**REPORT TO: TAYSIDE VALUATION JOINT BOARD - 15 JUNE 2015**

**REPORT ON: EXTERNAL AUDIT – AUDIT STRATEGY OVERVIEW AND PLAN 2014/15**

**REPORT BY: TREASURER**

**REPORT NO: TVJB 5-2015**

## 1 PURPOSE OF REPORT

To present to the Board External Audit's Audit strategy overview and plan for the year ending 31 March 2015, attached as an Appendix to this report.

## 2 RECOMMENDATIONS

2.1 The Board is asked to note the content of External Audit's Audit strategy overview and plan for the year ending 31 March 2015.

## 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 2014/15 will be carried out by Mr Andy Shaw, Director, KPMG. The Joint Board's External Auditors are appointed for a five year period and financial year 2014/15 marks the fourth year of KPMG'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 KPMG's responsibilities as external auditors for the year ending 31 March 2015 and their intended approach to issues impacting the Joint Board's activities in that year.

4.3 **External Auditor's responsibilities**

KPMG'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 V11 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 financial statements to be presented to the Board and the Controller of Audit within 3 months of the financial year end i.e. 30th June. The non-statutory target date for audit completion is 31 August 2015.

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 in draft for the Joint Board meeting on 24 August 2015 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** **27 MAY 2015**

# Tayside Valuation Joint Board

Audit strategy overview and plan

Year ending 31 March 2015

For Joint Board consideration on 15 June 2015

1 April 2015

# Contents


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**About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code").

This report is for the benefit of Tayside Valuation Joint Board ("the Joint Board") and is made available to Audit Scotland and the Accounts Commission (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

**Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw who is the engagement leader for our services to Tayside Valuation Joint Board, telephone 0131 527 6673 email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

# Introduction and Responsibilities

**Our audit work is undertaken in accordance with the Code of Audit Practice and guidance issued by Audit Scotland. The Code specifies a number of objectives for our audit.**

The Accounts Commission has appointed KPMG LLP as auditor of Tayside Valuation Joint Board ("the Joint Board") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

This document summarises our responsibilities as external auditor for the year ending 31 March 2015 and our intended approach to issues impacting the Joint Board's activities in that year.

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board ("APB") and the wider responsibilities embodied in Audit Scotland's *Code of Audit Practice*. Under this *Code of Audit Practice* auditors address and comment upon a number of objectives, together with complying with a number of obligations. The *Code of Audit Practice* also places a number of obligations on the Joint Board. These are summarised opposite and set out in appendix two.

Auditors' objectives in relation to the *Code of Audit 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 ourselves 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; and
  - the body has made proper arrangements for securing Best Value and is complying with its community duties.
- hear any objection to the financial statements lodged by an interested person.

The responsibilities of the auditor and management are summarised below; appendix two sets out the detailed responsibilities

### Responsibilities of the appointed auditor

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the wider responsibilities embodied in the Code.

We have set out opposite the key elements of our audit work for 2014-15 on the financial statements and governance arrangements. While auditors are not responsible for preventing or detecting fraud or irregularity and do not substitute for audited bodies own responsibilities, we will review and report on these arrangements. We will review and report whether the Joint Board has adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. We will also report on whether management has established adequate arrangements to manage performance, regularity, use of resources and performance information.

### Responsibilities of the accountable officer

The audit of the financial statements does not relieve management or the Joint Board of their responsibilities. The Joint Board is responsible for financial statements which show a true and fair view of the Joint Board's affairs, and for making available to us all the information and explanations we require for the purposes of our audit.

The Joint Board is responsible for establishing arrangements for ensuring the proper conduct of its affairs and developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. These systems should include arrangements to prevent and detect fraud and other irregularity. Management is responsible for implementing proper arrangements to ensure that their financial position is soundly based.

# Financial statements audit focus areas

**International Standard on Auditing (UK and Ireland) 315 requires us to determine whether any of the risks identified through our risk assessment processes are significant.**

**We have identified one significant risk in our initial risk assessment for 2014-15. Our risk assessment procedures are ongoing and we provide updates on any emerging risks as they become apparent.**

| Risk classification |
| --- |
| Significant risk |
| Other focus area |

## Financial position – revenue and capital

The budget monitoring position reported to the Joint Board on 26 January 2015 identified a projected underspend for 2014-15 of £12,400, based on the results to 31 December 2014. The final underspend position is to be returned to the constituent Councils. The resulting projected general fund reserve is £94,000, as at 31 March 2015.

The Joint Board's approved capital programme for 2014-15 totalled £23,000, and it is entirely financed by the three constituent Councils (£7,667 per Council). It has been projected that £23,000 of total annual contributions will also be required in each of the next three financial years (from 2015-16 inclusive).

## Significant risks

International Standard on Auditing (UK and Ireland) 315: *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore requiring specific audit consideration. In determining whether a risk is significant, judgement is applied in respect of the whether, for example, the risk is associated with the complexity of transactions, the degree of subjectivity involved in the measurement of financial information, whether the associated transactions are outside the normal course of business, or whether there is an associated risk of fraud.

We include one significant risk below:

| Significant risk and implications | Our planned audit approach |
| --- | --- |
| **Pervasive risk: fraud risk from management override of controls**<br><br>Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. | We have not identified any specific additional risks of management override relating to this audit. Our audit methodology incorporates the risk of management override as a significant risk. This includes testing of journals at the year end and throughout the year, review of unusual transactions in the year, enquiries with employees outside the finance department, tests of unpredictability and controls testing, including higher level controls. |

| Key risk or other matter and implications | Our planned audit approach |
| --- | --- |
| **Fraud risk from income recognition**<br><br>Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. | As the Joint Board's income is primarily received from the constituent local authorities, we do not regard the risk of fraud from revenue recognition to be significant.<br><br>We anticipate agreeing income received from the three constituent councils to relevant third party documentation, and will obtain audited returns in respect of expenditure incurred by Tayside Valuation Joint Board. |

# Financial statements – comprehensive income and expenditure statement and balance sheet

**Our audit approach and testing is driven by our assessment of the risk of misstatement of the captions in the financial statements.**

**Our risk assessment procedures are ongoing throughout the audit and we will update in respect of emerging risks as we become aware of them.**

| Risk classification |
|---|
| Significant risk |
| Other focus area |

We have used our experience gained during previous years' audits to refine our understanding of the risks in the financial statements. For those balances not linked to a significant risk or other focus area, we will perform analytical reviews and specific item testing over material balances to consider material errors or disclosure errors.

| Caption | 2013-14 balance (£'000) |
|---|---|
| Cost of services | 3,518 |
| Other operating income and expenditure | (436) |
| Financing and investment income and expenditure | 263 |
| Taxation and Non-specific grant income | (46) |

| Caption | 2013-14 balance (£'000) |
|---|---|
| Property, plant and equipment | 87 |
| Short term debtors | 52 |
| Cash and cash equivalents | 416 |
| Short term creditors | (431) |
| Net Pension liabilities | (8,163) |

| Key risk or other matter and implications | Our planned audit approach |
|---|---|
| **Fraud risk from income recognition**<br><br>Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. | KPMG has rebutted this significant risk. Our planned approach is set out on the previous page. |
| **Retirement benefits**<br><br>The Joint Board accounts for its participation in the Tayside Pension Fund in accordance with the provisions of IAS 19 *Employee benefits* and recognises the actuarial valuation of the pension liabilities in respect of its share of the Fund. The Fund is valued by actuaries, the rates of contributions being determined by on their advice.<br><br>The actuaries use membership data and a number of assumptions in their calculations based on market conditions at the year end, including a discount rate to derive the anticipated future liabilities back to the year end date and assumptions on future salary increases. | Our audit approach to IAS 19 includes:<br>■ review of the financial assumptions underlying the actuary's calculations and comparison to our central benchmarks;<br>■ testing of the level of contributions used by the actuary to those actually paid during the year; and<br>■ testing of membership data used by the actuary to data from the Fund.<br><br>The actuarial assumptions applied in calculating the IAS 19 net pension liability are inherently judgemental. We will assess the assumptions for 2014-15 for appropriateness compared to our acceptable ranges, using pension specialists where required. We will also test underlying controls to verify the input data for staff costs and numbers. |

# Presentation of financial statements

**The Joint Board is required to prepare financial statements in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014-15* ("the Code").**

**While there are some changes in the content of the Code for 2014-15, the financial statements and underlying accounting policies are expected to remain substantially consistent with the previous year.**

**KPMG remains committed to working with management to enhance the clarity and impact of the financial statements, including the implications of the revisions to the Code.**

| | |
|---|---|
| **Code of practice on Local Authority Accounting in the United Kingdom 2014-15 ("the Code")** | The 2014-15 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2014-15 ("*the Code*")* which is based on International Financial Reporting Standards ("IFRS").<br><br>The 2014-15 Code has a number of amendments from the 2013-14 version and management should consider if these changes will impact the financial statements. The amendments include:<br>■ adoption of the new group accounting standards IFRS 10, IFRS 11, IFRS 12 and IAS 28;<br>■ amendments in respect of the restated opening balance sheet; and<br>■ changes to the requirements for accounting for combinations of bodies and transfer of functions.<br><br>Audit Scotland has also provided enhanced guidance in respect of a number of technical topics, which will be considered during the audit. |

### Changes to Local Authority Accounts (Scotland) Regulations

The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014, replacing the 1985 regulations. The new regulations include a number of changes designed to help strengthen corporate governance processes. These amendments include:

- clarification of the composition of the annual accounts, requiring the inclusion of a management commentary, a statement of responsibilities, an annual governance statement and a remuneration report;
- changes to the process for approving the unaudited accounts, including a requirement for the Joint Board to consider the unaudited accounts by 31 August;
- changes to the process for approval of the audited annual accounts, with a deadline of 30 September; and
- changes to the requirements for the publication of the audited annual accounts.

# Internal audit

**We will liaise with your internal auditors to minimise duplication of effort.**

## Internal audit arrangements

International Standard on Auditing (UK and Ireland) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect, if any, on external audit procedures;
- obtain a sufficient understanding of internal audit activities to assist in planning the audit and developing an effective audit approach;
- perform a preliminary assessment of internal audit when it appears that internal audit is relevant to our audit of the financial statements in specific audit areas; and
- evaluate and test the work of internal audit, where use is made of that work, in order to confirm its adequacy for our purposes.

We will continue liaison with the head of internal audit and maintain an understanding of their approach to ensure duplication of effort is minimised. We will review the internal audit work proposed or completed during our interim audit visit to determine the extent of assurance that can be taken from the work performed.

The general programme of work will be reviewed for significant issues to support our general work in assessing the Joint Board's annual governance statement.

We will read the reports and consider the results of all internal audit work, and consider areas where we can place reliance in order to avoid duplication of effort.

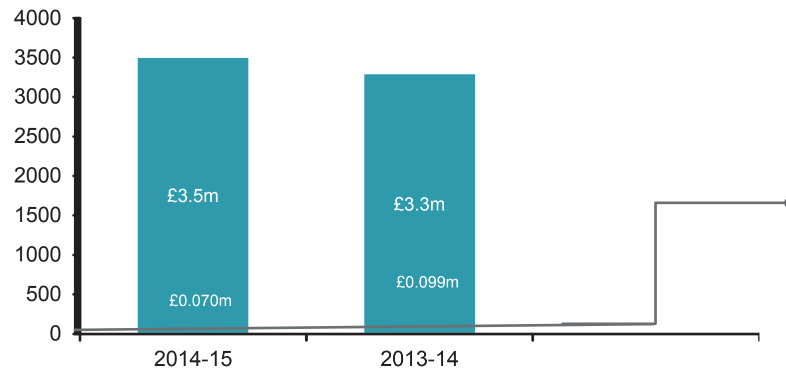
# Mandatory communications: audit materiality

**Our audit work is planned to detect errors that are material to the financial statements as a whole.**

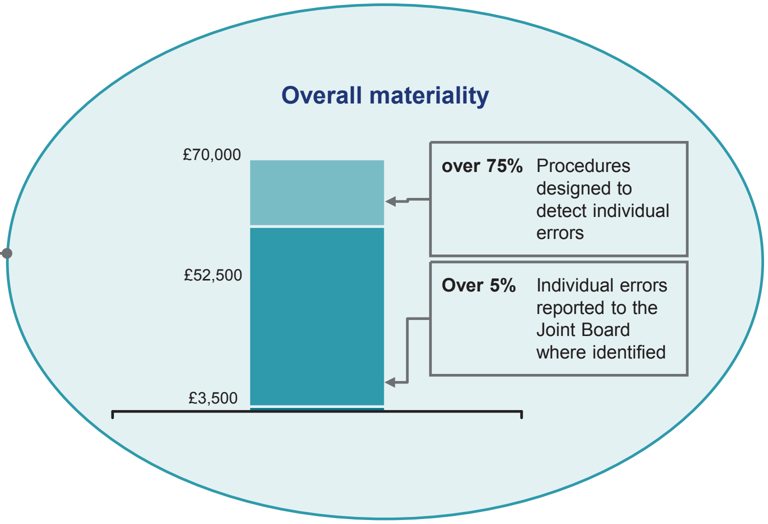
**Our materiality is based on total expenditure and takes into account the low risk nature of the Joint Board.**

**We are required by Auditing Standards to report to the Joint Board unadjusted audit differences other than non-trivial items.**

### Total projected gross expenditure




Source: January 2015 revenue monitoring report no. 24-2014




### Determining materiality

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

We have reassessed our level of materiality this year based on our knowledge and understanding of the Joint Board's risk profile and, therefore, financial statements. Materiality has been set at £70,000 which is approximately 2% of forecast gross expenditure in 2014-15. This will be revised once draft financial statements for 2014-15 are received.

We design our procedures to detect errors at a lower level of precision, i.e. £52,500.

We will report identified errors greater than £3,500 to the Joint Board.

### Reporting to the Joint Board

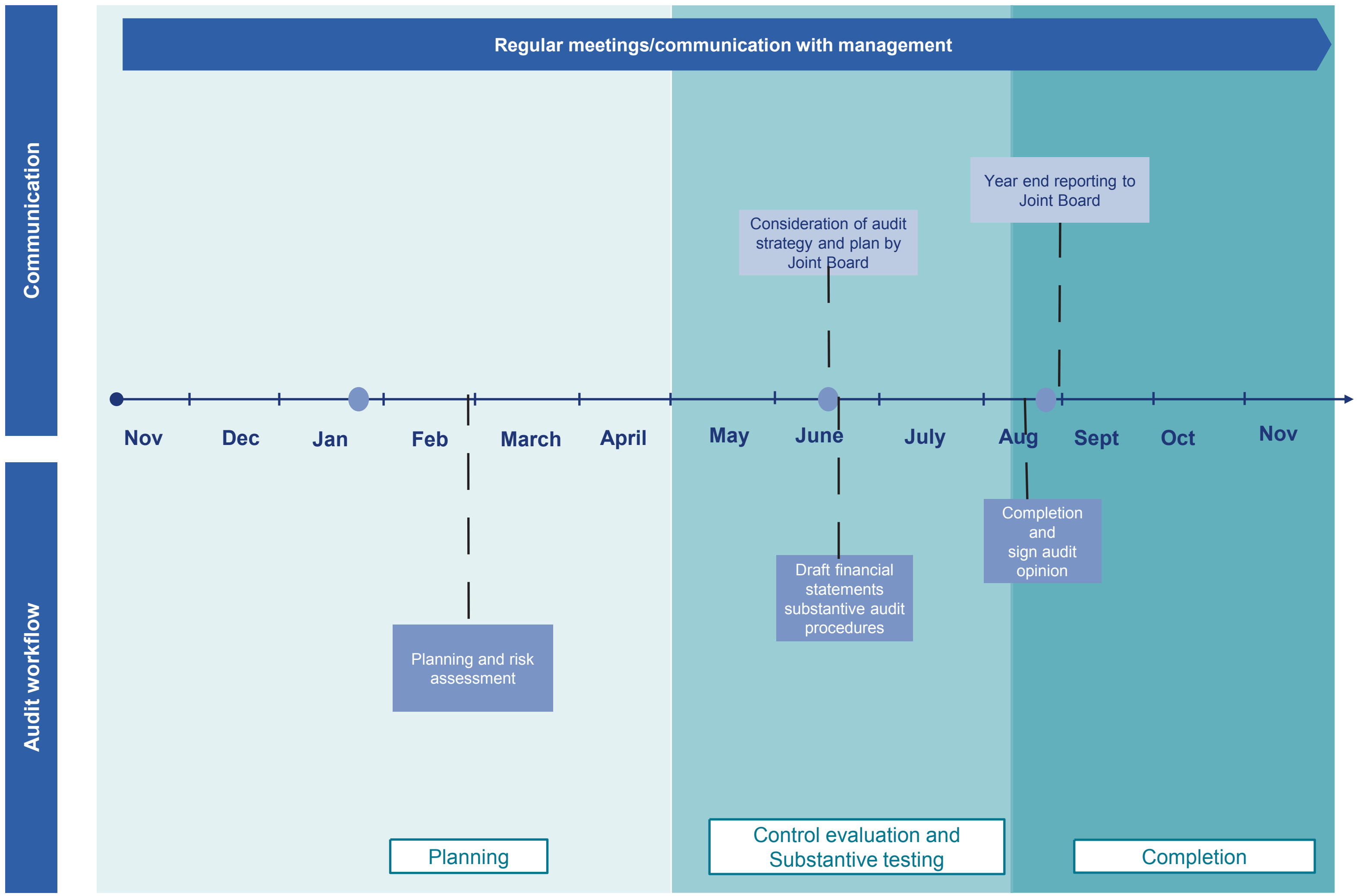
To comply with Auditing Standards, the following three types of audit differences will be reported to the Joint Board:

- material adjusted audit differences;
- unadjusted audit differences; and
- disclosure differences (adjusted and unadjusted).

Audit planning

# Audit timeline and communications

**Out timetable is largely unchanged from the prior year but will be subject to refinement through discussions with management.**




| Legend |
|---|
| Joint Board meetings |

# KPMG team and fee arrangements

**The team benefits from strong knowledge of the sector and continuity in the audit in-charge.**

| Team member |
| --- |
| **Andy Shaw;** *Director*<br>Andy has overall authority and responsibility for the audit engagement, including reporting on the financial statements, and will review key conclusions reached by the engagement team on all accounting and auditing matters. |
| **Suzanne Amabile;** *Manager*<br>Suzanne serves as the day-to-day audit liaison between management and KPMG and a first point of contact. She also provides technical accounting, regulatory and other advice in the first instance. |
| **Ross Clarke;** *Audit In-charge*<br>Ross coordinates the onsite audit fieldwork, liaising directly with the key finance staff in respect of the preparation for, and conduct of the financial statements audit work. |

## Fee proposals

Audit Scotland requires that the fee for our work is set within an indicative range, depending on the assessment of risk and other factors facing the Joint Board. The indicative fee range is calculated using a number of inputs:

- a central estimate of the number of days needed to do the audit;
- the average remuneration rate for the audit team;
- the contribution to travel and expenses within the sector;
- the contribution towards performance audits, where relevant; and
- the contribution towards other central costs not met by the Scottish Consolidated Fund.

The indicative fee ranges are based on the following assumptions to ensure an efficient audit process:

- draft report, financial statements and full electronic files of supporting work papers available at the start date of our on site visit agreed with officers preferably in electronic format;
- reliance on your internal controls;
- availability of key members of staff during the audit fieldwork; and
- completion within the agreed timetable

Audit Scotland has notified us, and the Joint Board, that the fee range for 2014-15 is £5,670 to £8,510. This represents a 1% increase on the 2013-14. We have proposed a fee of £7,090, which represents the mid-point.

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arising, we will discuss with management the impact of this on our proposed fee.

# Mandatory communications

**Mandatory communications with those charged with governance as required by International Auditing Standards are set out opposite.**

**These cover:**

- **fraud;**
- **related party transactions; and**
- **independence.**

| Area | Management responsibility/ action | KPMG response |
|---|---|---|
| **Fraud risks** | ▪ It is the responsibility of management to implement accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems reduce but do not eliminate the risk of misstatements caused by fraud or error.<br>▪ Those charged with governance must ensure, through oversight of management, the integrity of these systems and that appropriate controls are in place, including those for monitoring risk, financial control and compliance with laws. This is in the context of preparing financial statements that give a true and fair view and that do not contain material misstatements arising from fraudulent reporting (intentional misstatements/ omissions to deceive the financial statement user) or from the misappropriation of assets. | ▪ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. The audit team will review and discuss fraud related risks and controls with internal audit, the chief financial officer and senior management.<br>▪ Our risk assessment procedures will include a number of interviews with senior personnel concerning processes to identify and respond to risks of fraud. |
| **Related party transactions** | ▪ Management has processes in place to identify related party transactions and a number were disclosed in the 2013-14 financial statements. All material related party transactions must be disclosed in the financial statements. | ▪ We will ensure that there continues to be appropriate processes in place as part of the financial statements preparation process to identify any related party transactions. |
| **Independence** | ▪ Auditing Standards require us to consider our independence and related matters in our dealings with the Joint Board. | ▪ We have provided our formal independence communication in appendix one. In respect of non-audit services provided to the Joint Board we have completed internal conflict checks to confirm that the services may be provided with no threat to our audit independence. |

# Appendices

# Independence

**Auditing Standards require us to communicate to the members of the Joint Board in writing at least annually on any matters which may reasonably be thought to bear on our independence and set out the safeguards in place in relation to these matters and confirm that we are independent.**

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Audit Director and the audit team.  This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

We are satisfied that our general procedures support our independence and objectivity, except for those detailed below where additional safeguards are in place.

**General procedures to safeguard independence and objectivity**

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings.  Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards.  As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

**Confirmation of audit independence**

We confirm that as of 31 March 2015, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This letter is intended solely for the information of the  members of the Joint Board and should not be used for any other purposes.

Yours faithfully

**KPMG LLP**

Appendix two

# Audit Scotland code of audit practice – responsibilities of auditors and management

| Responsibilities of auditors | Responsibilities of management |
|---|---|
| **Financial statements** | |
| Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:<br>▪ whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and<br>▪ whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.<br>Auditors should review and report on, as appropriate, other information published with the financial statements, including the management commentary, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.<br>Where required, auditors should also review and report on the Whole of Government Accounts return. | Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:<br>▪ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;<br>▪ maintaining proper accounting records;<br>▪ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);<br>▪ preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and<br>▪ preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return. |
| **Corporate governance arrangements** | |
| Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:<br>▪ bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements<br>▪ the prevention and detection of fraud and irregularity | Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements. |

# Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

| Responsibilities of auditors | Responsibilities of management |
|---|---|
| Corporate governance arrangements (continued) | |
| ■ standards of conduct and arrangements for the prevention and detection of corruption; and<br>■ the financial position of audited bodies. | |
| **Systems of internal control** | |
| Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body. | Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees. |
| **Prevention and detection of fraud and irregularities** | |
| Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures. | Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:<br>■ developing, promoting and monitoring compliance with standing orders and financial instructions;<br>■ developing and implementing strategies to prevent and detect fraud and other irregularity;<br>■ receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and<br>■ participating, when required, in data matching exercises carried out by Audit Scotland. |

# Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

| Responsibilities of auditors | Responsibilities of management |
|---|---|
| **Standards of conduct and arrangements for the prevention and detection of bribery and corruption** | |
| Auditors should consider whether bodies have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. Auditors review and, where appropriate, examine evidence that is relevant to these arrangements and reporting their findings.<br><br>While auditors are not responsible for preventing or detecting failure to maintain an appropriate level of integrity and openness, they should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in arrangements are identified or notified, auditors should report them promptly to management or those charged with governance. | Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:<br>▪ implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;<br>▪ promoting appropriate values and standards; and<br>▪ developing, promoting and monitoring compliance with standing orders and financial instructions. |
| **Financial position** | |
| Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, where appropriate, examining evidence that is relevant to the arrangements.<br><br>Auditors should have regard to audited bodies':<br>▪ financial performance in the period under audit<br>▪ compliance with any statutory financial requirements and financial targets<br>▪ ability to meet known or contingent statutory and other financial obligations<br>▪ responses to developments which may have an impact on their financial position; and<br>▪ financial plans for future periods. | Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:<br>▪ such financial monitoring and reporting arrangements as may be specified;<br>▪ compliance with any statutory financial requirements and achievement of financial targets;<br>▪ balances and reserves, including strategies about levels and future use; and<br>▪ the impact of planned future policies and foreseeable developments on their financial position. |

# Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

| Responsibilities of auditors | Responsibilities of management |
|---|---|
| **Best Value, use of resources and performance** | |
| The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.<br><br>Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.<br><br>Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland. | Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision.<br><br>Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.<br><br>The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance. |

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