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# External audit progress report and technical update

**Lincolnshire County Council**

November 2015

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

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# Progress report

## External audit progress report – November 2015

This document provides the Audit Committee with a high level overview on our external audit planning.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report.

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<b>Audit 2014/15</b>	<p>We issued unqualified audit opinions on the Authority and Pension Fund Accounts, and an unqualified Value for Money Conclusion, on 29 September 2015. We issued the audit certificate at the same time and the audit is now closed. We issued our 2014/15 Annual Audit Letter in October 2015.</p>
<b>Audit 2015/16</b>	<p><b>Financial Statements</b></p> <p>We have started our detailed audit planning for 2015/16 and expect to issue our <i>External Audit Plan 2015/16</i> early in 2016. This will summarise the key risks to our audits of the County Council and Pension Fund accounts at the planning stages. The key risks will include the difficulties encountered by the Authority in implementing Agresso in 2015/16. We expect, given the control weaknesses in the year, that our audit testing approach will be largely substantive and that we will need to carry out computer assisted audit testing on the data within Agresso to obtain the assurances we need for our opinion. We will liaise with managers and Internal Audit regarding our specific requirements for the additional testing required.</p> <p><b>Value for Money Conclusion</b></p> <p>The National Audit Office is responsible for the Code of Audit Practice and supporting guidance, and it has now closed its consultation process on the future Value for Money (VFM) audit approach. We will update officers and the Audit Committee once further information is available on the revised VFM Guidance.</p>
<b>Audit fee 2015/16</b>	<p>The 2015/16 scale audit fees set by the Audit Commission for the Authority and Pension Fund are £107,325 and £24,350 respectively. The Authority fee is 25% less than that set for 2014/15. The Pension Fund scale fee is unchanged.</p> <p>We will discuss with managers the fee implications of the additional work required to address the key risks identified for this year. We will update the Audit Committee in our <i>External Audit Plan 2015/16</i>.</p>
<b>Other work</b>	<p>We are currently auditing the 2014/15 Teachers' Pension Return and we expect to issue the required Independent Accountant's 'Reasonableness Assurance Report' by the 30 November 2015 deadline.</p>



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# KPMG resources

Area	Comments
<p><b>KPMG publication titled: Value of Audit – Perspectives for Government</b></p>	<p><b>What does this report address?</b></p> <p>This report builds on the <i>Global Audit campaign – Value of Audit: Shaping the future of Corporate Reporting</i> – to look more closely at the issue of public trust in national governments and how the audit profession needs to adapt to rebuild this trust. Our objective is to articulate a clear opinion on the challenges and concepts critical to the value of audit in government today and in the future and how governments must respond in order to succeed.</p> <p>Through interviews with KPMG partners from nine countries (Australia, Canada, France, Germany, Japan, the Netherlands, South Africa, the UK and the US) as well as some of our senior government audit clients from Canada, the Netherlands and the US, we have identified a number of challenges and concepts that are critical to the value of audit in government today and in the future.</p> <p><b>What are the key issues?</b></p> <ul style="list-style-type: none"> <li>■ The lack of consistent accounting standards around the world and the impacts on the usefulness of government financial statements.</li> <li>■ The importance of trust and independence of government across different markets.</li> <li>■ How government audits can provide accountability thereby enhancing the government’s controls and instigating decision-making.</li> <li>■ The importance of technology integration and the issues that need to be addressed for successful implementation</li> <li>■ The degree of reliance on government financial reports as a result of differing approaches to conducting government audits</li> </ul> <p>The <i>Value of Audit: Perspectives for Government</i> report can be found on the KPMG website at <a href="https://home.kpmg.com/xx/en/home/insights.html">https://home.kpmg.com/xx/en/home/insights.html</a></p> <p>The <i>Value of Audit: Shaping the Future of Corporate Reporting</i> can be found on the KPMG website at <a href="http://www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx">www.kpmg.com/sg/en/topics/value-of-audit/Pages/default.aspx</a></p>



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# Technical update

Area	Level of impact	Comments	KPMG perspective
<p><b>New local audit framework</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 106</p>	<p>● <b>Medium</b></p>	<p>The Local Audit and Accountability Act 2014 included transitional arrangements covering the audit contracts originally let by the Audit Commission in 2012 and 2014. These contracts covered the audit of accounts up to 2016/17, and gave the Department for Communities and Local Government (DCLG) the power to extend these contracts to 2019/20.</p> <p>DCLG have now announced that the audit contracts for large local government bodies (including district, unitary and county councils, police and fire bodies, transport bodies, combined authorities and national parks) will be extended to include the audit of the 2017/18 financial statements. From 2018/19, local government bodies will need to appoint their own auditors; it is not yet clear whether there will be a sector-led body that is able to undertake this role on behalf of bodies.</p> <p>NHS and smaller local government bodies (town and parish councils, and internal drainage boards), will not have their contracts extended, and will have to appoint their own auditors for 2017/18, one year earlier than for larger local government bodies such as Harborough District Council.</p>	<p><i>We understand guidance is being prepared by CIPFA on the request of the NAO.</i></p> <p><i>We will also be preparing a briefing note for clients.</i></p>



Area	Level of impact	Comments	KPMG perspective
<b>Reporting developments – Infrastructure assets</b>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Medium</b></p>	<p>CIPFA/LASAAC, the group that produce the <i>Code of Practice for Local Authority Accounting</i>, have confirmed that transport infrastructure assets owned by local authorities will be required to be included in the accounts from 2016/17. This would require prior period adjustments for 2015/16, including the opening position at 1 April 2015.</p> <p>The changes require local authorities to recognise the value of all transport infrastructure assets using the depreciated replacement cost method, i.e. the cost required to replace the asset with a new replacement depreciated over the life of the existing asset. Transport infrastructure assets include:</p> <ul style="list-style-type: none"> <li>■ roads, bridges, roundabouts and traffic calming measures;</li> <li>■ footways, footpaths and cycle tracks;</li> <li>■ tunnels and underpasses; and</li> <li>■ water supplies and drainage systems, as they support the assets identified above.</li> </ul> <p>Even non-highway authorities will be affected to the extent that footways etc are material to their accounts. Railway assets are not currently included in the proposals, although it is possible that these may be included in subsequent periods.</p> <p>CIPFA have issued a <i>Code of Practice on Transport Infrastructure Assets</i> which contains the requirements to be included in the Local Authority Code. This is available to purchase from the CIPFA website.</p> <p>Local authorities should have developed a project plan to identify all of the relevant transport infrastructure they own and a timetable for valuing these. CIPFA expects authorities to have undertaken the 1 April 2015 valuations by 31 December 2015.</p> <p>In August CIPFA commenced a survey to assess the readiness of bodies for the introduction of depreciated replacement cost (DRC) for highways infrastructure assets in 2016/17.</p> <p>CIPFA encouraged responses from both accountants and highways engineers, either jointly or separately. The letter has also been sent to the Highways Asset Management and Financial Information Group (HAMFIG) to bring this to the attention of relevant authorities' highways engineers.</p>	<p><i>The Committee may wish to enquire of officers whether a project plan has been developed to address the requirements and review progress against this on a regular basis.</i></p>



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# Appendix

## Appendix 1 – 2015/16 Audit deliverables – Authority and Pension Fund

Deliverable	Purpose	Timing	Status
<b>Planning</b>			
Fee letter	Communicate indicative fee for the audit year	April 2015	Issued April 2015
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	February 2016	
<b>Interim</b>			
Interim progress report	Details and resolution of control and process issues. Identify any improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	June 2016	
<b>Substantive procedures</b>			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2016	



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