

# Central Scotland Valuation Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

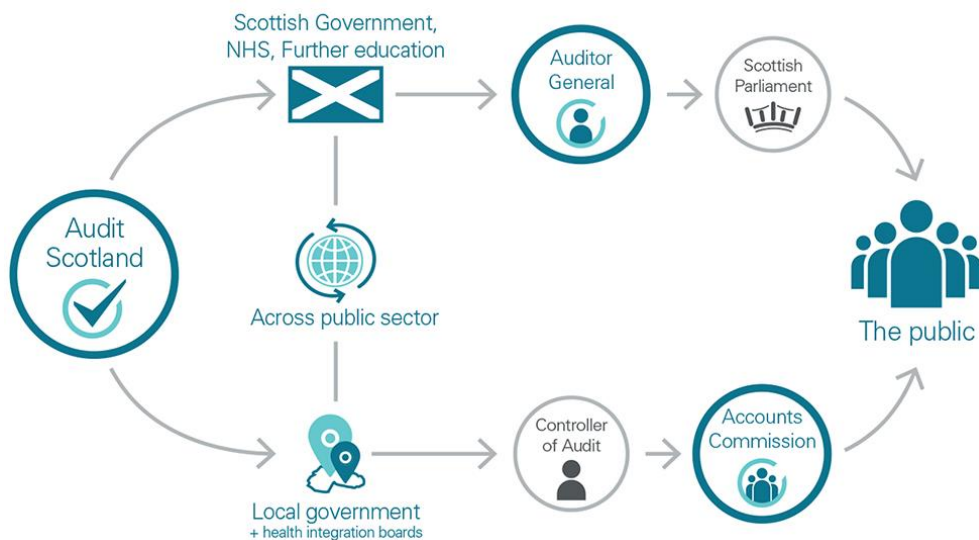
Prepared for the Central Scotland Valuation Joint Board

February 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value


3. We aim to add value to the Central Scotland Valuation Joint Board (the board) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for the board. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p>1 <b>Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Risk of fraud over income</b></p> <p>The board receives a significant amount of income from fees and charges. This means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Sound budgetary control and monitoring arrangements in place.</p> <p>Financial systems controls over income.</p> <p>Robust and effective fraud prevention arrangements.</p>	<ul style="list-style-type: none"> <li>Analytical procedures on income streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<p>There are a range of policies in place to prevent and detect fraud, including financial regulations, standing orders and a code of conduct for staff.</p>	<ul style="list-style-type: none"> <li>Focused substantive testing on higher risk areas.</li> </ul>
<p><b>Wider dimension issues and risks</b></p>		
<p><b>4 Financial sustainability and financial management</b></p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the timing and duration of Cabinet Office funding, pay inflation and a move from five to three yearly revaluations. The board also recognises it will come under increasing pressure to reduce the level of contributions required from its constituent authorities. The board forecasts it will have a funding gap of £0.446 million by 2020/21.</p> <p>There is a risk that funding pressures affect the board's ability to deliver services.</p>	<p>Effective budget monitoring by management.</p> <p>The board regularly examines the current and forecast financial position of the organisation.</p>	<ul style="list-style-type: none"> <li>Review financial monitoring reports and the financial position.</li> <li>Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</li> <li>Review budget monitoring and medium term financial plans.</li> </ul>
<p><b>5 Governance policies and procedures</b></p> <p>We reported in our 2017/18 Annual Audit Report that some of the board's policies require to be updated including:</p> <ul style="list-style-type: none"> <li>Scheme of delegation</li> <li>Contract standing orders</li> <li>Financial regulations and financial codes</li> <li>Employee code of conduct.</li> </ul> <p>There is a risk that the policies are out of date and do not reflect the board's current arrangements.</p>	<p>Updated standing orders are due to be presented to the February 2019 Board meeting.</p> <p>The remaining policies and procedures will be presented to the June 2019 Board meeting.</p> <p>Policies and procedures regularly presented to Board meetings where they are subject to scrutiny and approval from Board members.</p>	<ul style="list-style-type: none"> <li>Review of policies and procedures considering their appropriateness and relevance to the board.</li> <li>Assess whether policies and procedures are up to date.</li> </ul>

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**7.** We will provide an independent auditor's report to the board and the Accounts Commission setting out our opinions on the financial statements. We will provide members of Central Scotland Valuation Joint Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**8.** Under the Local Authority Accounts (Scotland) Regulations 2014 there is a requirement for the Board's audited accounts to be published by 31 October each year.

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## Exhibit 2 2018/19 Audit outputs

Audit output	Target date	Board date
Annual Audit Plan	31 March 2019	1 February 2019
Annual Audit Report	30 September 2019	27 September 2019
Independent Auditor's Report	30 September 2019	27 September 2019

Source: Audit Scotland

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## Audit fee

**9.** The proposed audit fee for the 2018/19 audit of the board is £7,280 (2017/18: £7,080). In determining the audit fee we have taken account of the risk exposure of the board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2019.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Central Scotland Valuation Joint Board and management

**11.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**12.** The audit of the financial statements does not relieve management or the board, as those charged with governance, of their responsibilities.

### Appointed auditor

**13.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance), and guided by the Financial Reporting Council's Ethical Standard.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information within the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual report and financial statements

**15.** The board's annual report and financial statements will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the board and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the board will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**16.** We will give an opinion on whether the financial statements:

- give a true and fair view of the financial position of the board as at 31 March 2019 and of the income and expenditure of the board for the year then ended; and
- have been properly prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014.

## Other information in the financial statements

**17.** We also review and report on other information published within the financial statements including the management commentary, the annual governance statement and the audited part of the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**20.** We calculate materiality at different levels as described below. The calculated materiality values for the board are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the audited accounts for 2017/2018.	£28,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£21,000
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality, and rounded up.	£5,000



Source: Audit Scotland

## Timetable

**21.** To support the efficient use of resources it is critical that the council agrees a timetable with us for producing the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual report and financial statements with complete working papers package	30 June 2019
Latest date for final clearance meeting with the Treasurer	13 September 2019
Agreement of audited unsigned annual report and financial statements	27 September 2019
Issue of Annual Audit Report to those charged with governance	27 September 2019
Independent auditor's report signed	By 30 September 2019

## Internal audit

**22.** Internal audit is provided by Falkirk Council. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**23.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. Based on a review of internal audit's plans, we do not intend to place reliance on internal audit to support

our audit opinions. We will however consider the work of internal audit throughout the year to inform our work.

## Audit dimensions

**24.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability, and value for money.

**25.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. Due to the nature of the board's activities and lack of complexity of its financial transactions, we plan to apply the small body provisions of the Code to the 2018/19 audit of the board.

## Financial sustainability

**26.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the board's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

## Governance and transparency

**27.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information. We will review, conclude and report on the appropriateness of the disclosures in the board's annual governance statement.

## Independence and objectivity

**28.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**29.** The engagement lead for the audit of the board is Tom Reid, Senior Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the board.

## Quality control

**30.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**31.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**32.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Central Scotland Valuation Joint Board

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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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