



External Audit Plan 2015/2016

LGSS Law Limited

August 2016



Headlines

Financial statement audit



The purpose of this document is to brief the Board of Directors on our proposed approach to the audit of LGSS Law Ltd for the year ending 31 March 2016. It includes brief information on key members of our core audit team.

Materiality

Materiality for planning purposes has been based on the draft accounts and set at £100,000.

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 £5,000.

Significant risks

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

- Fraud risk from revenue recognition;
- Management override of controls; and
- Completeness of income.

Logistics



Our team is:

- Andrew Cardoza – Engagement Lead
- Tony Felthouse – Audit Director
- Daniel Hayward – Manager
- Phillipa Hunt – Assistant Manager
- Harry Organ – Support In-charge

More details are on page 9.

Our fee for the audit is **£9,850** see page 7.

Introduction

The purpose of our audit

The main purpose of our audit which is carried out in accordance with International Auditing Standards (ISAs) issued by the Auditing Practices Board, is to:

- Express an opinion on the Company's financial statements for the year ending 31 March 2016 in accordance with IFRS and International Auditing Standards as adopted by the EU;
- Confirm the information given in the Directors' Report is consistent with the financial statements; and
- Highlight key issues that have been relevant in the forming of our audit opinion.

Our service objectives

Our audit objectives go beyond the delivery of the provision of an opinion and reflect our desire to meet and exceed your expectations. Our objectives are to:

- Deliver a robust, efficient and cost effective audit, focusing on key issues and risks, with an appreciation of commercial sensitivities and of the overall environment in which LGSS Law Ltd operates;
- Provide recommendations on current issues, internal control and accounting and regulatory developments in our reports; and
- Report clearly and concisely within agreed timescales.

In delivering these objectives, we will work closely with your staff to ensure that our work is undertaken with the minimum of disruption to your everyday functions.

Our responsibilities as auditor

As auditor to LGSS Law Ltd we are required to provide audit opinions in accordance with the UK companies acts.

Under UK company law, our responsibility is to the shareholders of LGSS Law Ltd. In addition, we have professional responsibilities to report certain matters, if they come to our attention, to regulatory bodies.

Our audit of LGSS Law Ltd is conducted in accordance with the relevant provisions of International auditing standards (UK and Ireland) (ISAs) and our formal terms of reference are set out in our engagement letter dated 14 March 2016.

Directors of entities complying with the UK corporate governance code must include in their annual report and accounts statements about the fairness, balance and understandability of the annual report and accounts and a report on the work of the audit committee. ISAs (UK and Ireland) require us to report by exception in our audit opinion on the above reporting by the directors.

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.



Audit planning process

We held discussions with the Finance team and key officers to discuss a number of the key issues in advance of our audit fieldwork.

From these discussions, we have identified those issues which will be the main focus of our audit (see Page 4).

Materiality

International Standards on Auditing (UK and Ireland) require that we plan our audit to determine with reasonable confidence whether or not the financial statements being reported on 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 difference 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.

Materiality has been set at £100,000 which is 1.7% of income.

Financial statements audit planning



Financial Statements Audit Planning

Our planning work involves the following key aspects:

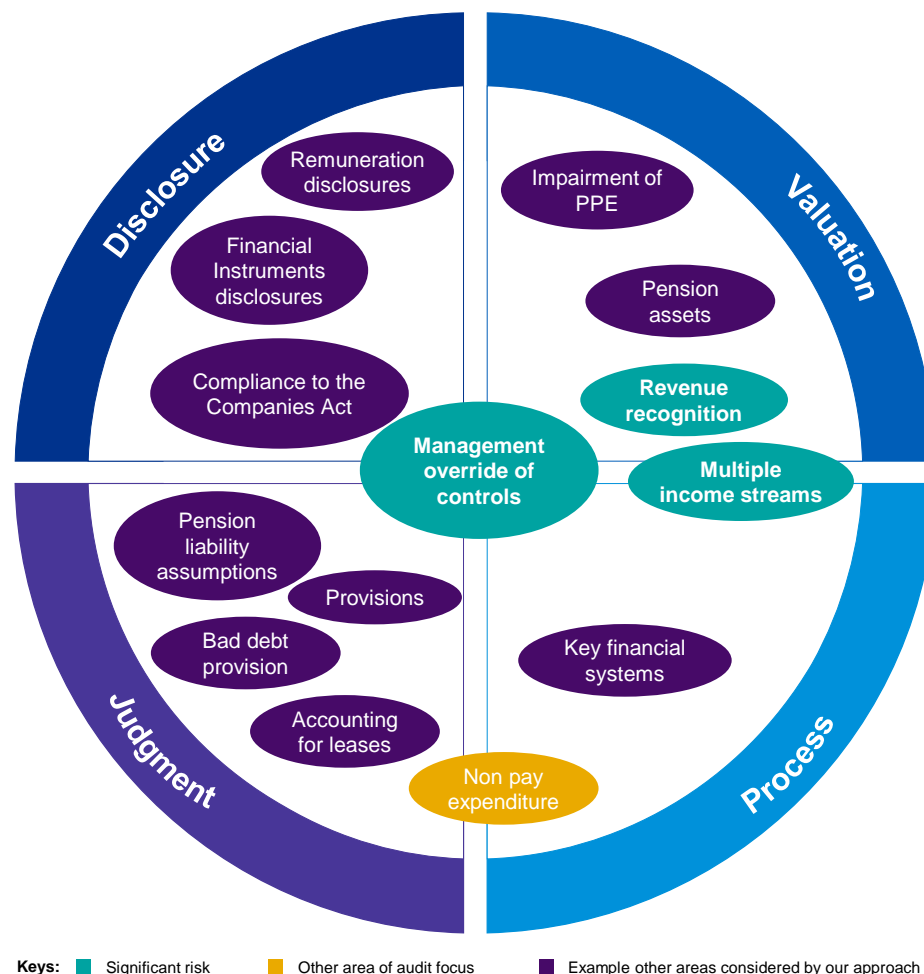
- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

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.

Fraud risk from revenue recognition

Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

There are some contracts which LGSS Law Ltd is required to deliver services on and therefore a fraud risk from revenue recognition has been identified as significant in this area.

Our audit work

We will agree the income recorded in your financial statements to the signed contracts the Company has in place to deliver services.

We will carry out testing of a sample of invoices raised around the financial year-end to determine whether income had been recognised in the appropriate period.

We will confirm the basis upon which any provisions for debt have been made at the year end. We will test the assumptions taking into account both past performance and any circumstances specific to the year ended 31 March 2016.

Management override of controls

Risk

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

Our audit work

Our audit methodology incorporates the risk of management override as a default significant risk for 2015/16.

In line with our methodology, we carry out appropriate controls testing and substantive procedures, including testing over journal entries, accounting estimates such as accruals and provision and significant transactions that are outside the normal course of business, or are otherwise unusual.

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. These risks will require additional work above and beyond our standard audit approach.

Completeness of Income

Risk

In addition to the Fraud risk of revenue recognition we have also identified a risk over the completeness of income. LGSS Law has used several accounting systems during the year as well as a separate case management system. From this we have identified a risk over the completeness of income recognised in the year. We have identified the following key elements to the risk:

- Income is not recognised from all systems used during the year and therefore not complete.
- Income from cases worked but not invoiced at 31 March 2016 are not recognised in the year.

Our audit work

We will work with management to understand the accounting systems used during the year. We will agree income in each system back to supporting evidence. We will confirm income from each system is included in income figures within the Financial Statements.

We will perform cut-off procedures over the income using the case load system for cases work prior to the year end to identify income relating to 2015/16 and whether it has been recognised in the appropriate period.

First year accounting period

Risk

This is the first year company accounts have been required. Management will need to identify the appropriate accounting standards applicable to the company and produce the Financial Statements under those standards. The standards will be those required under Companies Act 2006 which will be less familiar to management. Management will also need to consider and adopt appropriate accounting policies for the company and ensure all relevant disclosures are included as per the elected accounting standards.

Our audit work

We will engage with management to identify the appropriate accounting standards for the company. We will then perform a detailed review of disclosures to ensure the first year accounts are in line with the accounting standards. We will also perform an assessment of accounting policies to verify they are appropriate for the entity and all policies required under the standards have been included.

Other matters

Our audit team

Our audit team will be led by Andrew Cardoza as your engagement lead, supported by your Director, Tony Felthouse. Andrew was responsible for leading the audit of LGSS Law's parent companies – LGSS & NCC in the prior year. 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, the Board and the LGSS Joint Committee as the parent organisation. Our communication outputs are included in Appendix 1.

Independence and Objectivity

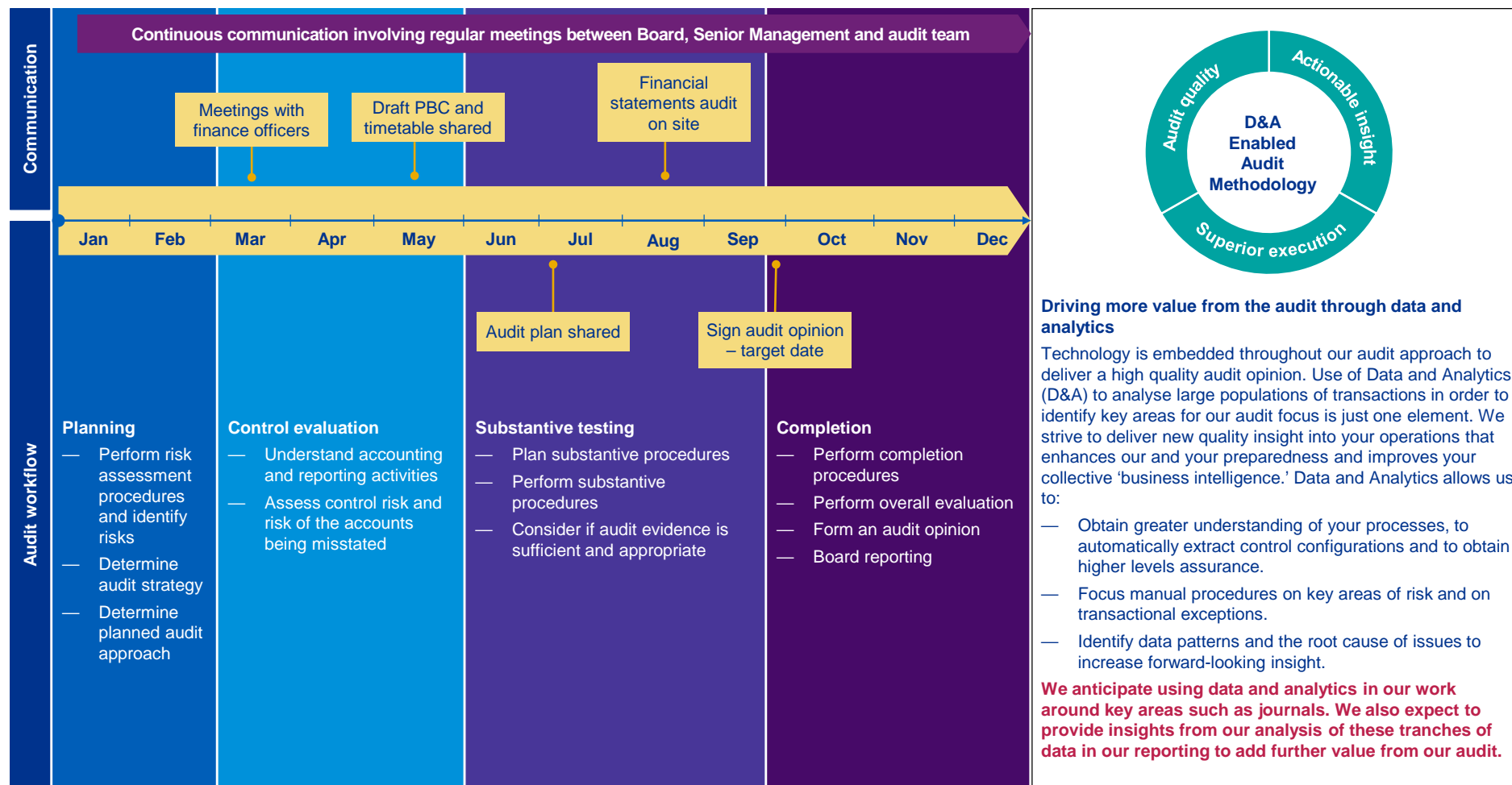
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Engagement Letter 2015/2016 presented to you in March 2016 first set out our fees 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 fee at this stage.

The planned audit fee for 2015/16 is £9,850 and reflects a standard audit approach.

Appendix 1: Key elements of our financial statements audit approach



Appendix 2: Audit team



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



Name	Andrew Cardoza
Position	Audit 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.'



Tony Felthouse
Engagement Lead
tony.felthouse@kpmg.co.uk
+44(0)77 6864 6753

Name	Tony Felthouse
Position	Engagement Lead
	My role is to ensure that you receive service excellence from the entire team. I will sign all audit opinions and am the key point of contact for the Chairman and Board members.



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

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.'



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

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'



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

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.'

Appendix 3: Independence and objectivity requirements

Auditor Independence and objectivity

ISA 260 'Communication with Those Charged with Governance' requires us to communicate to the Board of Directors on any matters which may be reasonably thought to bear on our independence, set out the safeguards in place in relation to these matters and confirm that we are independent.

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.

We also consider the fees paid to us by LGSS Law Ltd 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 Board meeting.

Having considered the above and other relevant factors, in our professional judgement we are satisfied that KPMG is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partners and audit staff is not impaired.

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.

Confirmation statement

We confirm that as of 01 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 Company and has been prepared for the sole use of the Company. 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 Company, 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.

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