REPORT TO: TAYSIDE VALUATION JOINT BOARD - 16 JUNE 2014

REPORT ON: EXTERNAL AUDIT–AUDIT STRATEGY OVERVIEW AND PLAN 2013/14

REPORT BY: TREASURER

REPORT NO: TVJB 8-2014

1 PURPOSE OF REPORT

To present to the Board External Audit's Audit strategy overview and plan for the year ending 31 March 2014, 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 2014.

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 2013/14 will be carried out by Mr David Watt, Engagement Director, KPMG. The Joint Board's External Auditors are appointed for a five year period and financial year 2013/14 marks the third 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 2014 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:
  - o the financial statements have been prepared in accordance with all applicable statutory requirements;
  - o proper accounting practices have been observed in the preparation of the financial statements;

  - o the Board has made proper arrangements for securing Best Value and is complying with its community duties; and
  - o 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 2014.

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 25 August 2014 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 **11 JUNE 2014**

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Tayside Valuation Joint Board

Audit strategy overview and plan

Year ending 31 March 2014

27 March 2014

APPENDIX

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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 David Watt, who is the engagement leader for our services to Tayside Valuation Joint Board, telephone 0131 300 5695, email: david.watt@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 2014.

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

Experience

Our audit team are very experienced in both the local authority and wider public sector, and provide key elements of continuity from our previous years' audits.

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

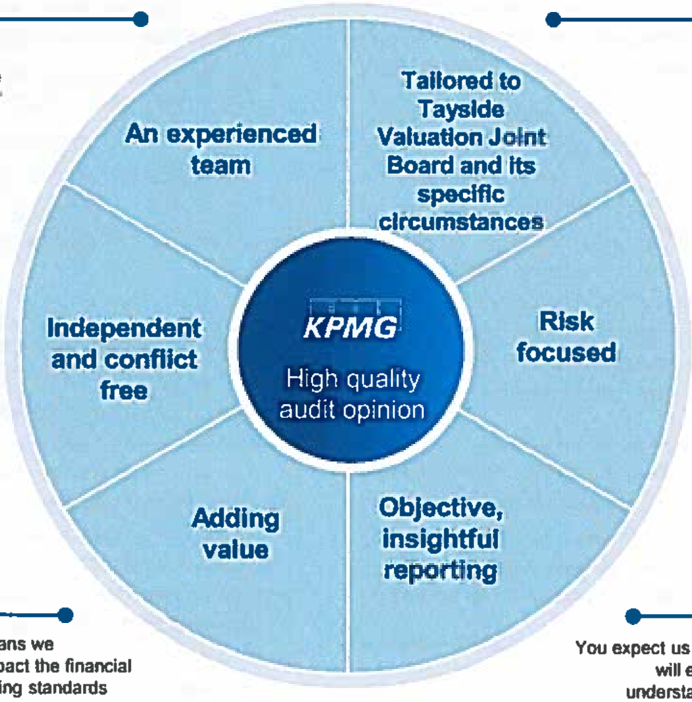
Independence

Independence and quality are at the foundation of our approach. We have systems and processes in place 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.



Tailored approach

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.

Risk-based approach

We continue to work with management to inform our understanding of the business and its challenges to ensure our audit responds to changes in the business.

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.

Introduction

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 2014 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). 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 2013-14* ("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.

Financial statements audit focus areas

Our audit approach is risk-based, and focuses on the areas most likely to lead to material misstatement in the financial statements.

Through meetings with management, we have performed initial risk assessment procedures to identify focus areas for the 2013-14 audit.

We have developed an understanding of your key audit risk areas based on our initial risk assessment procedures, including discussions with management. Our risk assessment procedures are undertaken in the context of the Joint Board's financial position, and are ongoing throughout the audit, and we will update you in respect of any emerging risks as we become aware of them.

Financial position – revenue

The budget monitoring position reported to the Joint Board in January 2014 identified a projected underspend for 2013-14 of £13,000, based on the results to 31 December 2013. The final underspend position is to be returned to the constituent Councils. The resulting projected general fund reserve is £103,000, as at 31 March 2014.

Financial position – capital

The Joint Board's approved capital programme for 2013-14 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 2014-15 to 2016-17 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 our risk assessment are significant risks and therefore requiring specific audit consideration. In determining whether a risk is significant, judgement is applied in respect of 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.

With the exception of the required two fraud risks identified in International Standard on Auditing (UK and Ireland) 240, which are set out further below, we have not identified any significant risks of material misstatement as a result of our planning and risk assessment.

We will provide an updated list of significant risks in our annual audit report which will be reported to the Joint Board by September 2014.

Fraud risk from management override of controls

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.

Fraud risk from income recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. However, as the Joint Board's income is primarily received from the constituent local authorities, we do not regard the risk of fraud from this revenue recognition to be significant.

Presentation of financial statements

There are no significant changes in the content of the *Code of Practice on Local Authority Accounting in the United Kingdom 2013-14* ("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 2013-14 ("the Code")	The 2013-14 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2013-14 ("the Code")* which is based on International Financial Reporting Standards ("IFRS"). The 2013-14 Code has a number of amendments from the 2012-13 version and management should reflect these changes to the reporting requirements in the draft financial statements. The amendments include: ■ accounting for allowances in respect of the Carbon Reduction Commitment Energy Efficiency Scheme; ■ amendments to the Comprehensive Income and Expenditure Statement as a result of changes to IFRS; ■ clarification of the treatment of overdrafts or the balance sheet and cash flow statement; ■ augmentation to pensions on service concession arrangements; ■ amendments to the accounting for retirement benefits; and following amendments to IAS19 *Retirement benefits*; and ■ a number of clarifications and augmentations as a result of the CIPFA/LASAAC post implementation review.

Changes to Local Authority Accounts (Scotland) Regulations

The Scottish Government has commenced a consultation period to amend the Local Authority Accounts (Scotland) Regulations. The consultation period closed on 4 October 2013, but at the time of compilation of this plan, the outcome of that consultation is unknown. The proposed draft regulations include a number of changes designed to help strengthen corporate governance processes. It is unclear at the current time whether the proposed regulations will be applicable in full to 2013-14 onwards, however, we have discussed with management that consideration should be given to the implications for the Joint Board's reporting arrangements arising from the content of the consultation draft and of course from the finalised Regulations once these are known.

Mandatory communications

Mandatory communications required by Auditing Standards are set out opposite.

Area	Issue	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. ■ 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 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	■ Management has processes in place to identify related party transactions and a number were disclosed in the 2012-13 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 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.

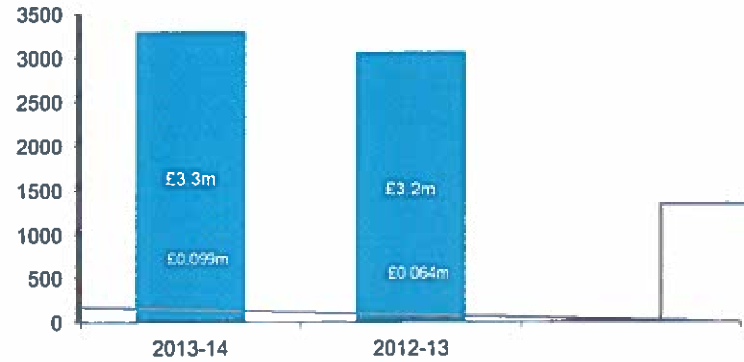
Mandatory communications: audit materiality

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

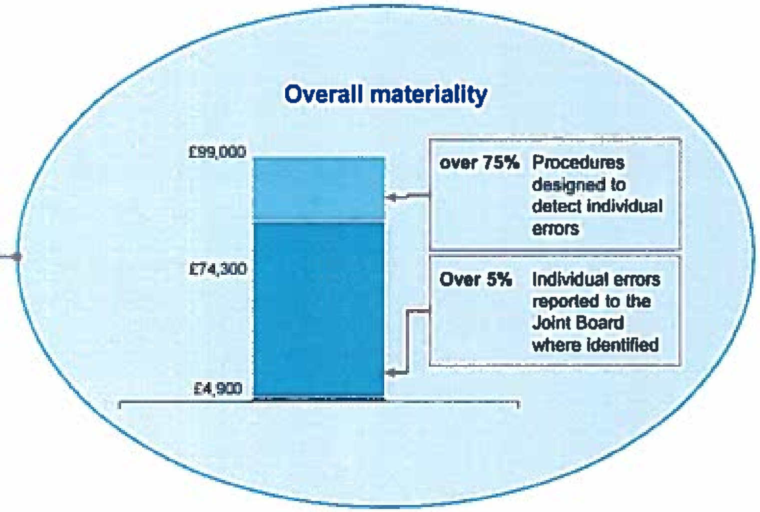
Our materiality is based on total income and takes into account the low risk nature of the Joint Board.

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

Total projected gross income



Source: January 2014 revenue monitoring report



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 £0.099 million which is approximately 3% of forecast gross revenue in 2013-14. This will be revised once draft financial statements for 2013-14 are known.

We design our procedures to detect errors at a lower level of precision, i.e. £74,300.

We will report identified errors greater than £4,900 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).

KPMG team; reporting

The team benefits from strong continuity at senior level, building on our engagement leaders' involvement in the audit of the Joint Board in 2013-14.

Team member	Role
David Watt *Engagement Director* Tel: 0141 300 5695 Email: david.watt@kpmg.co.uk	David 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.
Natalie Dyce *Audit In-charge* Tel: 0141 300 5746 Email: natalie.dyce@kpmg.co.uk	Natalie 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.

Timetable and 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.

The table opposite sets out the audit timeline. This is largely unchanged from the prior year, but will be subject to refinement through our discussions with management. We will liaise with internal audit and have regular meetings/communications with management throughout the audit.

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.

Audit timeline:

- February 2014, planning and risk assessment
- By 16 June 2014, audit strategy document to the members of the Joint Board
- July 2014, substantive audit procedures carried out
- August 2014, completion and sign audit opinion
- 25 August 2014, annual audit report to the members of the Joint Board

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. The indicative fee range is calculated using a number of inputs:

- a central estimate of the number of days need 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 2013-14 is £5,620 to £8,420, based on a mid-point of £7,020. This represents no increase on the 2012-13 fee level. We have proposed a fee to management of £7,020, which represents the mid-point on the indicative range.

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.

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Appendices

Appendix one

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 27 March 2014, 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

Audit Scotland code of audit practice – responsibilities of the Joint Board

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.

Audit Scotland code of audit practice – responsibilities of the Joint Board (continued)

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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