

Central Scotland Valuation Joint Board

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Central Scotland Valuation Joint Board

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the Central Scotland Valuation Joint Board (the board). The main elements of our work include:

- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to financial sustainability, and the annual governance statement
- consideration of Best Value arrangements.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to 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 will help the board promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the board and actively participate in discussions.

Respective responsibilities of the auditor and the Central Scotland Valuation Joint Board

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the board. Key responsibilities are summarised below.

Auditor responsibilities

6. 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.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. 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.

Central Scotland Valuation Joint Board responsibilities

8. The board is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. The board has 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 deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the board are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for the Central Scotland Joint Valuation Board

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5 per cent of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£48,000
Performance materiality – 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 assessed performance materiality at 75 per cent of planning materiality.	£36,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£2,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of the board, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at board meetings and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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"> • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the board because a significant element of the board's income is requisition income from member authorities which have predictable income patterns which limits the potential for manipulation. We therefore do not incorporate specific work into our audit plan in this area, over and above our standard audit procedures.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the board as our assessment of the expenditure streams has confirmed that many are low risk, for example, staff costs, IAS 19 charges, supplies and services costs, and property costs. Our standard audit procedures will involve focused testing on accruals in any higher risk areas.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

18. As part of our assessment of audit risks, we have identified an area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses. If our assessment of risk changes and this risk becomes significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly. The area of specific audit focus is:

- **Measurement and judgements applied to the valuation of pension liabilities:** As at 31 March 2021, the board recognised a net liability of £8.7 million relating to its share of the Falkirk Pension Fund liability. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates.

Audit risk assessment process

19. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

20. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

21. 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 annual governance statement and the financial sustainability of the body and its services. Due to the low volume and lack of complexity of the board's financial transactions, we have concluded that the small bodies provision can be applied to the 2021/22 audit of the board.

Financial sustainability

22. 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

Annual Governance Statement

23. 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 disclosures in the Annual Governance Statement.

Audit dimension risks

24. We have identified an audit risk in the area set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3**2021/22 Audit dimension risks**

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the level of future funding from constituent authorities and inflationary cost pressures particularly in relation to employee costs.</p> <p>The board is currently forecasting a cumulative funding gap in the range of £1.09 million to £1.92 million by 2026/27. Use of reserves is anticipated during 2022/23 to achieve financial balance, and strategies for closing the funding gap will be developed as part of the board's annual budget setting process.</p>	<ul style="list-style-type: none"> • Effective budget monitoring • The board regularly examines its current financial position 	<ul style="list-style-type: none"> • Assessment of financial reports and papers including budget monitoring reports and future revenue estimates. • Examine the arrangements in place to address identified funding gaps.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

26. Matters arising from our audit will be reported on a timely basis and will include agreed action plans.

27. We will provide an independent auditor's report to the board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the 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.

28. [Exhibit 4](#) outlines the target dates for our audit outputs. Covid-19 has had a considerable impact on the conduct and timeliness of audits. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

29. We aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 4

2021/22 Audit outputs

Audit Output	Target Date	Board Date
Annual Audit Plan	31 May 2022	1 July 2022
Independent Auditor's Report	30 September 2022	30 September 2022
Annual Audit Report	30 September 2022	30 September 2022

Source: Audit Scotland

Timetable

30. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#).

31. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by the board	1 July 2022
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	7 July 2022
Latest date for final clearance meeting	2 September 2022
Agreement of audited and unsigned annual accounts	9 September 2022
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report	30 September 2022
Signed Independent Auditor's Report	30 September 2022

Source: Audit Scotland

Audit fee

32. The proposed audit fee for the 2021/22 audit of the board is £7,820 (2020/21: £7,610). 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.

33. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

34. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit work undertaken in the year.

Independence and objectivity

35. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

36. The engagement lead (i.e. appointed auditor) for the board is Mark Ferris, 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 board.

Quality control

37. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

38. 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.

39. 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.

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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