

## **AGENDA ITEM 6**

**Subject:** Annual Audit Plan 2019/20  
**Meeting:** Central Scotland Valuation Joint Board  
**Date:** 20<sup>th</sup> March 2020  
**Report By:** 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 2019/20.

### **2. RECOMMENDATIONS**

It is recommended that the board:

- 2.1 Discusses and notes the external audit plan for the financial year 2019/20.

### **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 fourth 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. CONCLUSIONS**

- 4.1 The Boards external auditors, Audit Scotland, are in the fourth year of their five year appointment to Central Scotland Valuation Joint Board. The attached report sets out details of their planned work for the 2019/20 audit.

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# Central Scotland Valuation Joint Board

Annual Audit Plan 2019/20



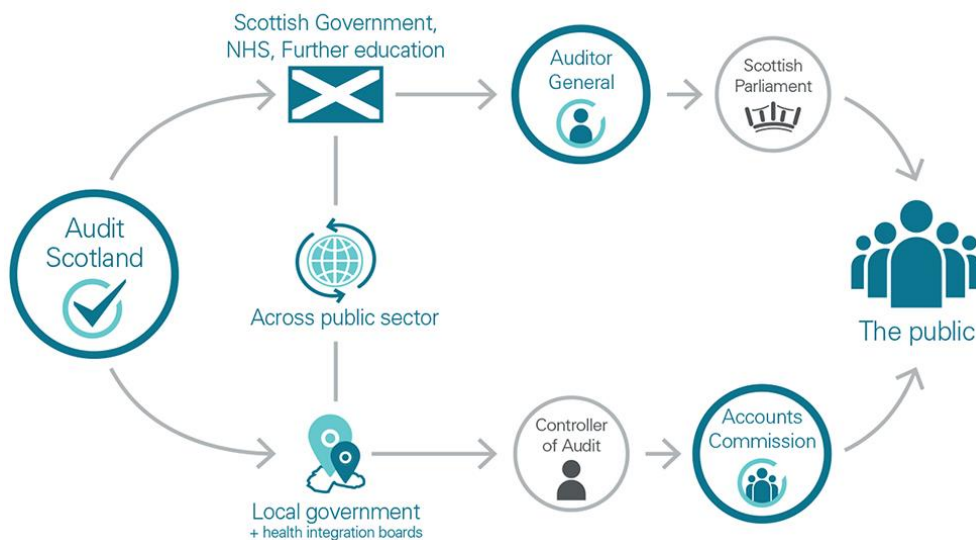
 AUDIT SCOTLAND

Prepared for Central Scotland 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

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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and Audit Scotland's [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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 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, attendance at board meetings and a review of supporting information we have identified the following significant audit risks for our 2019/20 audit of the board. We have categorised these audit risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

### Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> <li>• Testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• 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 material misstatement caused by fraud in expenditure</b></p> <p>Guidance on auditing standards requires public sector auditors to consider the risk of fraud over</p>	Sound budgetary control and monitoring arrangements in place.	<ul style="list-style-type: none"> <li>• Testing of expenditure transactions focusing on the areas of greatest risk.</li> <li>• Substantive cut-off testing of expenditure to ensure it is</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
expenditure, extending the requirements of ISA 240. The extent of the board's expenditure means that there is an inherent risk of fraud.	Effective counter-fraud policies and arrangements.	recognised in the correct financial year.

### Wider dimension risks

#### 3 Financial sustainability

The board continues to face a challenging financial position. Pressures include uncertainty over the timing and duration of Cabinet Office funding and increased costs from a move to more frequent revaluations. The board forecasts it will have a funding gap of £0.6 million by 2021/22.

There is a risk that the board will find it increasingly difficult to maintain financial sustainability and deliver priority services.

Effective budget monitoring by management.

The board regularly examines its current and forecast financial position.

- Assess the effectiveness of financial planning in identifying the risks to financial sustainability in the short, medium and long terms.
- Examine the arrangements in place to address identified funding gaps.

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risk of material misstatement caused by fraud in income recognition for the board in 2019/20 because there no history of material misstatement or error in recording income and no requirement for additional audit procedures.

## Reporting arrangements

6. 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).

7. 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 officer(s) to confirm factual accuracy.

8. 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 members of Central Scotland Valuation Joint Board and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	29 January 2020	7 February 2020
Annual Audit Report	16 September 2020	25 September 2020
Independent Auditor's Report	16 September 2020	25 September 2020

Source: Audit Scotland

### Audit fee

**9.** The proposed audit fee for the 2019/20 audit of the board is £7,450 [2018/19: £7,280]. In determining the audit fee we have taken account of the risk exposure of the board and 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 annual accounts, with a complete working papers package, by 30 June 2020.

**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 out with 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 annual accounts 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 1973 local government act, as amended, 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 annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.



# Audit scope and timing

## Annual accounts

**15.** The annual accounts, which include the 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 in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code) of the state of affairs of the board as at 31 March 2020 and of the income and expenditure of the board for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adopted by the 2019/20 accounting Code
- have been properly prepared with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations Act 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

**17.** We also review and report on statutory other information published within the annual accounts including the management commentary, 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 review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## 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](#).

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess 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 2020 based on the 2018/19 audited accounts.	£31,000
<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 80% of planning materiality.	£25,000
<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 5% of planning materiality, and rounded up.	£2,000

Source: Audit Scotland

## Timetable

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

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by the board	26 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting	10 September 2020
Latest date for receipt of final annual report and accounts with audit adjustments	14 September 2020
Issue of letter of representation and proposed independent auditor's report and agreement of audited unsigned annual report and accounts	16 September 2020
Issue of draft Annual Audit Report to those charged with governance	16 September 2020
Independent auditor's report signed	25 September 2020

## Internal audit

**22.** Internal audit is provided under an agreement with 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 the main requirements of the Public Sector Internal Audit Standards. ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**23.** We will report any significant findings to management on a timely basis.

## Using the work of internal audit

**24.** 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

**25.** 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.

**26.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider 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 the lack of complexity of its financial transactions, we plan to apply the small body provisions of the Code to the 2019/20 audit of the board.

## Financial sustainability

**27.** 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) sustainability. We will carry out work and conclude on:

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

## Governance and transparency

**28.** 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

**29.** 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.

**30.** The engagement lead for the board is Tom Reid, Senior Manager. Auditing and ethical standards require the engagement lead 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

**31.** 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.

**32.** 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 Accounts Commission and 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 has been commissioned to carry out external quality reviews.

**33.** 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

## 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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