

Audit overview

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The framework

The code of audit practice 2010 – local government

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. In discharging these specific statutory responsibilities and powers, auditors are required to carry out their work in accordance with the Commission's Code of Audit Practice.

Because of the special accountabilities attached to public money and the conduct of public business, external audit in the public sector is characterised by three distinct features:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the financial statements, but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources; and
- auditors may report aspects of their work to the public and other key stakeholders.

The CIPFA code of practice on local authority accounting

This Code of Practice is based on International Financial Reporting Standards (IFRSs), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

Relationship between KPMG and the PSAA

The Audit Commission operated until March 2015. From April, a transitional period commenced, with the Public Sector Audit Appointments Limited (PSAA), a subsidiary company of the LGA, overseeing the completion of the Audit Commission's contracts with audit firms. This will be for three years, after which public bodies will then assume the power to appoint their own external auditors

Statutory functions include:

- appointing auditors to local government and NHS bodies in England;
- setting a 'scale fee' for each audit, and approving any requests for variations to this fee;
- making arrangements for the certification of grant claims and returns submitted by local bodies;
- data matching (the National Fraud Initiative); and
- publishing national studies, although these will be limited to reporting the outputs of auditors' work – such as the annual *Auditing the accounts and Protecting the public purse reports*.

Following the outsourcing of the Commission's in-house Audit Practice, all auditor appointments are of private firms. In assessing the quality of audit work, the PSAA uses the work of the Financial Reporting Council's Audit Quality Review Team (AQRT).

Audit opinion

Financial Statements

Whether the financial statements:

- Present a true and fair view of the financial position of the Authority and its income and expenditure for the year ended 31 March; and
- Have been prepared in accordance with relevant legislation and applicable accounting standards.

We also consider the Annual Governance Statement.

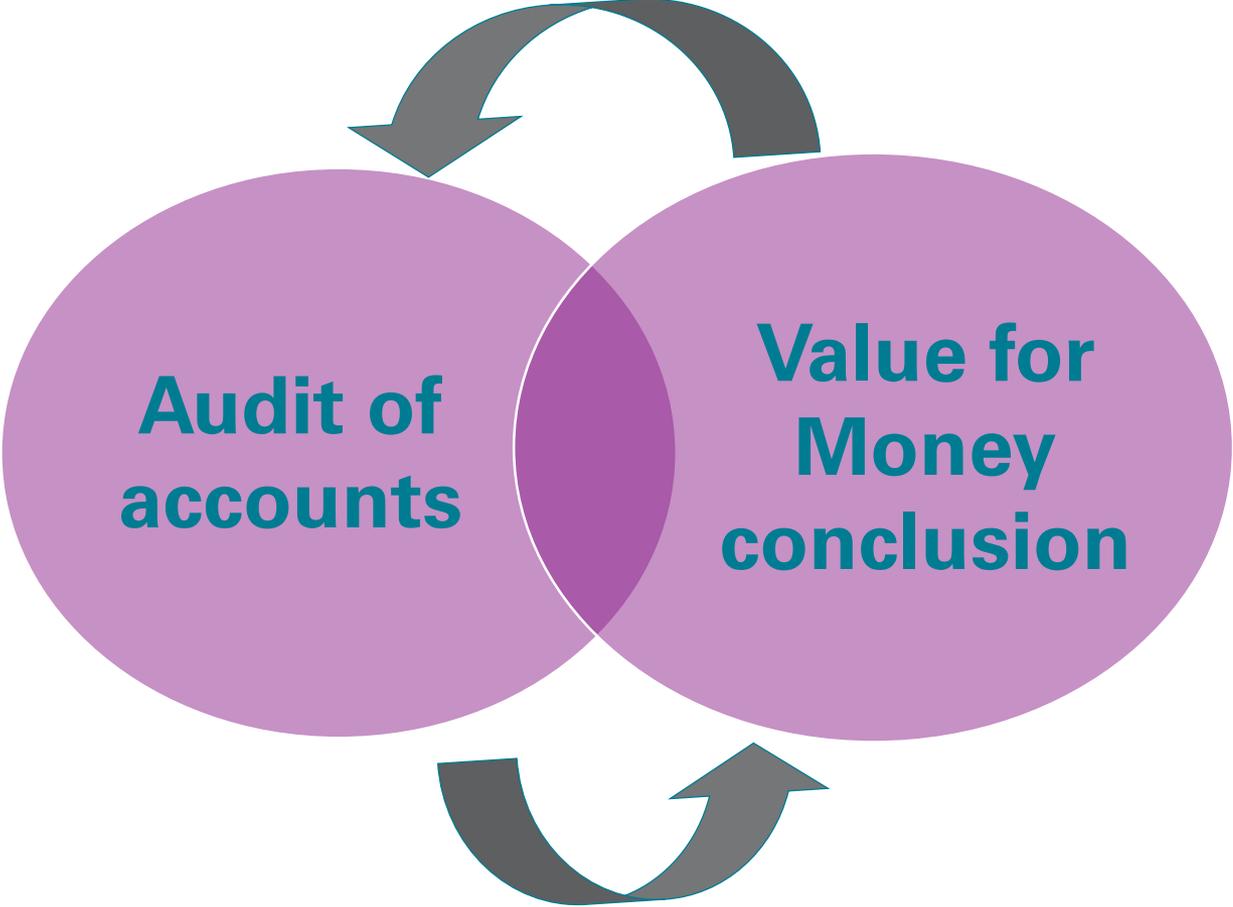
30 September deadline

Value for money

Whether, in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. There are 3 main aspects of this work:

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

30 September deadline

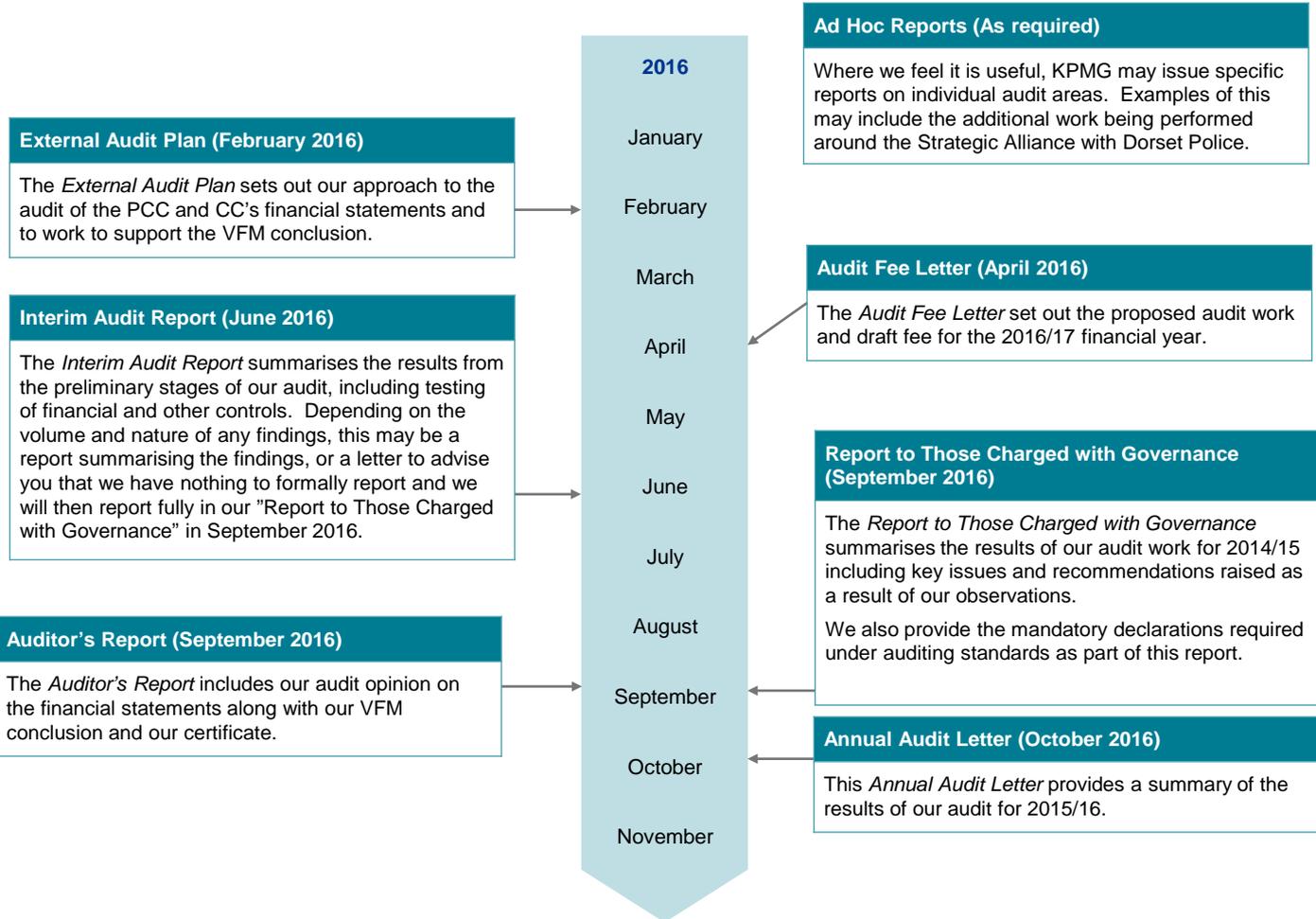


Audit cycle

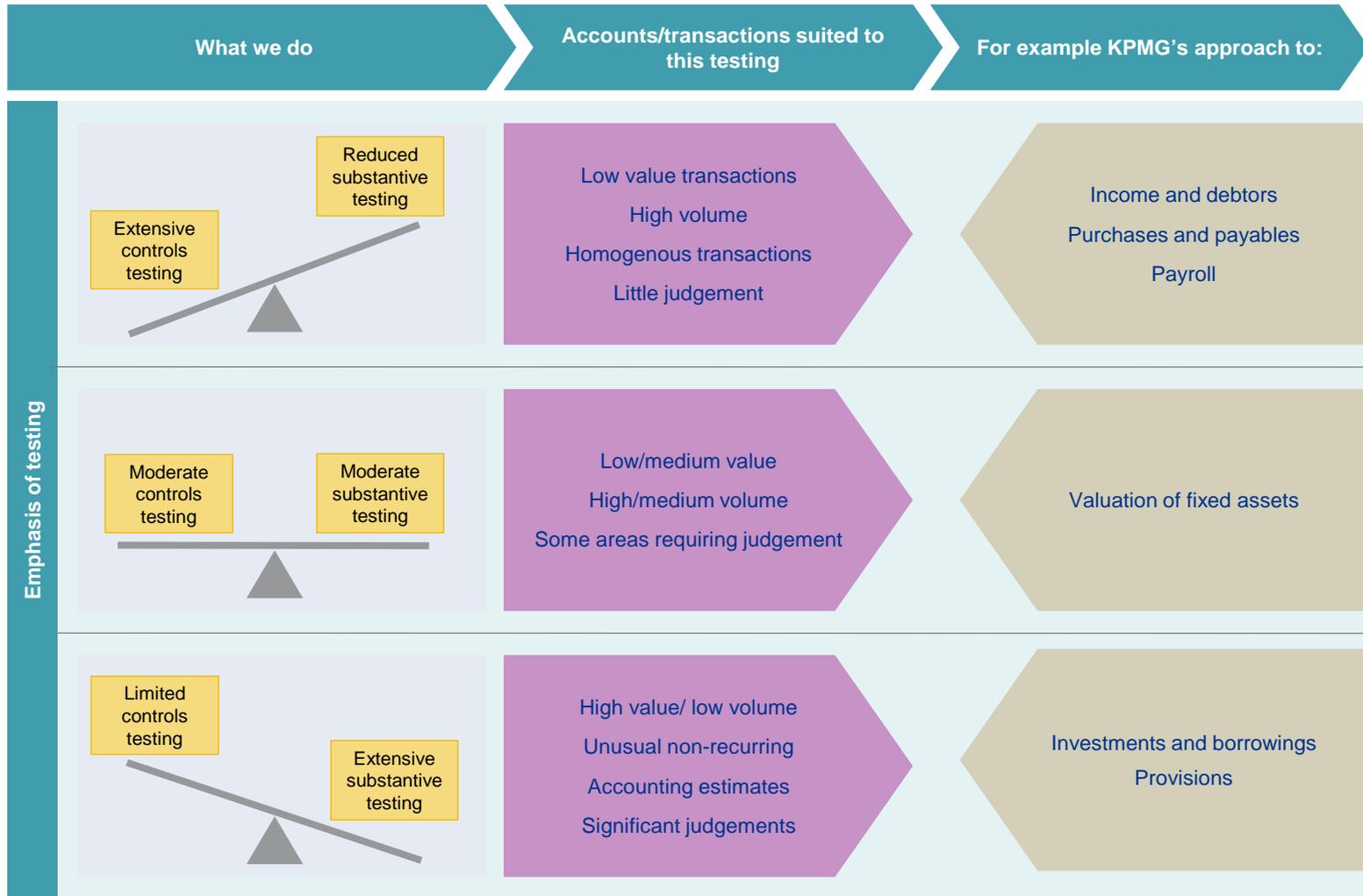


Summary of reports to be issued

This summarises the reports we will issued during the course of our audit for the financial year 2015/16.



Balance of internal controls and substantive testing



Practical examples

Fixed assets and payroll

	Fixed Assets	Payroll
Controls testing (selecting controls to test)	<ul style="list-style-type: none"> - Impairment Reviews. 	<ul style="list-style-type: none"> - Joiners/ leavers to payroll. - Change in details appropriately approved. - Exception reports reviewed,
Analytical review	<ul style="list-style-type: none"> - Review depreciation charge. - Using capital programme ensure completeness of disposals is reasonable. 	<ul style="list-style-type: none"> - Form an expectation for payroll, based on change in staff numbers and salaries compared to previous year.
Test underlying detail	<ul style="list-style-type: none"> - Agree sample of additions to invoice. - Agree sample of capital receipts to invoice. - Reperform impairment review. 	<ul style="list-style-type: none"> - Review anomalies and outliers to the expectation.
Disclosures	<ul style="list-style-type: none"> - Agree to audit work. 	<ul style="list-style-type: none"> - Agree to audit work.

Glossary

Description	Definition
Audit Manager	The audit manager will direct and co-ordinate the audit. They are responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas.
Audit Misstatement Posting Threshold (AMPT)	The amount below which misstatements identified would be clearly trivial within the context of the financial accounts and would not need to be accumulated because we would expect the accumulation of such amounts clearly would not have a material effect on the financial statements. We would not report adjustments below this level to the FRAC.
Code of Audit Practice	The Code defines our statutory audit responsibilities, as set out in the Local Audit & Accountability Act 2014. It is prepared by the National Audit Office and approved by Parliament.
Engagement Lead	The role of the Engagement Lead is to lead our team and ensure the delivery of a high quality external audit opinion. They are the main point of contact for the Finance Review and Audit Committee, Brigade Manager (Finance & ICT) and Chief Officers
In-charge	The incharge is responsible for the on-site delivery of our work. They liaise with the finance team. I will also supervise the work of our audit assistants
Integrated Approach	We are required to sign 2 opinions, one for the financial statements audit, and one on the arrangements for securing value for money. We combine our audit work over both these opinions so as to have one team on site, maximise efficiency and reduce cost to the Authority.
ISAs	The International Standards on Auditing (ISAs) define in considerable detail the way in which auditors are required to plan, deliver, document and report their audit work. KPMG has a detailed audit methodology (KAM) which ensures compliance with the ISAs, and an electronic audit system (eAudit) which facilitates this.
Materiality	The amount above which any misstatement identified would need to be resolved in order to sign the financial accounts. This is the amount which we believe the financial statements would need to be misstated by in order to change the decisions of a stakeholder. Materiality can be set at an overall financial statement level, but may vary by element of the accounts.
Material Adjustments	Adjustments which are above our materiality level
Performance Materiality	The amount we set at less than materiality in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceed materiality.
Significant Adjustments	Adjustments which are below our materiality level, but we believe should be brought to the attention of management due to the size or nature of the adjustment. These may be corrected or uncorrected.

Any Questions?

Further guidance:

- Previous audit committee papers
- www.psaa.co.uk/
- www.nao.org.uk/code-audit-practice/



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