

Agenda Item

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**Annual Audit Plan
2017/18**

AGENDA ITEM 5

CENTRAL SCOTLAND VALUATION JOINT BOARD

Subject: Annual Audit Plan 2017/18
Meeting: Central Scotland Valuation Joint Board
Date: 2nd February, 2018
Author: Treasurer

1. Introduction

- 1.1 The purpose of the attached external audit planning report (Appendix A) is to set out the planned audit activity in respect of the audit of the financial year 2017/18.

2. Recommendations

It is recommended that the board:

- 2.1 Discusses and notes the external audit plan for the 2017/18.

3. Background

- 3.1 Audit Scotland was appointed by the Accounts Commission as the external auditor for Central Scotland Valuation Joint Board for the five year period commencing 2016/17. This is the second year of the appointment. The attached planning report sets out the activity in relation to the risks and planned audit work and the scope and timing of the audit.
- 3.2 Each year the external auditor prepares an annual plan which is submitted to the Board. The Treasurer and Assessor discuss and agree the plan and the associated audit fee level. The Committee is encouraged to discuss the plan and associated assessments and rationale with the external auditor as appropriate.
- 3.3 Due to the statutory basis of the work of the external auditor, the audit planning report should be presented to the board. Thereafter, all external audit activity undertaken against this plan is formally reported to the Board

4.0 Conclusions

- 4.1 The Boards external auditors, Audit Scotland, are in the second year of their five year appointment to Central Scotland Valuation Joint Board. The attached report sets out details of their planned work for the 2017/18 audit.

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Treasurer

Date: 2nd February, 2018

Central Scotland Valuation Joint Board

Annual Audit Plan 2017/18



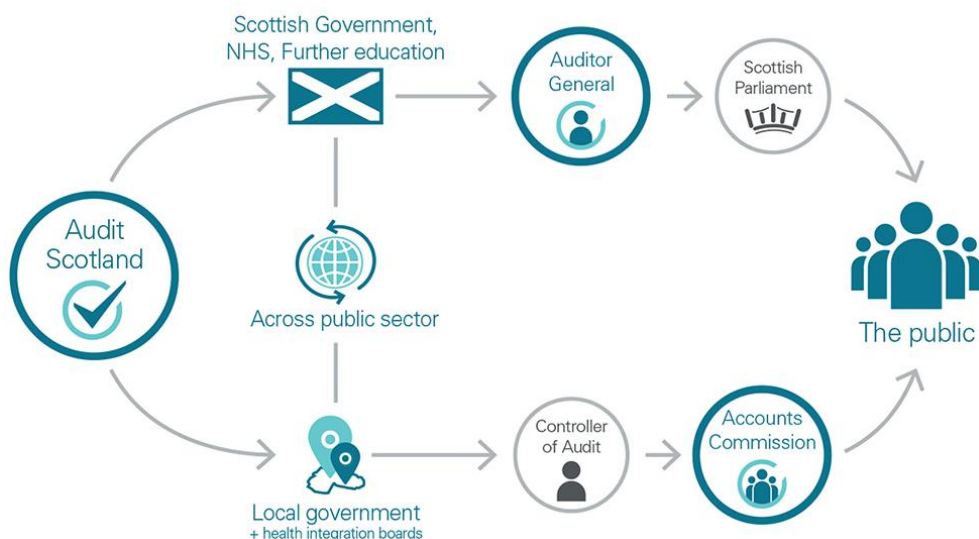
 AUDIT SCOTLAND

Prepared for Central Scotland Valuation Joint Board
February 2018

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 identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with management and a review of supporting information we have identified the following main risk areas for Central Scotland Valuation Joint Board (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

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</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 in order 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>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over expenditure</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration to the risk of fraud over expenditure. The extent of expenditure, for example other operating costs, means that there is an inherent risk of fraud.</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>	<p>Focused substantive testing on higher risk areas.</p>

Audit Risk	Source of assurance	Planned audit work
Wider dimension risks		
<p>3 Financial sustainability and financial management</p> <p>The Board is facing challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in funding. The Board forecasts its funding gap will rise to £0.445 million by 2019/20.</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>	<p>Review financial monitoring reports and the financial position.</p> <p>Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p> <p>Review budget monitoring and medium term financial plans.</p>
<p>4 Data security</p> <p>General data protection regulations (GDPR) come into force in May 2018. These strengthen data protection regulations and increase fines for breaches.</p> <p>The Board holds a large amount of personal information. There is a risk that a significant data loss could lead to financial and reputational losses for the agency.</p>	<p>The Board is reviewing its data protection policies ahead of the commencement of GDPR.</p>	<p>Review of the Board's data protection policies to ensure the Board is sufficiently prepared for GDPR.</p>

Reporting arrangements

4. 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.
5. 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.
6. 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 also provide an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.
7. 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.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Board date
Annual Audit Plan	31 March 2018	2 February 2018
Annual Audit Report	30 September 2018	To be confirmed
Independent Auditor's Report	30 September 2018	To be confirmed

Audit fee

8. The proposed audit fee for the 2017/18 audit of the Board is £7,080 (2016/17, £7,000). 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 2018.

9. 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 out with our planned audit activity.

Responsibilities

Central Scotland Valuation Joint Board and management

10. 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.

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

Appointed auditor

12. Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

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

Audit scope and timing

Financial statements

14. The statutory financial statements audit will be the foundation and source for the majority 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.

15. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income
- whether they 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
- whether the information in the management commentary is consistent with the financial statements.

Materiality

16. 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 opinion in the auditor's report.

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



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – 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 2018 based on the audited accounts for 2016/17.	£27,000
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 calculated performance materiality at 75% of planning materiality.	£20,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£5,000

Source: Audit Scotland



18. We review and report on other information published with the financial statements including the annual governance report and the remuneration report. Any issues identified will be reported in our annual audit report.

Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Board meeting dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2018
Latest date for final clearance meeting with the Treasurer	September 2018 (tbc)
Agreement of audited unsigned annual accounts	September 2018 (tbc)
Issue of Annual Audit Report including ISA 260 report to those charged with governance	September 2018 (tbc)
Independent auditor's report signed	By 30 September 2018

Internal audit

20. 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 and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Falkirk Council overseen by an Internal Audit Manager.

Adequacy of Internal Audit

21. Based on a review of internal audit's plans, we do not intend to place specific reliance on internal audit to support our audit opinion. We will however consider the work of internal audit throughout the year to inform our audit work.

Audit dimensions

22. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). Due to the nature and size of the Board we have assessed the extent of our wider dimension work and concluded that a reduced scope, as outlined in paragraph 53 of the Code of Audit Practice, can be applied. This means that our work will focus on financial sustainability and governance and transparency.

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

23. 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 identified funding gaps.

Governance and transparency

24. 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:

- whether the Board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency of decision-making and finance and performance reporting
- the quality of the Board's governance policies.

Independence and objectivity

25. 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 in place robust arrangements 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.

26. The engagement lead for the Board is Tom Reid, 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

27. 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.

28. 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

29. 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.

Adding Value

30. Through our audit work we aim to add value to the Board. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Board has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Central Scotland Valuation Joint Board

Annual Audit Plan 2017/18

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