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Dear Councillor

SOUTH HAMS AUDIT COMMITTEE - THURSDAY, 21ST SEPTEMBER, 2017

I refer to the agenda for the above meeting and attach papers in connection with the following item(s).

Agenda No	Item
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- | | |
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| 6. | <u>KPMG Presentation - Role of External Audit</u> (Pages 1 - 16) |
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Yours sincerely

Darryl White
Senior Specialist – Democratic Services

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The role of External Audit -



September 2017

International Standards on Auditing (ISAs)

ISAs are issued by the International Auditing and Assurance Standards Board (IAASB). The aim is to:

- Establish high quality auditing, assurance, quality control and related services standards,
- Improve the uniformity of practice by professional accountants throughout the world,
- Strengthen public confidence in the global auditing profession and serving the public interest.

Code of Audit Practice

Under the Code auditors are required to give:

- An opinion on the financial statements
- A conclusion on arrangements to secure value for money

In addition auditors must:

- Report their findings to the Authority and to the public in an Annual Letter
- Consider questions or objections raised by local electors
- Consider other significant matters which come to their attention during the audit including those which may require a report in the public interest.

Statement of Responsibilities

In carrying out their work, auditors will:

- Plan and manage the audit in a timely, professional and efficient manner;
- Plan to complete work within agreed deadline;
- Maintain close liaison with the audited body; and
- Provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience

Audit report

KPMG will provide an opinion as to whether your financial statements:

- Give a true and fair view of the financial position of the Authority at the year end and of its expenditure and income for the year; and
- Have been properly prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting.

Value for money conclusion - KPMG will also assess arrangements for:

- Securing financial resilience; and
- Challenging how you secure economy, efficiency and effectiveness.

Certificate

- To confirm that the audit has now been concluded.

Audit approach

Risk based planning

ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment

Auditors should consider the internal controls in place which include:

- Control environment
- Entity's risk assessment/management process
- The information system relevant to financial reporting and communication
- Control activities relevant to the audit
- Monitoring of controls (including Internal Audit)
- Limitations of internal control systems

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The audit strategy is developed based upon the risk profile of the Authority and the particular transactions they undertake within the financial year.

Where possible assurances over key financial systems will be obtained at the interim visit.

Testing will be completed early where it is efficient to do so.

Materiality

Materiality is an intangible concept. What makes misstatement material to one user of the accounts may not be material to another user. The precise definition is as follows:

“Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements” (ISA 320 Materiality in Planning and Performing an Audit)

We have a duty to report all material errors to Those Charged with Governance in the Audit Findings Report.

We do not report errors below a triviality threshold (or ‘Audit Misstatement Posting Threshold’) which is determined with reference to materiality.

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Value for Money

The Value for Money Conclusion does not consider:

- Whether the Council has actually achieved “value for money” through its procurement processes and other financial arrangements;
- Whether the Council delivered all activities and projects within the originally approved budgets; or
- Whether all savings plans have been fully delivered.

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Instead, our conclusion over Value for Money is based upon and assessment of:

- Whether the Council has processes and controls in place which should, if operated effectively, secure value for money (e.g. tendering processes, authorisation limits, schemes of delegation);
- Whether the Council has a process in place whereby it monitors the delivery of budgets and savings plans and seeks to understand and address budget variances that arise during the year; and

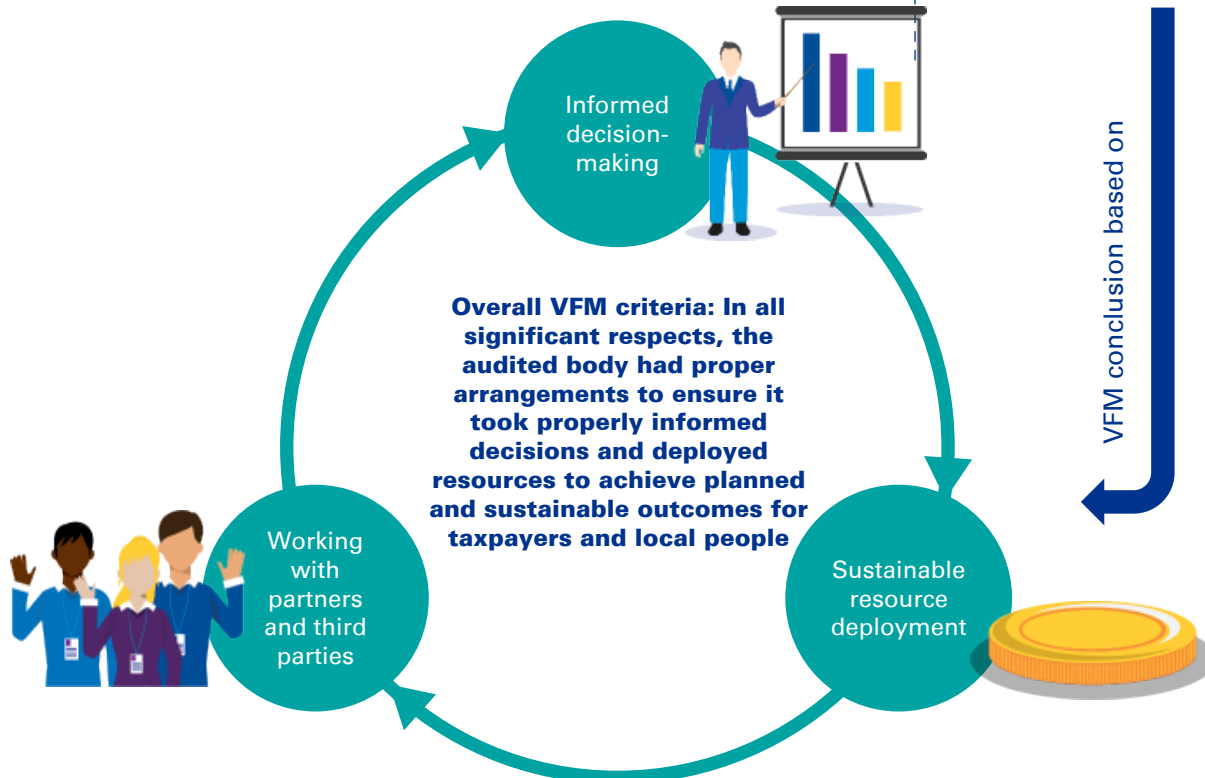
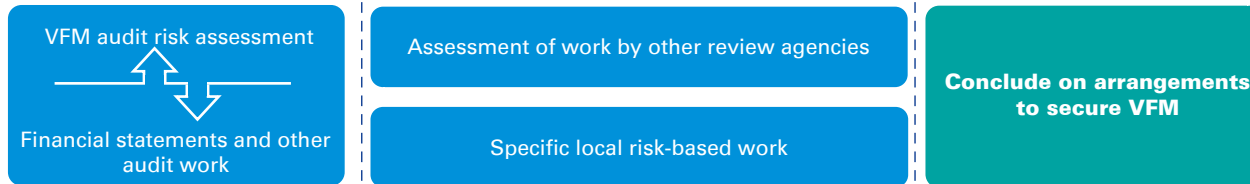
Where we identify specific events or scenarios that create a risk from a value for money perspective we undertake specific work in relation to that risk.

Value for Money

1 Identification of significant VFM risks (if any)

2 Continually re-assess potential VFM risks

3 VFM conclusion



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Working with Internal Audit

How we work with internal audit:

- Understanding and evaluation of design and effectiveness of internal control
- Highlight control weaknesses that require more detailed work
- Share information and knowledge on Authority's operations, business and risks
- Head of Internal Audit opinion provides source of assurance for Annual Governance Statement
- External audit retains sole responsibility for the audit opinion and conclusion expressed

Questions we asked Those Charged with Governance

ISA 260 requires effective two way communication between the Auditor and Those Charged with Governance

- This supports the Audit Committee to understand matters reported to them relating to the Audit
- It also supports the Auditors understanding of the control environment

We prepare a report each year to confirm our understanding in key areas

How can we add value to the Authority?

Supporting you – A ‘critical friend’

- On-going liaison with officers
- Regular attendance at audit committee
- Identifying and sharing best practice (locally and through National reports)
- Undertaking advisory work on request

Areas of expertise include:

- Cost improvement plan reviews
- Organisational redesign and restructuring
- Strategic partnering and alternative delivery models
- VAT and taxation
- Forensic services
- Valuations
- Business risk services

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 FAC.
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 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. They will also supervise the work of 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.

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Questions & feedback



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