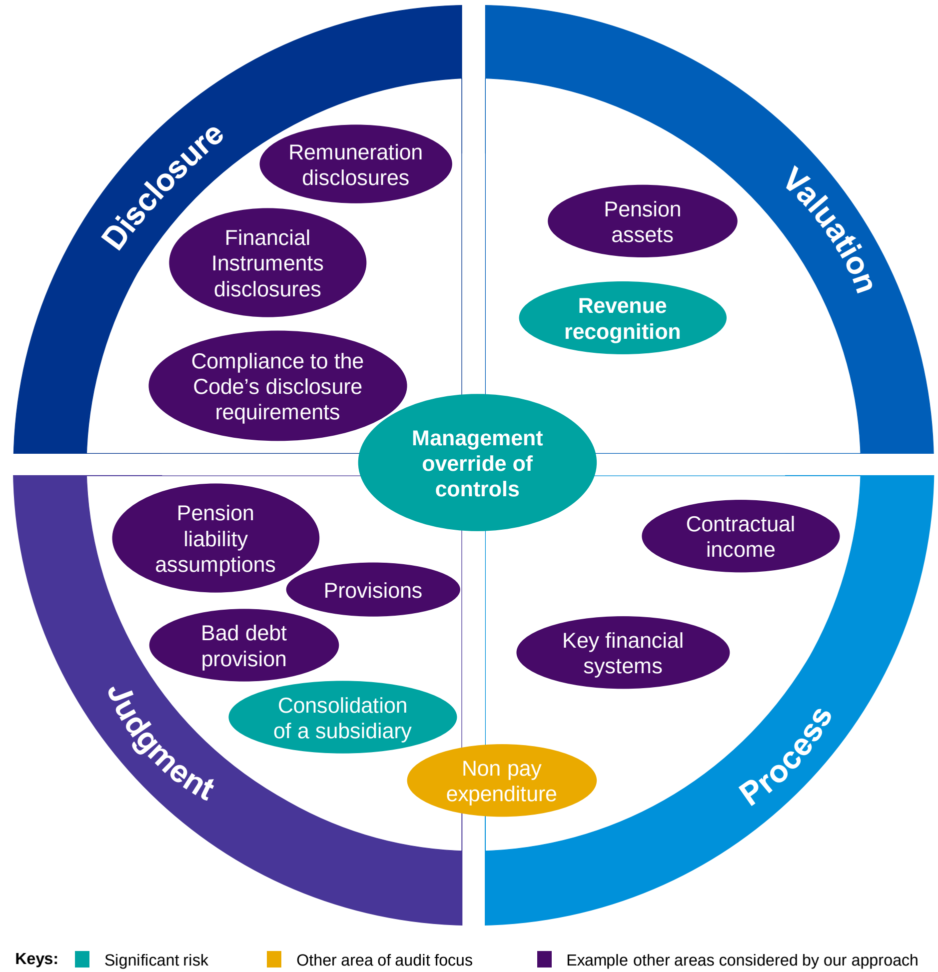
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

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 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.

Completeness of Income

Risk

The Authority is currently assessing whether they will be required to produce Group Accounts, in order to consolidate its new subsidiary company, LGSS Law.

The Authority will need to ensure that they undertake a detailed and controlled review of the relationship that exists with LGSS Law and assess whether consolidation is required, in order to ensure that the financial statements are prepared in accordance with the requirements of the CIPFA **Code of Practice on Local Authority Accounting in the UK 2015/16 (the Code).**

Our audit work

We will hold discussions with key officers to understand the Authority's proposed approach to assessing whether consolidated financial statements are required.

We will review the Authority's assessment of the possible group relationship. We will assess the plans in place to ensure complete and accurate accounting, including its liaison with the subsidiary company in order to obtain sufficient and appropriate supporting information to support the process.

Should Group Accounts be prepared, we will liaise with the subsidiary auditors to assess if their work completed on the subsidiary accounts is sufficient for the purposes of the Group Accounts. At year end, we will review the consolidation accounting entries and supporting work papers to ensure appropriate and accurate accounting entries and disclosures are made in compliance with the Code.

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

Non Pay expenditure

We will undertake additional work on understanding the Accounts Payable system and the reports generated from this system. We will also complete testing over key system controls.

VAT treatment

We will verify that VAT is treated consistently on the Cambridgeshire County Council and the Northamptonshire County Council debtor balances. This is following the objector challenge and subsequent management action to ensure consistency across the two debtor balance.

Financial statements audit planning (cont.)

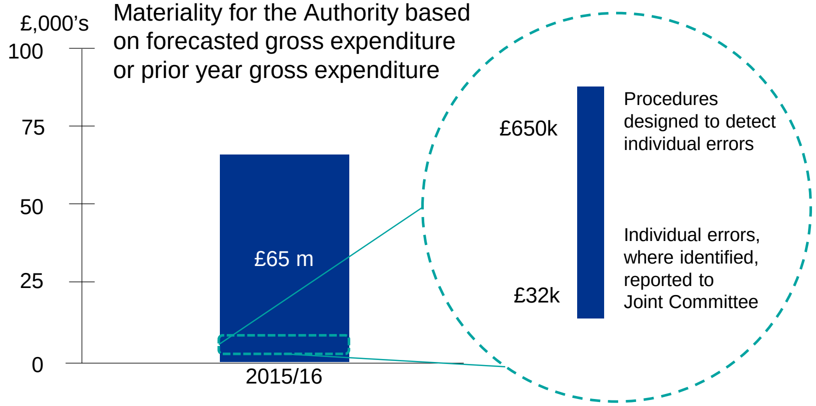
Materiality

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 £650,000 which equates to just below 1% percent of gross expenditure.

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



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 the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £32,000.

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 be led by Andrew Cardoza. This is the second year that Andrew has led the audit team providing continuity and consistency. 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 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.

Audit fee

Our Engagement Letter 2015/2016 issued to you in March 2016 first set out our fees of £24,500 for the 2015/2016 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.

Our opinion on the 2014/15 financial statements has been delayed due to the receipt of a local government elector objection, and the associated work over the objection. Our review of the issues raised within the objection is nearing completion and we are working with key officers at the Authority to resolve these. We plan to be able to issue our final opinion by July to August 2016.

Once our 2014/15 opinion has been issued, we will be able to confirm our final audit fee for 2014/15. The fee to date is £28,948, which includes £6,048 in respect of the objection work. Our planned audit fee for 2014/15 was £22,900.

Appendix 1: Key elements of our financial statements audit approach

Communication

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

- Mar: Draft PBC and timetable shared
- Jul: Audit strategy and plan (Joint Committee)
- Oct: ISA 260 (UK&I) Report

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

Audit workflow

- Mar: Initial planning meetings and risk assessment
- Aug: Year end audit of financial statements and annual report
- Oct: Sign audit opinion

Planning

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

Control evaluation

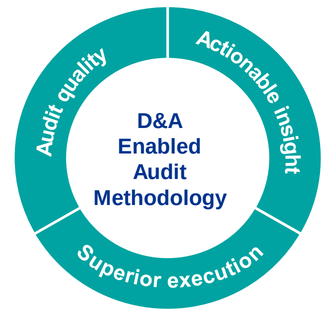
- Understand accounting and reporting activities.
- Evaluate design and implementation of selected controls.
- Test operating effectiveness of selected controls.
- Assess control risk and risk of the accounts being misstated.

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 2015/16.

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

Andy Cardoza
Director
andrew.cardoza@kpmg.co.uk
+44(0)77 1186 9957

Name	**Phillipa Hunt**
Position	Assistant Manager
	'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Phillipa Hunt
Assistant Audit Manager
phillipa.hunt@kpmg.co.uk
+44 (0)78 2565 6252

Name	**Daniel Hayward**
Position	Manager
	'I am responsible for the management, review and delivery of the audit of LGSS. I will liaise with the Head of Finance and Head of Internal Audit'

Daniel Hayward
Manager
daniel.hayward@kpmg.co.uk
+44 (0)77 7610 1412

Name	**Harry Organ**
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.'

Harry Organ
In-Charge Auditor
harry.organ@kpmg.co.uk
+44 (0)74 6836 9664

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 2016 at the relevant Joint Committee meeting.

Confirmation statement

We confirm that as of July 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.

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. 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 Andrew Cardoza, the engagement lead to the entity, who will try to resolve your complaint.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to 'Regulatory Information' at www.kpmg.com/uk