



cutting through complexity™

PLANNING

CONTROLS

The role of the external auditor

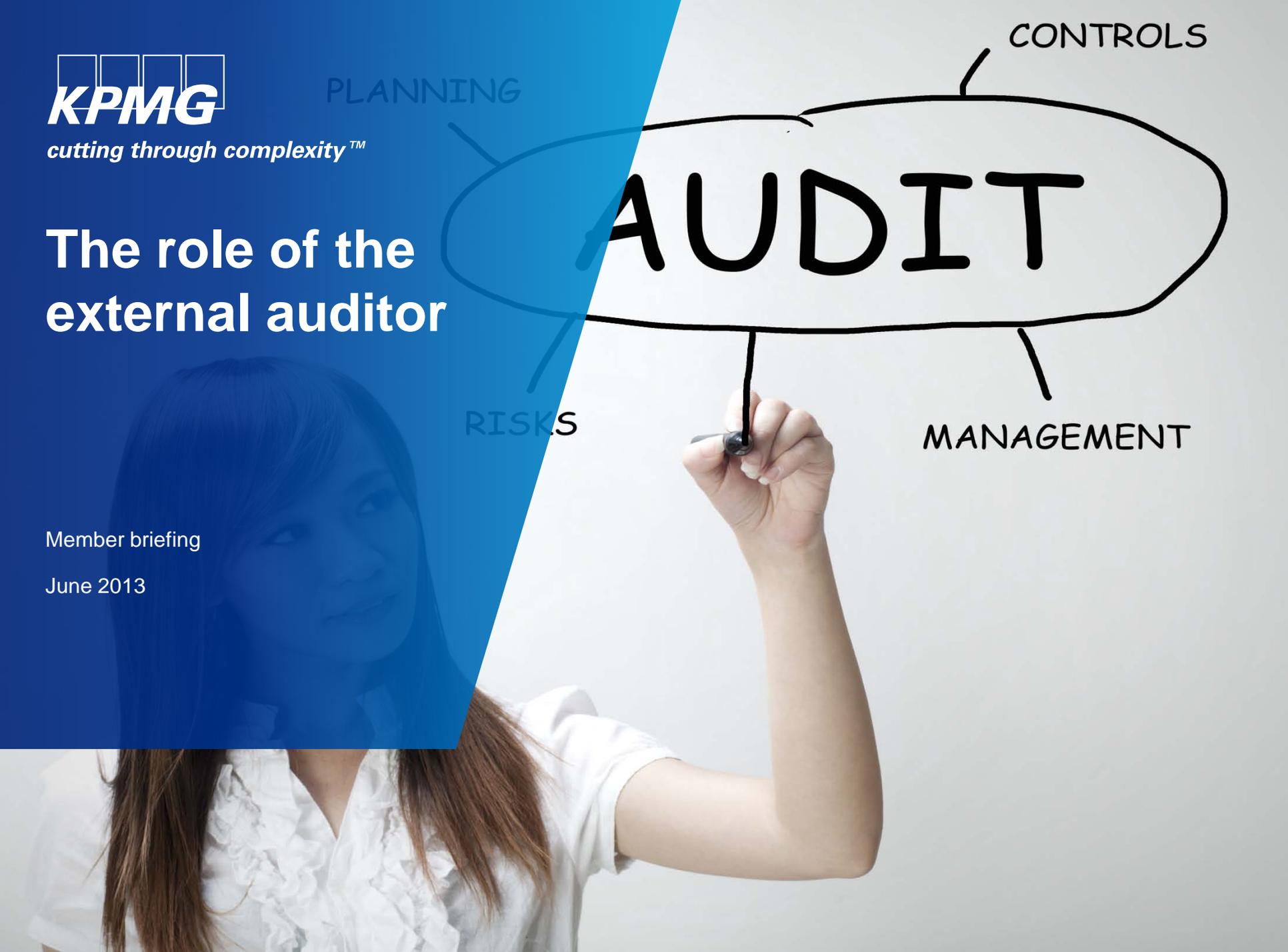
RISKS

AUDIT

MANAGEMENT

Member briefing

June 2013



Audit overview

- The framework
- Relationship between KPMG and the Audit Commission
- Audit report
- Integrated approach
- Auditors' statutory powers & duties
- Auditors' work on certification of grants
- Audit cycle
- Balance of internal controls and substantive testing

Practical examples

- Fixed Assets and Pension
- VFM

Local Audit Bill

Questions

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 Audit Commission

The Department of Communities and Local Government (DCLG) has indicated that it will abolish the Audit Commission and establish a new local public audit regime. However the government has not yet committed to a firm timetable for laying the required legislation before Parliament.

Until it is abolished by legislation, the Audit Commission will continue to fulfil its statutory functions which 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 Audit Commission's 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 financial statements audits, the Audit Commission uses the work of the Financial Reporting Council's Audit Quality Review Team (AQRT).

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

We also consider the Whole of Government Accounts Pack

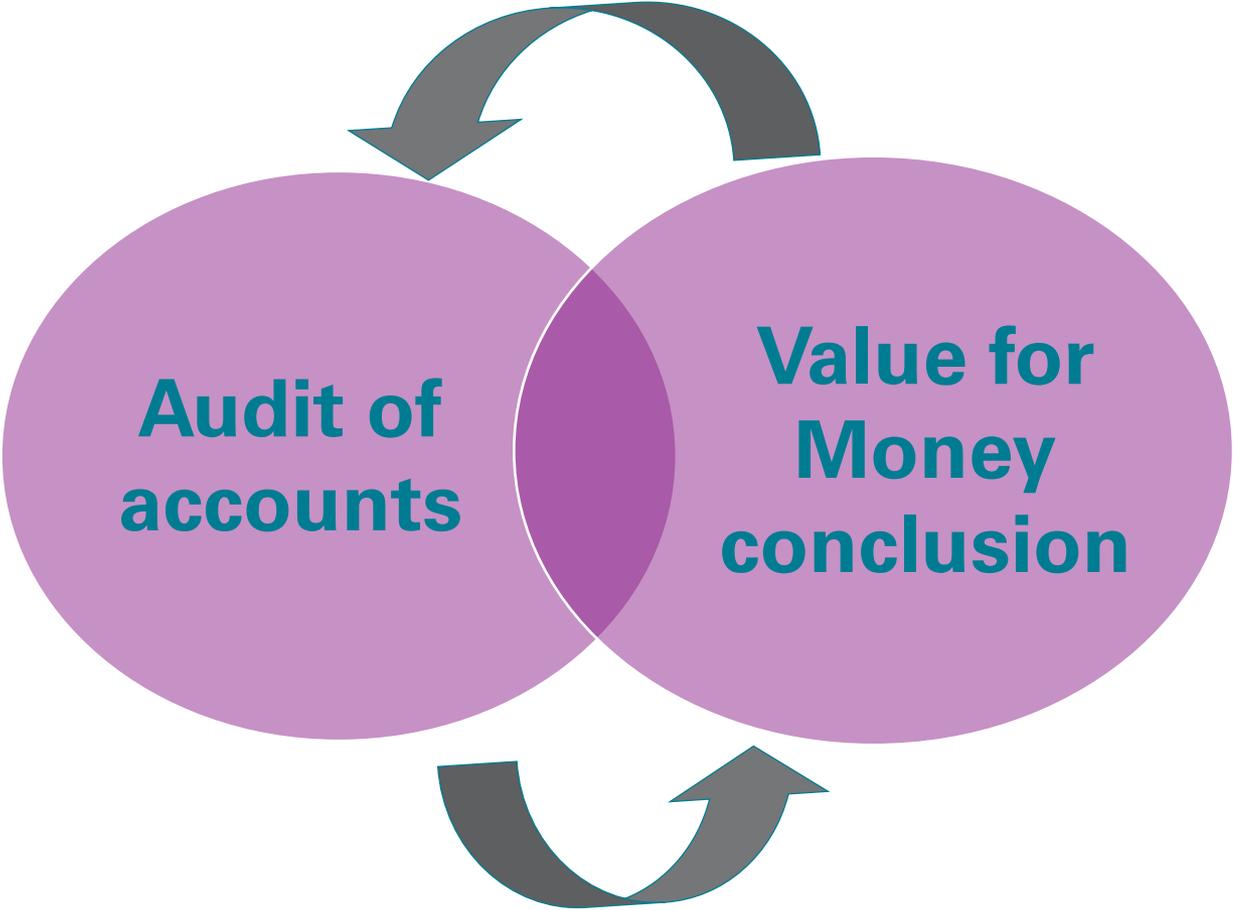
- 5 October deadline

Value for money

Whether the Authority has proper arrangements in place for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

30 September deadline



Auditors' statutory powers & duties

Under the Code of Audit Practice external auditors have statutory powers and duties which they can enforce.

Local electors have the right to question the auditor and make objections, and auditors' responsibilities in dealing with them, are set out in the Audit Commission Act 1998 with further specification in the Accounts & Audit Regulations (revised in 2011).

The auditor's powers include:

- issuing a public interest report;
- issuing recommendations requiring public response;
- applying to the court for declaration that an item of account is contrary to law; and
- issuing an advisory notice or making an application for judicial review.

The public has significant rights of access to information held by the authority as well as rights that can be exercised during the audit of an authority's accounts.

As well as being able to contact an auditor informally to raise issues, electors have a statutory opportunity to ask the auditor questions about the accounts of any authority for which they are an elector. The opportunity is time limited and the scope narrowed by the rights of inspection.

Auditors' work on certification of grants

KPMG's role

Grants certification is part of the work we perform under our Audit Commission audit work.

We act as **agents of the Commission** when undertaking certification work:

- not as independent appointed auditors
- grants work is therefore open to scrutiny under the Freedom of Information Act.

This is not an audit – it is a different form of assurance engagement, the precise nature of which will vary according to the amount of the claim or return.

Auditors complete a programme of testing in accordance with Audit Commission guidance.

There is a certification instruction (CI) for each type of grant.

Auditors issue a certificate on each claim or return to grant paying body.

We copy details of any significant adjustments or qualifications to the Audit Commission.

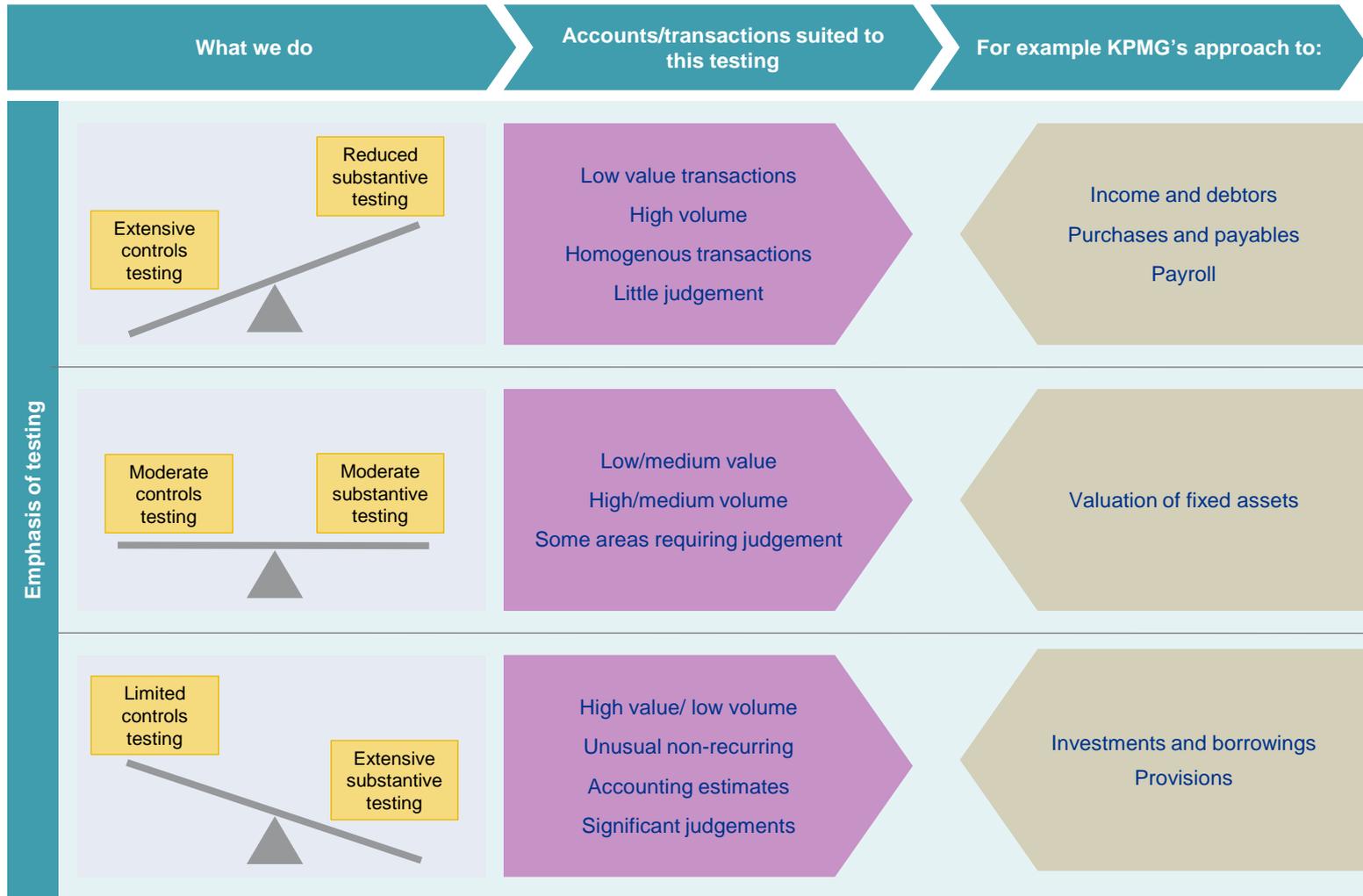
When do we certify them?

Most grants work takes place between July and September of each year.

Audit cycle



Balance of internal controls and substantive testing



Practical examples

Fixed assets and pension

	Fixed Assets	Pension
Controls testing (selecting controls to test)	<ul style="list-style-type: none"> - Impairment Reviews. 	<ul style="list-style-type: none"> - Joiners/ leavers to scheme. - Change in rates applied appropriately.
Analytical review	<ul style="list-style-type: none"> - Review depreciation charge. - Using capital programme ensure completeness of disposals is reasonable. 	N/a
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"> - Agree assumptions to benchmark data. - Agree data provided to HR.
Disclosures	<ul style="list-style-type: none"> - Agree to audit work. 	<ul style="list-style-type: none"> - Agree back to actuarial reports and audit work.

Practical examples

Note on approach to VFM

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

Note on approach to VFM (continued)

Overview of the VFM audit approach

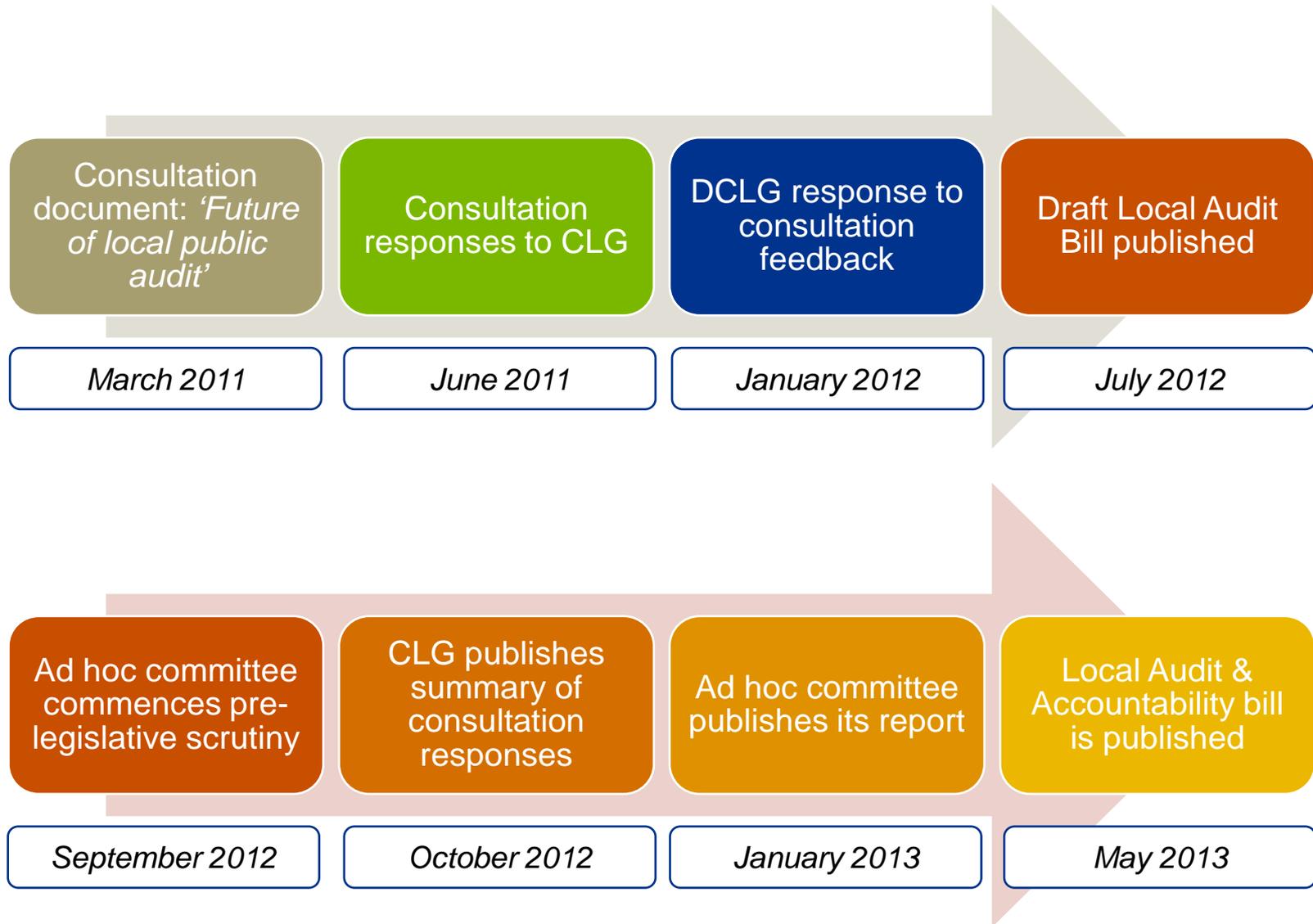
The key elements of the VFM audit approach are summarised below.





Future changes to the external audit regime

Local Audit Bill – the story so far...



Key principles

Localism

Lower
audit fees

High
standards
of audit

Appointment process

Auditor Panels

Independent
Chair &
members

5 year
appointments

Resignation &
removal

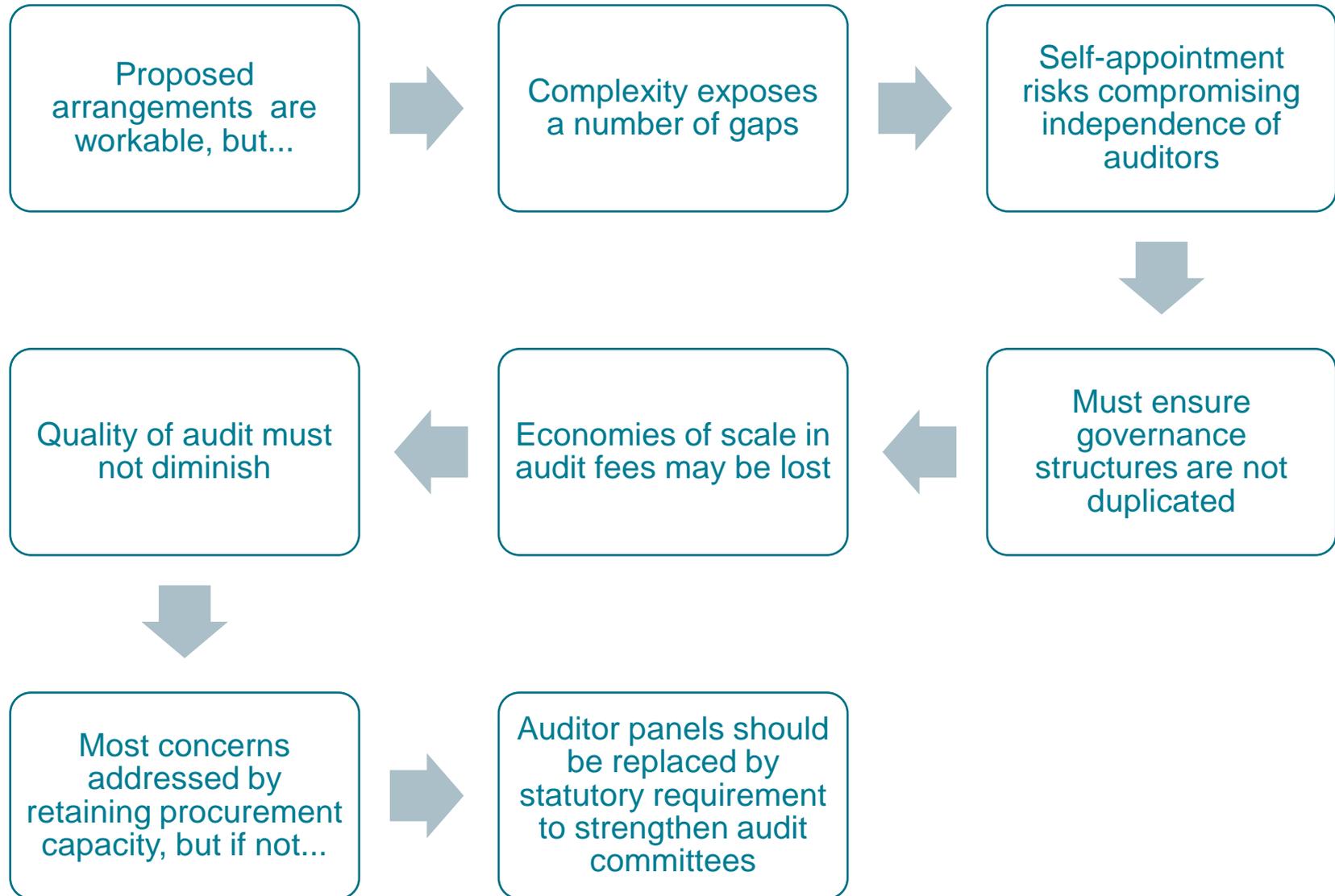
Regulation & standards

Eligibility
requirements

Register of eligible
auditors

NAO to define
*Code of Audit
Practice*

Key conclusions in Ad Hoc Committee report



Any Questions?

Further guidance:

- Previous audit committee papers
- www.audit-commission.gov.uk

Thank you

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