

REPORT TO: TAYSIDE VALUATION JOINT BOARD - 17 JUNE 2013

REPORT ON: EXTERNAL AUDIT – AUDIT STRATEGY OVERVIEW AND PLAN 2012/13

REPORT BY: TREASURER

REPORT NO: TVJB 8-2013

1 PURPOSE OF REPORT

To present to the Board External Audit's Audit strategy overview and plan for the year ending 31 March 2013, 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 2013.

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 2012/13 will be carried out by Mr Stephen Reid, Engagement Director, KPMG. The Joint Board's External Auditors are appointed for a five year period and financial year 2012/13 marks the second 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 2013 and their intended approach to issues impacting the Joint Board's activities in that year.

The report outlines the planned audit approach under the following headings:

Overview

Audit strategy and planning

Other audit areas

Delivery of the audit

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 Auditor's 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 2013.

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 26 August 2013 when the financial statements are considered.

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

30 MAY 2013



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Tayside Valuation Joint Board

Audit strategy overview and plan
Year ending 31 March 2013

19 March 2013

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in connection with this
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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 only Tayside Valuation Joint Board and is made available to the Accounts Commission for Scotland and Audit Scotland (all 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 scope and objectives 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 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 Stephen Reid, who is the engagement leader for our services to Tayside Valuation Joint Board, telephone 0131 527 6795 email: stephen.reid@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.

Overview

This document describes how we will deliver our audit for Tayside Valuation Joint Board ("the Joint Board") for the year ending 31 March 2013.

This includes the opinions on the financial statements in accordance with relevant legal and accounting requirements.

Experience

Page 12

Our senior management team from 2012 remains unchanged so you retain strong continuity.

As previously, we will use specialists from our pensions teams to provide on the ground support to our core audit team.

Tailored approach

Pages 4 to 7

We continue to invest the time to understand the key challenges and drivers affecting your operations. Our audit approach is carefully designed to align with these.

Independence

Appendix 1

Independence and quality are at the foundation of our approach. We have systems and processes to ensure our ongoing independence and will report formally on this, together with any non-audit fees received. We are satisfied that we are independent.

Adding value

The knowledge gained from our previous audit means we understand your business issues and how they impact the financial statements. We keep you advised of new accounting standards and accounting issues as they arise.

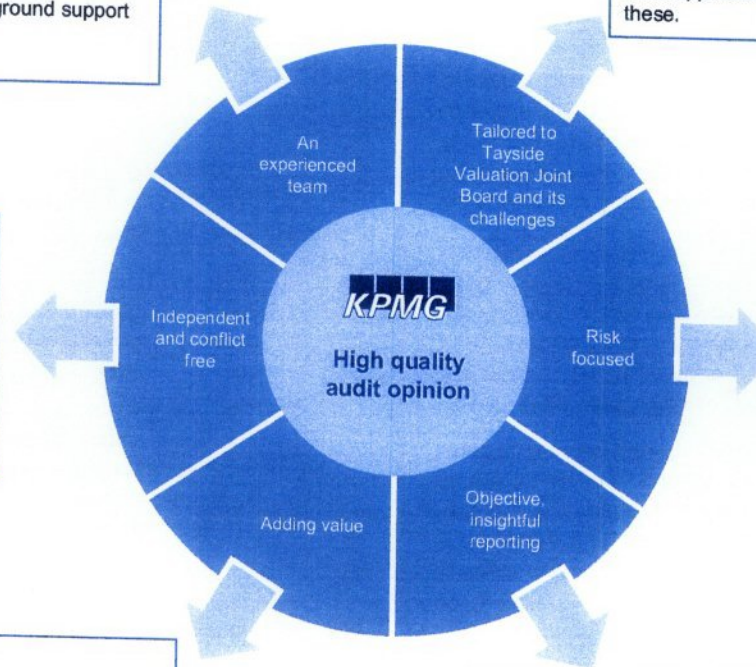
We will report on identified material control weaknesses and other performance improvement observations as well as unadjusted audit differences.

Insightful reporting

You expect us to form independent views on the key issues. We will express these clearly and concisely in a way that is understandable to accountants and non-accountants alike.

Our audit gives us an independent view on your business. We use this knowledge to challenge the key messages delivered by your internal reporting systems.

We will discuss these areas with the Joint Board.



Our audit work is undertaken in accordance with Audit Scotland's Code of Audit Practice. This specifies a number of objectives for our audit.

The Accounts Commission for Scotland has appointed KPMG LLP as auditors 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 auditors for the year ending 31 March 2013 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.

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;
 - the body has made proper arrangements for securing Best Value and is complying with its community duties; and
 - the body has made adequate arrangements for collecting, recording and publishing prescribed performance information;
- hear any objection to the financial statements lodged by an interested person.

We conduct our audit of the financial statements in line with International Standards on Auditing (UK and Ireland), taking into account the UK Auditing Practices Board's Practice Note 10 (revised). We have a professional responsibility to report if the financial statements do not comply, in any material respect, with the IFRS-based *Code of Practice on Local Authority Accounting in the United Kingdom 2012-13* ("the Code"), taking account of the international financial reporting standards issued by the International Accounting Standards Board and relevant guidance issued by the Chartered Institute of Public Finance and Accountability ("CIPFA") / Local Authorities (Scotland) Accounts Advisory Board ("LASAAC").

As part of our audit we also review the financial information contained in the foreword to ensure that it is consistent with the financial statements. We also review the annual governance statement to ensure it has been prepared in accordance with the Code and other relevant guidance, taking account of the financial statements and other information gained by us as auditors.

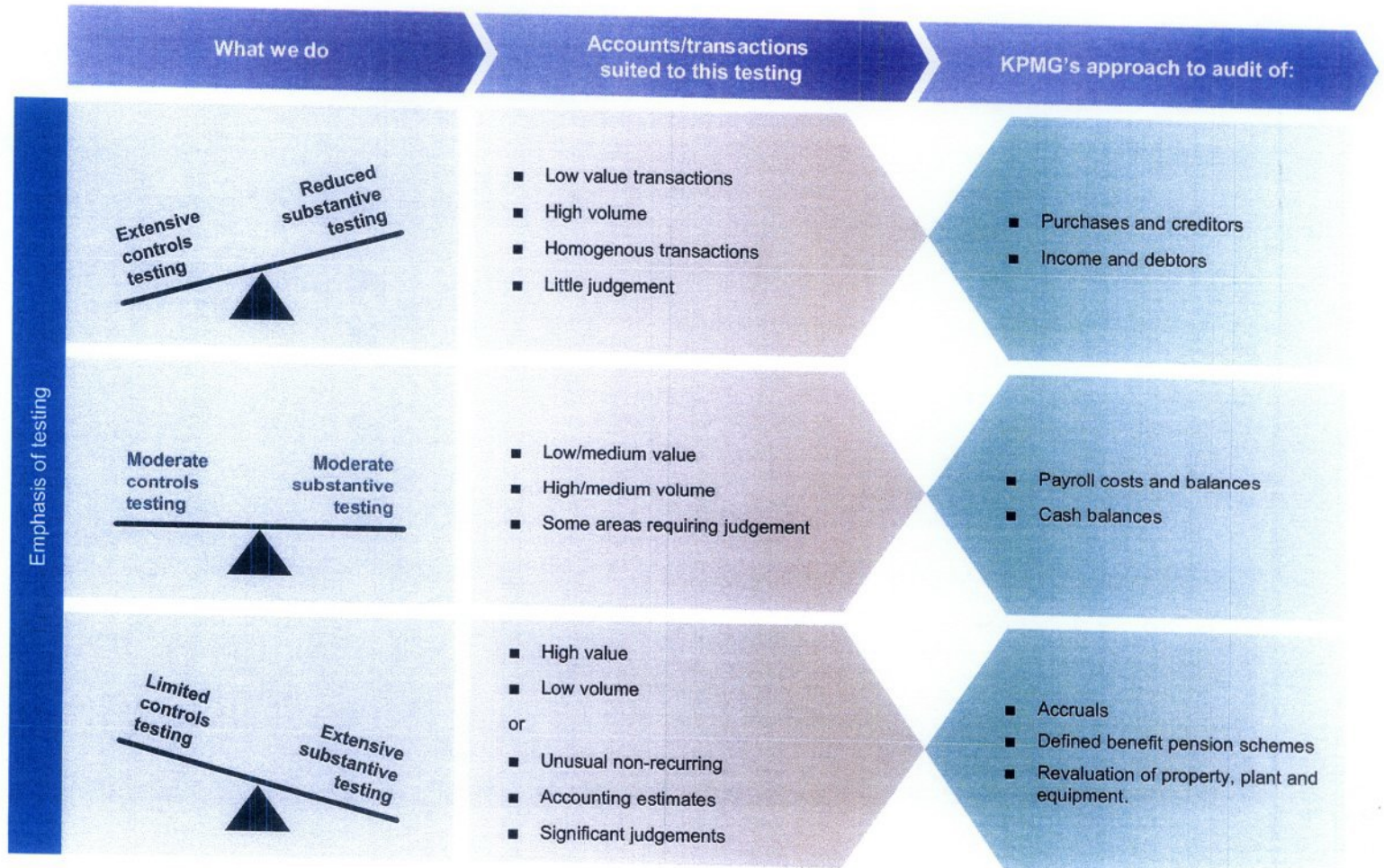
International Standard on Auditing (UK and Ireland) 240: *The auditor's responsibility to consider fraud in an audit of financial statements* applies to our work. In particular, this Standard requires us to consider directly the possibility that management may choose to override the system of internal controls that otherwise may appear to be operating effectively. The Standard requires the auditor to maintain an attitude of professional scepticism, recognising the possibility that a material misstatement due to fraud could exist – notwithstanding the auditor's experience with regard to the honesty and integrity of management and those charged with governance.

In accordance with International Standard on Auditing (UK and Ireland) 260: *Communication with those charged with governance* we will report to you all non-material, non-trivial errors, which have not been adjusted.

In respect of the financial statements, we identify the constituent account balances and significant classes of transaction and focus our work on identified risks over completeness, existence, accuracy, valuation, ownership and presentation.

Determining the most effective balance of internal controls and substantive audit testing enables us to ensure the audit process runs smoothly and with the minimum disruption to your team.

The graphic opposite outlines how we apply that to the audit of the Joint Board's financial statements.



Note: Assuming controls are found to operate as designed.



Audit strategy and planning Financial statements – comprehensive income and expenditure statement

Our audit approach in relation to the financial statements and testing of systems of internal control is driven by our assessment of the inherent risk of misstatement of the captions in the financial statements.

We use our experience from the 2011-12 audit to inform our assessment.

On this page we link the captions with significant inherent risks to the relevant processes for the Joint Board's comprehensive income and expenditure statement.

Caption	2011-12 balance (£'000)	Planning risk assessment	Process				Inherent risk areas
			Income	Expenditure	Payroll	Other	
Cost of services	3,265	●		✓	✓		■ Remuneration report disclosures do not comply with regulations
Other operating income & expenditure	(430)	●	✓	✓			
Financing and investment income and expenditure	(111)	●				✓	
Recognised capital income	(35)	●					
Requisition income	(2,754)	●					
Other comprehensive income and expenditure	2,848	●			✓		

Inherent risk assessment:

●	Higher
●	Moderate
●	Lower



Audit strategy and planning Financial statements – balance sheet

On this page we link the captions with significant risks to the relevant processes for the Joint Board's balance sheet.

Caption	2011-12 balance (£'000)	Planning risk assessment	Process				Inherent risk areas
			Income	Expenditure	Payroll	Other	
Property, plant and equipment	97	●				✓	
Short term debtors	40	●	✓				
Cash and cash equivalents	433	●				✓	
Capital contributions receipts in advance	(54)	●				✓	
Short term creditors	(440)	●		✓	✓		
Pension asset / liability	(6,835)	●			✓		<ul style="list-style-type: none"> Actuarial assumptions are overly prudent / optimistic Data underlying actuarial calculations is inaccurate Actuarial calculations are not accurately reflected in the financial statements
Useable reserves	(103)	●				✓	
Unuseable reserves	(6,862)	●				✓	

There are no significant changes in the content of the *Code of Practice on Local Authority Accounting in the United Kingdom 2012-13* ("the Code"), we will update our understanding of this position around the year end.

The Joint Board is required to prepare financial statements in accordance with the Code. KPMG is committed to working with management to enhance the clarity and impact of the financial statements.

Code of practice on Local Authority Accounting in the United Kingdom 2012-13 ("the Code")

The 2012-13 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2012-13* ("the Code") which is based on International Financial Reporting Standards ("IFRS").

The 2012-13 Code has a number of amendments from the 2011-12 version and management should reflect these changes to the reporting requirements in the draft financial statements. The amendments include:

- changes in relation to the objective of the financial statements and the qualitative characteristics of financial information;
- encouragement for local authority bodies to prepare the Explanatory Forward taking into consideration the requirements of the Government's Financial Reporting Manual (FRM);
- a requirement to recognise as an asset allowances under the carbon reduction commitment scheme;
- amendments in relation to IFRS 7 Financial Instruments: Disclosures (transfer of financial assets).

Presentation of financial statements

The current version of the Code was first applicable in respect of the year ended 31 March 2011 and typically had the effect of increasing the length and complexity of financial statements. The Audit Commission issued a briefing for those that prepare IFRS-based financial statements in local government, *Let's be clear* in January 2012. The briefing notes that the financial statements of those applying the Code are, on average, 113 pages long and while this supports transparency, there is a risk that the users of the financial statements are daunted by their complexity and find them difficult to interpret and understand.

Much of this complexity comes from the need to reconcile financial statements, prepared in accordance with IFRS, with the control framework imposed by government. This includes a series of adjustments necessary to reconcile the accounting cost of services, with the cost which is charged to the general fund on a statutory basis.

This briefing, and CIPFA's publication, *IFRS: how to tell the story* suggest a number of ways in which accessibility and clarity of financial statements could be improved including:

- the use of summaries and extracts which provide key elements of information;
- reducing and / or eliminating unnecessary disclosures; and
- critically reviewing the financial statement template to reduce the length and focus of reporting.

It is likely that there will be continued focus on the presentation of information and we will work with management to consider the implications of any updated guidance and support management to enhance the clarity and impact of the financial statements.

Mandatory communications required by Auditing Standards are set out opposite.

Area	Issue	KPMG response
Fraud risks	<ul style="list-style-type: none"> 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. 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. 	<ul style="list-style-type: none"> 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 the treasurer and senior management, and consider the work of internal audit. 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	<ul style="list-style-type: none"> Management has processes in place to identify related party transactions and a number were disclosed in the 2011-12 financial statements. All material related party transactions must be disclosed in the financial statements. 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Auditing Standards require us to consider our independence and related matters in our dealings with the Joint Board. 	<ul style="list-style-type: none"> We have provided our formal independence communication in appendix one. In respect of any 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.

Our audit is geared to identify material errors in the financial statements.

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

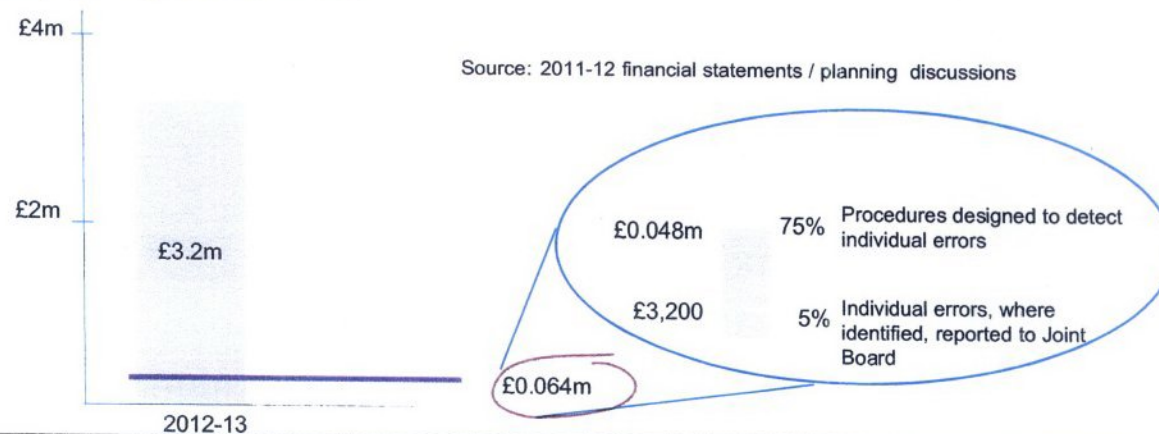
In accordance with International Standard on Auditing (UK and Ireland) 320 *Materiality in planning and performing an audit*, we plan and perform our audit to be able to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. The assessment of what is material is a matter of professional judgment and includes consideration of both the amount (quantity) and nature (quality) of misstatements.

Audit materiality is both a quantitative and qualitative measure and the figures below are a guide only and are based on prior year total income. We realise that the tolerance for error in certain disclosures in the financial statements is lower and therefore, we will report to the Joint Board smaller errors in areas such as senior officer's remuneration and related party transactions. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context.

Our planning materiality has been calculated on the basis of total projected gross income for the Joint Board for 2012-13 as detailed below. On this basis, our procedures will be designed to detect individual errors over £48,000 and we will report all errors over £3,200 to the Joint Board.

Our final materiality will be based on the draft financial statements and we will inform you of any changes to our planning materiality.

Total projected gross income 2012-13



We distinguish between fraud and error and use our sector knowledge to inform specific control testing.

Fraud versus error

The term 'error' refers to an unintentional misstatement in the reporting of an entity. The term 'fraud' refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception or misconduct to obtain an unjust or illegal advantage.

There are two types of misstatements relevant to an auditor's consideration of fraud:

- misstatements resulting from fraudulent financial reporting, which involves intentional misstatements or omissions of amounts or disclosures in financial reporting to ultimately deceive financial statement users; and
- misstatements resulting from misappropriation of assets, which typically involve theft of an entity's assets and is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing.

Legality and propriety

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements but also providing a view, where appropriate, on matters such as the legality, propriety, performance and the use of resources in accordance with the principles of Best Value.

The Joint Board 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 its arrangements. This includes involving those charged with governance in the monitoring of arrangements.

Best Value

Under the Local Government in Scotland Act 2003 ("the 2003 Act"), auditors have a duty to be satisfied that councils have made proper arrangements to secure best value. In response to these duties, the Accounts Commission introduced specific arrangements for the audit of best value and community planning under section 52 of the 2003 Act.

We will seek to understand the arrangements which management has established internally to ensure Best Value in its use of the resources made available to it.

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

Audit Scotland and the Accounts Commission periodically undertakes national studies on topics relevant to the performance of local government bodies.

We will review the Joint Board's response to those reports relevant to its activities.

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 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 for 2012-13 will be reviewed for significant issues to support our general work in assessing the Joint Board's annual governance statement.

Local response to national studies

Audit Scotland and the Accounts Commission periodically undertakes national studies on topics relevant to the performance of local government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at individual organisation level, as appropriate. In order to ensure that added value is secured through the role of the Accounts Commission, Audit Scotland and its appointed auditors, auditors will continue to ensure that audited bodies respond appropriately to reports from the Accounts Commission and Audit Scotland's programme of national performance audits.

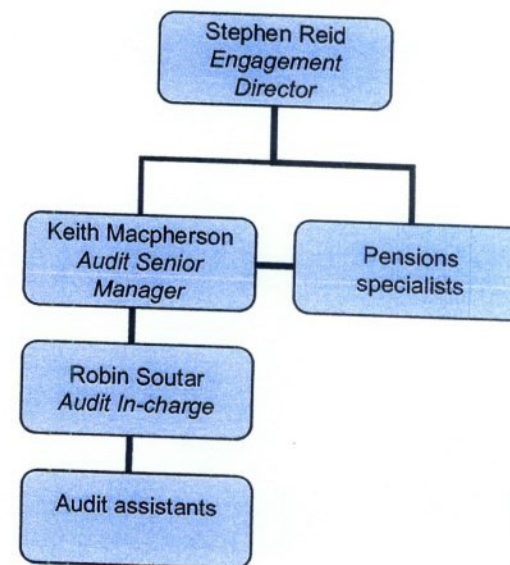
We will therefore be required to have consideration as to whether relevant national performance reports have been considered by the Joint Board and that action has been planned in response.



Delivery of the audit KPMG team; reporting

The team benefits from strong continuity at senior level, building on Stephen and Keith's involvement in the audit of the Joint Board in 2011-12.

Team member	Role
Stephen Reid – Engagement Director Tel: 0131 527 6795 Email: stephen.reid@kpmg.co.uk	Stephen has overall authority and responsibility for the audit engagements, including reporting on the financial statements, and will review key conclusions reached by the engagement team on all accounting and auditing matters.
Keith Macpherson – Audit Senior Manager Tel: 0141 300 5806 Email: keith.macpherson@kpmg.co.uk	Keith serves as the day-to-day audit liaison between management and KPMG and a first point of contact. He also provides technical accounting, regulatory and other advice in the first instance.
Robin Soutar – Audit In-charge Tel: 0131 527 6862 Email: robin.soutar@kpmg.co.uk	Robin 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.



Reporting

Through regular meetings at appropriate levels, there will be open and regular discussion between management, auditors and management. As a result, accounting and control issues can be identified and reported to allow you to manage them throughout the year.

Audit Scotland's *Code of Audit Practice* requires us to communicate to management findings arising as a result of the audit work completed. Reports to management will be submitted throughout the course of the year, with draft reports discussed and agreed with management and action plans developed to include the recommendations, target dates for implementation and the member of staff responsible for implementation.

We envisage submission of the following report in respect of 2012-13:

- by 31 August 2013, our annual audit report to the Joint Board and the Controller of Audit, including those matters which we are required to report to those charged with governance.

Our report will be prepared in draft for the Joint Board meeting on 26 August 2013, when the financial statements are considered.



Delivery of the audit Fee proposals

Our audit fees are set according to the fee ranges set by Audit Scotland.

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. Audit Scotland has notified us, and the Joint Board, that the fee range for 2012-13 is £5,616 to £8,424 based on a mid-point of £7,020.

We have proposed a fee with management of £7,020 which represents the mid-point on the indicative range.

As with other audits, our fee proposals 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.

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

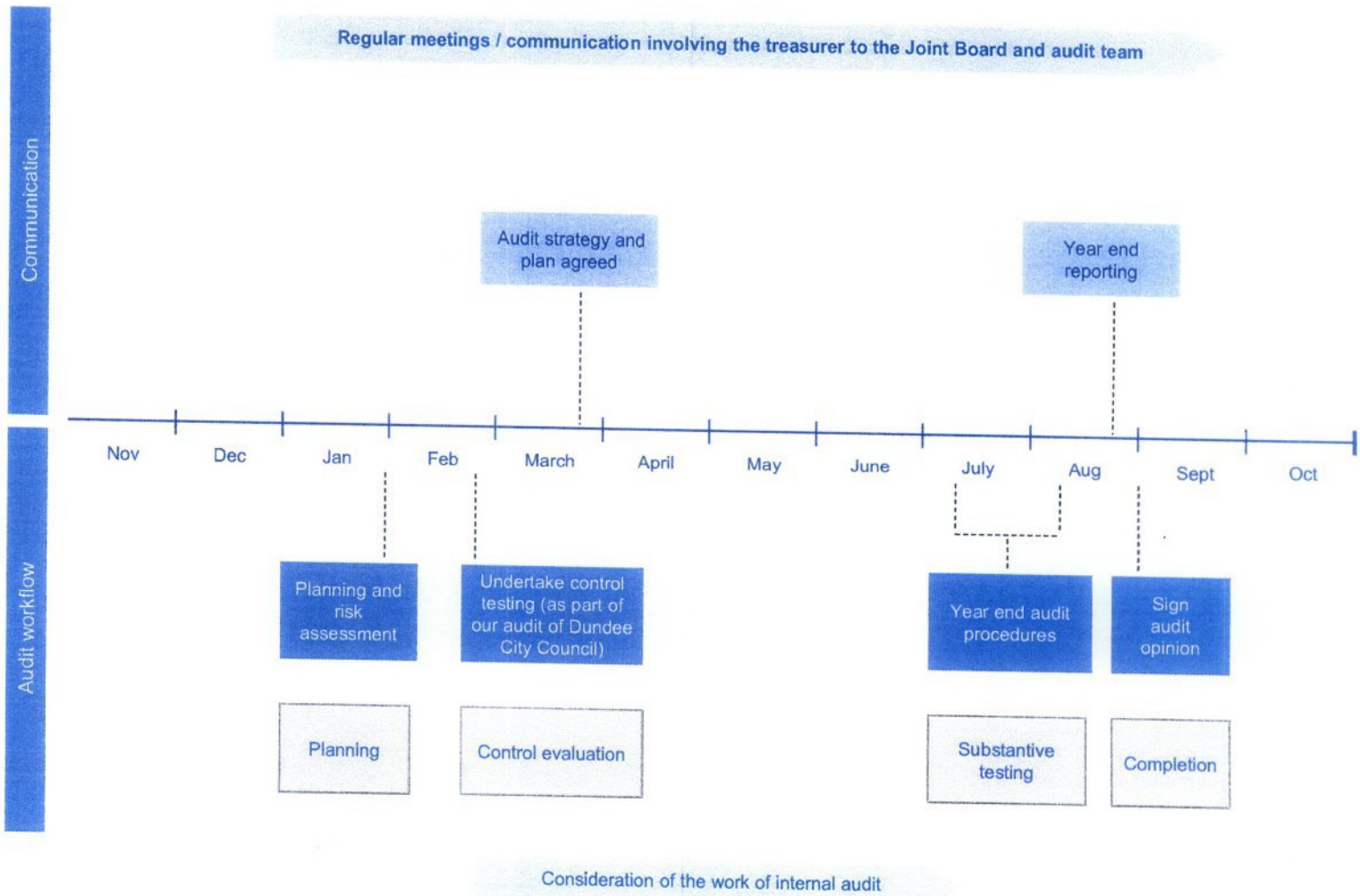
Audit fee summary	Total £
Mid-point on the fee range for 2011-12	7,350
2011-12 agreed fee	7,718
Mid-point on the fee range for 2012-13	7,020
Proposed audit fee for 2012-13	7,020



Delivery of the audit Audit timeline

We have developed a proposed timetable to discharge our responsibilities based on initial discussions with management.

We will consider judgements in key areas before the audit fieldwork begins.





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Appendices

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 19 March 2013, 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 report 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

Financial statements

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:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- 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);
- 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
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

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

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

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:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Financial position

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:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

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.



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