

REPORT TO: TAYSIDE VALUATION JOINT BOARD - 23 JANUARY 2017

REPORT ON: EXTERNAL AUDIT – ANNUAL AUDIT PLAN 2016/17

REPORT BY: TREASURER

REPORT NO: TVJB 6-2017

1 PURPOSE OF REPORT

To present to the Joint Board External Audit's Audit strategy overview and plan for the year ending 31 March 2017, attached as an Appendix to this report.

2 RECOMMENDATIONS

- 2.1 The Board is asked to note the content of External Audit's Annual Audit Plan for the year ending 31 March 2017.

3 FINANCIAL IMPLICATIONS

The cost of External Audit Services is provided for in the Assessor's Revenue Budget.

4 MAIN TEXT

Introduction

- 4.1 The external audit of the Board for the financial year 2016/17 will be carried out by Mr Bruce Crosbie, Senior Audit Manager, Audit Scotland. The Joint Board's External Auditors are appointed for a five year period and financial year 2016//17 marks the first year of Audit Scotland's current appointment to the Board.

External Auditor's Audit strategy overview and plan

- 4.2 The External Auditor's Audit strategy overview and plan summarises Audit Scotland's responsibilities as external auditors for the year ending 31 March 2017 and their intended approach to issues impacting the Joint Board's activities in that year.

4.3 External Auditor's responsibilities

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

The Auditors' objectives in relation to the Code of Practice are to:-

- audit the financial statements and place a certificate on the statements stating that the audit has been conducted in accordance with Part VII of the Act;
- satisfy themselves that:
 - the financial statements have been prepared in accordance with all applicable statutory requirements;

- proper accounting practices have been observed in the preparation of the financial statements;
 - the Board has made proper arrangements for securing Best Value and is complying with its community duties; and
 - the Board has made adequate arrangements for collecting, recording and publishing prescribed performance information;
- hear any objection to the financial statements lodged by an interested person.

4.4 Reporting Arrangements

Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited Annual Accounts to be presented to the appointed Auditor within 3 months of the financial year end i.e. 30th June. The non-statutory target date for audit completion is 28 August 2017.

The External Auditor provides an independent auditor's report to the Board and the Accounts Commission stating that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit. This will be prepared for the Joint Board meeting on 28 August 2017 when the audited financial statements will also be considered prior to formal sign off.

5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues identified.

6 CONSULTATIONS

The Assessor and the Clerk to the Board have been consulted on the content of this report.

7 BACKGROUND PAPERS

None

**MARJORY M STEWART
TREASURER**

13 JANUARY 2017

Tayside Valuation Joint Board

Annual Audit Plan 2016/17



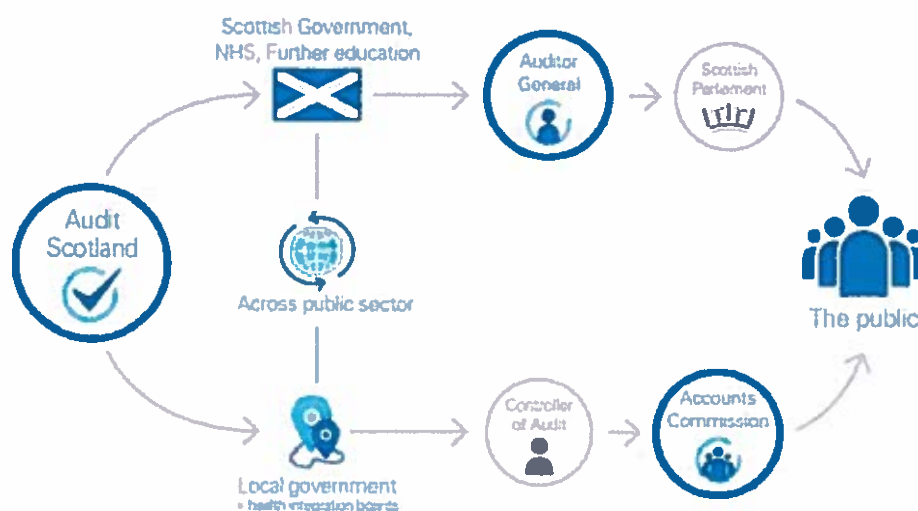
 AUDIT SCOTLAND

Prepared for Tayside Valuation Joint Board
January 2017

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 including the new approach to Best Value. 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

2. Based on our discussions with staff, attendance at Board meetings and a review of supporting information we have identified the following main risk areas for Tayside 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

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of fraud over expenditure ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> include certain requirements relating to the auditor's consideration of fraud. The Code of Audit Practice requires consideration of risk of fraud over expenditure. Tayside Valuation Joint Board incurs significant expenditure which requires audit coverage.</p>	<ul style="list-style-type: none"> Budget monitoring by management. Internal controls in financial systems to mitigate risks of error or manipulation. Local code of Corporate Governance outlining the governance framework. 	<ul style="list-style-type: none"> Assessment and walk-through of key financial controls over expenditure. Detailed testing of transactions focusing on the areas of greatest risk.
<p>2 Risk of management override of controls ISA 240 also requires auditors to consider management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Financial position is monitored at Tayside Valuation Joint Board meetings. Submission of a set of compliant financial statements. 	<ul style="list-style-type: none"> Detailed testing of journals. Review of accounting estimates for bias. Focused testing of accruals and prepayments. Evaluating significant transactions that are outside the normal course of business.

Audit Risk	Management assurance	Planned audit work
<p>3 Estimation and Judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable. Assessment of all potential provisions together with assessing potential liability and likelihood of settlement. 	<ul style="list-style-type: none"> Review of the work of the actuary. Focused testing of pension and provisions.
<p>4 Revisions to the presentation of the financial statements</p> <p>The 2016/17 Code of Practice on Local Authority Accounting makes a number of changes in the presentation of the financial statements, including:</p> <ul style="list-style-type: none"> Changes to the structure of the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS) with associated restatement of prior year figures A new expenditure and funding analysis reconciling the statutory adjustments between the Joint Board's financial performance on a funding basis and the surplus or deficit on the provision of services in the CIES Changes to the requirements of the annual governance statement to provide additional disclosures. <p>These changes present a risk of material misstatement in the financial statements if they are not properly actioned.</p>	<ul style="list-style-type: none"> Consideration of changes required through final accounts working group. Submission of a set of compliant financial statements. 	<ul style="list-style-type: none"> Focused testing on the financial statements to ensure that the changes have been properly actioned.

Reporting arrangements

3. 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.

4. 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.

5. We will provide an independent auditor's report to Tayside Valuation Joint Board and the Auditor General for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will

provide the Accountable Officer and Auditor General for Scotland and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Board Date
Annual Audit Report including ISA 260 requirements	21 August	28 August
Signed Independent Auditor's Report	28 August	N/A

Audit fee

6. The proposed audit fee for the 2016/17 audit of Tayside Valuation Joint Board is £6,970 (2015/16 £7,090). 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.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

Responsibilities

Tayside Valuation Joint Board and Treasurer

8. 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.

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

Appointed auditor

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

11. Auditors in the public sector give an independent opinion on 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

Financial statements

12. 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.

13. We will give an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with applicable law and the Code of the state of the affairs of the board and of the income and expenditure of the board for the year
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the board Tayside Valuation Joint Board are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

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 2016 based on the latest audited accounts.	£37,000
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.	£28,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£2,000


15. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to the Board.

Timetable

16. 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 dates:

Exhibit 4

Financial statements timetable

 Key stage	Date
Consideration of unaudited financial statements by those charged with governance	26 June
Latest submission date of unaudited [body's] financial statements with complete working papers package	30 June
Latest date for final clearance meeting with the Treasurer	14 August
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	21 August
Independent auditor's report signed	28 August

Internal audit

17. 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. Henderson Loggie were appointed as internal auditors by the board in June 2016 for the three years to 2018/19.

18. Overall, we concluded that the internal audit service generally operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

19. In respect of our wider dimension audit responsibilities we plan to consider areas of internal audit work including: performance reporting and asset management

Audit dimensions

20. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



21. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

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 the body'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
- whether the board can demonstrate the affordability and effectiveness of funding and investment decisions it has made

Financial management

23. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the board has arrangements in place to ensure systems of internal control are operating effectively
- whether the board can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the board has assured itself that its financial capacity and skills are appropriate
- whether the board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption

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 on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting

Value for money

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the board can provide evidence that it is demonstrating value for money in the use of its resources
- the board can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the board can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it

Independence and objectivity

26. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

27. The engagement lead for Tayside Valuation Joint Board is Bruce Crosbie, Senior Audit Manager. Auditing and ethical standards require the appointed auditor Fiona Kordiak to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise officer of the circumstances and of the steps we have taken to manage this. We are not aware of any such relationships pertaining to the audit of Tayside Valuation Joint Board.

Quality control

28. 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.

29. 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 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.

30. 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.

Tayside Valuation Joint Board

Annual Audit Plan 2016/17

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