

# Dunbartonshire and Argyll & Bute Valuation Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for the Dunbartonshire and Argyll & Bute Valuation Joint Board

February 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value


3. We aim to add value to the Dunbartonshire and Argyll & Bute Valuation Joint Board (DABVJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the DABVJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at the Joint Board meetings and a review of supporting information we have identified the following main risk areas for DABVJB. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2018/19 Key audit risks

|  Audit Risk  | Source of assurance  | Planned audit work  |
|---|--|---|
| <b>Financial statements issues and risks</b>  |  |   |
| <p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p> | <ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul> |
| <p><b>2 Risk of fraud over expenditure</b></p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>  | <p>Robust budget monitoring.</p> <p>Robust expenditure processing.</p>                                   | <ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed testing of expenditure transactions, focusing on the areas of greatest risk.</li> </ul>  |

|  Audit Risk   | Source of assurance   | Planned audit work  |
|--|---|---|
|  | Authorisation processes regarding transactions within the ledger – e.g. journals.   |   |
| <p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and IAS 19. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>IAS 19 – Employee Benefits requires all organisations to disclose information on pension liabilities in their financial statements. Due to significant fluctuations in the stock market in 2018, a material difference was noted between the estimated and actual pension asset figures last year. There is a risk this will reoccur in 2018/19, particularly taking account of Brexit.</p> | <p>Review actuarial reports and any further updates received.</p> <p>Officers are contacting SPF for assurances and are working to minimise this risk in 2018/19.</p> | <ul style="list-style-type: none"> <li>Review the work completed by officers and obtain assurances received.</li> <li>Review actuarial reports when available.</li> </ul> |
| <p><b>Wider dimension issues and risks</b></p>   |   |   |
| <p><b>4 Financial sustainability</b></p> <p>Budget monitoring reports as at 3 January 2019 show that net expenditure will exceed constituent contributions for the 2018/19 financial year and beyond. Currently, reserves are being used to fill the budget gaps.</p> <p>There is a risk of insufficient levels of reserves being maintained in the longer-term.</p> <p>Furthermore, planned Voluntary Early Release and Voluntary Severance exercises were unsuccessful. As a result, there is increased pressure on management to find savings elsewhere.</p>  | <p>Robust budget monitoring.</p>  | <ul style="list-style-type: none"> <li>Monitoring financial reports.</li> <li>Review risk register.</li> <li>Attend Joint Board meetings.</li> </ul>                      |
| <p><b>5 Barclay review on Non-Domestic Rates</b></p> <p>The recommendations from the Barclay review of non-domestic rates could have far reaching implications. The change to three yearly revaluations from 2022 will increase the workload of DABVJB.</p> <p>There is a risk that there will be insufficient resources to meet the increased operational needs.</p>  | <p>Project plan expected after March 2019.</p> <p>Resources are reviewed by management on a continuous basis.</p>   | <ul style="list-style-type: none"> <li>Review project plan once available.</li> <li>Ongoing discussions with key client staff.</li> </ul>                                 |

## Reporting arrangements

- 5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer to confirm factual accuracy.
- 7.** We will provide an independent auditor's report to DABVJB and Accounts Commission setting out our opinions on the annual accounts. We will provide the Treasurer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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## Exhibit 2 2018/19 Audit outputs

| Audit Output                 | Target date  | Joint Board Date |
|------------------------------|--------------|------------------|
| Annual Audit Plan            | 31 March     | 1 March          |
| Annual Audit Report          | 30 September | TBC              |
| Independent Auditor's Report | 30 September | TBC              |

Source: Audit Scotland

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## Audit fee

- 8.** The proposed audit fee for the 2018/19 audit of DABVJB is £7,320 [2017/18 £7,110]. In determining the audit fee we have taken into account the risk exposure of DABVJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 30 June 2019.
- 9.** Last year we identified that the process for updating the accounts for audit adjustments required to be improved as some amendments had been omitted. This led to additional time to check a subsequent version of the accounts. We have received assurances that the process will be improved for the 2018/19 accounts. We will continue to liaise with finance staff to ensure that all adjustments are updated timeously.
- 10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### DABVJB and Treasurer

- 11.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**12.** The audit of the annual accounts does not relieve management or the DABVJB as those charged with governance, of their responsibilities.

#### Appointed auditor

**13.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**15.** The annual accounts, which includes the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Dunbartonshire and Argyll & Bute Valuation Joint Board and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how DABVJB will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**16.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of DABVJB as at 31 March 2019 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Other information in the annual accounts

**17.** We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements



20. We calculate materiality as described below in [Exhibit 3](#).

### Exhibit 3 Materiality values



| Materiality   | Amount  |
|---|---------|
| <b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts.  | £42,000 |
| <b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 80% of planning materiality. | £34,000 |
| <b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements above the ‘reporting threshold’ amount. This has been based on 4% of planning materiality.  | £2,000  |

Source: Audit Scotland

### Timetable

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

### Exhibit 4 Annual accounts timetable

|  Key stage |  Date |
|---|--|
| Consideration of unaudited annual accounts by those charged with governance                   | TBC  |
| Latest submission date of unaudited annual accounts with complete working papers package      | 30 June  |
| Latest date for final clearance meeting with Treasurer  | 6 September  |
| Issue of Letter of Representation and proposed independent auditor's report                   | TBC  |
| Agreement of audited unsigned annual accounts   | TBC  |
| Issue of Annual Audit Report to those charged with governance                                 | TBC  |
| Independent auditor's report signed   | 30 September   |

### Internal audit

22. Internal audit is provided by the internal audit section of West Dunbartonshire Council. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**23.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

**24.** From our initial review of internal audit plans, we plan to place formal reliance on internal audit work in the following areas:

- General Ledger
- The Joint Board's compliance with Freedom of Information and Data Protection legislation.

### Audit dimensions

**25.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

**26.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the low volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2018/19 audit of the DABVJB.

### Financial sustainability

**27.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether DABVJB can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

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

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

## Governance and transparency

**29.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether DABVJB can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

## Value for money

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

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

## Independence and objectivity

**31.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**32.** The engagement lead (i.e. appointed auditor) for DABVJB is Carol Hislop, Senior Audit Manager. Auditing and ethical standards require the appointed auditor Audit Scotland to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of DABVJB.

## Quality control

**33.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**34.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**35.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Dunbartonshire and Argyll & Bute Valuation Joint Board Dunbartonshire and Argyll & Bute Valuation Joint Board

## Annual Audit Plan 2018/19

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