

# Lanarkshire Valuation Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Lanarkshire Valuation Joint Board

February 2020

## 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

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 Lanarkshire Valuation Joint Board 2019/20. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland.
2. The 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. We make a public report of conclusions on these matters in our Annual Audit Report to the Joint Board and the Controller of Audit.
3. We seek to add value to the Joint Board by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the organisation promote improved standards, better management and decision making, and more effective use of resources.

## Audit risks

4. Based on our experience of the organisation, discussions with staff, attendance at Joint Board meetings and a review of supporting information we have identified the following main risk areas for the Joint Board. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls.</p>	<p>In view of the nature of this risk, assurances from management are not applicable.</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>
<p><b>2 Risk of fraud over expenditure</b></p> <p>Auditing standards assert that fraud should be presumed to be a significant risk in any audit.</p>	<p>In view of the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on areas of greatest risk.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
3	<p><b>Estimation and judgments</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of pension liability included in the balance sheet</p> <p>The value of the pension liability is an estimate based on information provided by management and actuarial assumptions.</p>	<p>Any significant estimates and judgements are clearly explained in the Notes to the Accounts.</p> <p>Use of professional actuaries appointed by the Pension Fund to value pension liabilities.</p>	<ul style="list-style-type: none"> <li>Assessment of the appropriateness of the actuarial assumptions.</li> <li>Establish officers' arrangements for assessing the impact of any movement in fund values between the valuation date and the year end.</li> <li>Focused testing of pension disclosures.</li> </ul>

#### Wider dimension risks

4	<p><b>Impact on performance</b></p> <p>There is a risk that there will be insufficient resources to meet the increased operational needs in relation to</p> <ul style="list-style-type: none"> <li>the recommendations arising from the Barclay review of non-domestic rates. The change to three yearly revaluations will increase the workload of the Joint Board.</li> <li>potential increased workload arising from the demands of the designated assessor responsibility in the valuation of electricity utilities.</li> <li>inability to attract suitably qualified staff.</li> </ul>	<p>Workforce plan to be updated.</p> <p>Resources are reviewed by management on a continuous basis.</p> <p>Management work closely with the Treasurer to the Board to identify any issues in both the short, medium and long term to ensure appropriate measures are taken to address these matters.</p>	<ul style="list-style-type: none"> <li>Review workforce plan once available.</li> <li>Ongoing discussions with key client staff.</li> <li>Review of Performance Indicators.</li> <li>Review of budget monitoring reports during the year and comment on the financial position within the annual audit report.</li> </ul>
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Source: Audit Scotland

5. International auditing standards require auditors to make a rebuttable presumption of a risk of fraud in the recognition of income. The Joint Board is funded, in the main, by North and South Lanarkshire Councils, with a further significant tranche of income from central government sources. Historically and from the 2019/20 budget this income exceeds 98% of the Joint Board's annual income. Consequently, we conclude that there is no risk of material misstatement caused by fraud over income recognition.

### Reporting arrangements

6. This annual audit plan and the outputs set out at [exhibit 2](#) and any other outputs on matters of public interest will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

7. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy, prior to the issue and publication of final reports.

8. We will provide an Independent Auditor's Report to the Joint Board and Accounts Commission setting out our opinions on the annual accounts. We will provide the Joint Board and the Controller of Audit with an annual audit report

containing observations and recommendations on significant matters which have arisen during the course of the audit.

## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2020	2 March 2020
Independent Auditor's Report	30 September 2020	7 September 2020
Annual Audit Report	30 September 2020	7 September 2020

The target dates included are those specified in Audit Scotland's Planning Guidance 2019/20.

### Audit fee

**9.** The proposed audit fee for the 2019/20 audit of the Lanarkshire Valuation Joint Board is £7,450 (Prior year £7,280). In determining the audit fee, we have taken account of the risk exposure of the Joint Board, the management assurances in place and the level of reliance we plan to take from the work of internal audit.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, 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

#### Lanarkshire Valuation Joint Board and Treasurer

**11.** Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

**12.** The audit of the annual accounts does not relieve management or the Lanarkshire Valuation Joint Board of their responsibilities.

#### Appointed auditor

**13.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice and the auditing profession's ethical guidance.

**14.** Auditors in the public sector give independent opinions on the financial statements and other information within the annual accounts. We also review and report on the arrangements for performance management, regularity and use of resources.

# Audit scope and timing

## Annual Accounts

**15.** The Annual Accounts audit will be the foundation and source for much 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 Joint Board and the associated risks which could impact on the financial statements
- assessing how weaknesses in the key systems of internal control could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how these will be disclosed 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 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 of the state of affairs of the Joint Board as at 31 March 2020 and of the income and expenditure for the year;
- whether the annual accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom;
- whether the annual accounts have been prepared in accordance with relevant legislation.



## Other information in the annual accounts

**17.** We review other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether they have been prepared in accordance with the appropriate regulations and guidance. We also read and consider any other information in the annual accounts and report any material inconsistencies.

## Materiality

**18.** We apply the concept of materiality in planning and performing our audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements give a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [exhibit 3](#).

### Exhibit 3

#### Materiality levels

Materiality	Amount
<b>Planning materiality</b> – This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 1% of gross expenditure for the year based on 2019/20 budgeted expenditure.	£42,000
<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.	£32,000
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements which exceed the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£2,000

Source: Audit Scotland

### Timetable

19. An agreed timetable, which takes into account submission requirements and Joint Board meeting dates, is included at [exhibit 4](#).

### Exhibit 4

#### Annual Accounts timetable

 Key stage	 Date
Consideration of unaudited Annual Accounts by the Joint Board	1 June 2020
Latest submission date of unaudited Annual Accounts	30 June 2020
Latest date for final clearance meeting with the Treasurer	31 July 2020
Issue of Letter of Representation and proposed Independent Auditor's Report	7 August 2020
Agreement of audited unsigned Annual Accounts	7 August 2020
Approval of audited Annual Accounts by Joint Board	7 September 2020
Issue of Independent Auditor's Report	7 September 2020
Issue of Annual Audit Report	7 September 2020

### Internal audit

20. The Joint Board has a service level agreement with the internal audit function of the host authority, South Lanarkshire Council. Our review of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the requirements of the Public Sector Internal Audit Standards (PSIAS). We will seek to rely on the work of internal audit wherever possible to avoid duplication of effort.

## Audit dimensions

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

**22.** 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. In light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2019/20 audit of the Joint Board.

**23.** However, we will review and comment on the Joint Board's performance against service performance indicators agreed between the Scottish Government and the Scottish Assessors' Association.

## Independence and objectivity

**24.** 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.

**25.** The appointed auditor for the Joint Board is Dave Richardson, Senior Audit 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 Joint Board.

## Quality control

**26.** 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.

**27.** 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 issued by Audit 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 engaged to carry out an annual programme of external quality reviews.

**28.** 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 or to Audit Scotland's Audit Quality and Appointments group.

# Lanarkshire Valuation Joint Board

## Annual Audit Plan 2019/20

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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