

Central Scotland Valuation Joint Board

Annual Audit Plan 2020/21



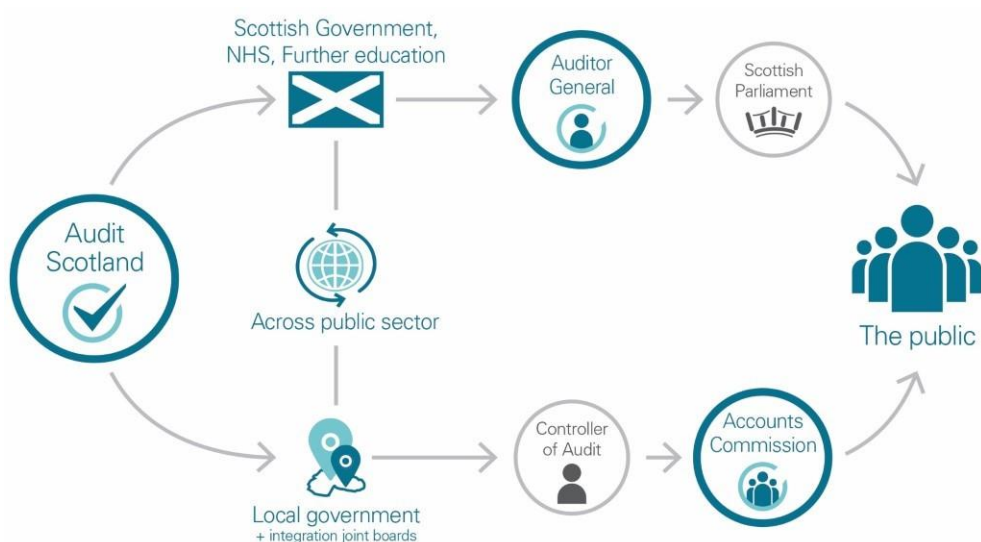
 AUDIT SCOTLAND

Prepared for Central Scotland Valuation Joint Board
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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. Our audit of Central Scotland Valuation Joint Board (the board) is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and guidance on planning the audit. This plan contains an overview of the planned scope and timing of our audit. It sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and to 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.
3. The public health crisis caused by the COVID-19 pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value to the board 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 board promote improved standards of governance, better management, and decision making, and more effective use of resources.

Audit risks


6. Building on our knowledge from previous years, discussions with staff, attendance at board meetings and a review of supporting information we have identified a number of significant financial statement and wider dimension audit risks. These risks are detailed in [Exhibit 1](#).
7. In line with auditing standards, we have reviewed our assessment of audit risks and the planned audit work detailed in Exhibit 1 prior to commencing our audit of the financial statements. As a result of this review, we have updated audit risks in Exhibit 1 as follows:
 - We have rebutted the presumed financial statements risk of fraud over expenditure on the basis of our assessment of the likely incidence of fraud in individual expenditure streams such as employee costs (63% of the board's prior-year expenditure), property costs, operating costs and support services costs. In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in


expenditure. However, we have assessed that the volume of expenditure transactions that would need to be fraudulent to result in a material risk is implausible. Additionally, there is no history of material misstatement or error in recording expenditure, and therefore no requirement for additional audit procedures.

- We have added the financial statements risk of estimation and judgements as there is a significant degree of subjectivity in the measurement and valuation of the material area of pensions.

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1. Risk of material misstatement caused by management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements due to fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to management override of controls.</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"> • Testing of journal entries. • Review of accounting estimates. • Testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2. Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Controls are in place to ensure accurate provision of data to actuaries.</p> <p>The work of an independent actuary will provide the basis for the pension liability estimate.</p>	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' in respect of the actuary including a review of actuarial assumptions. • Testing of pension disclosures, including data that the board provides to actuaries.
Wider dimension risks		
<p>3. Financial sustainability</p> <p>The board faces a challenging financial position. Future pressures include uncertainty over the level of future funding streams from constituent authorities, the ability of the board to make reductions in net expenditure while dealing with an increase in revaluation appeals and the ability to retain and recruit qualified staff. The move from five to three yearly revaluations under the Barclay review will require additional staff resources during a time of increased pressures</p>	<p>Effective budget monitoring by management.</p> <p>The board regularly examines its current and forecast financial position.</p>	<ul style="list-style-type: none"> • Assess the effectiveness of financial planning in identifying the risks to financial sustainability in the short, medium, and long terms. • Examine the arrangements in place to address identified funding gaps.

	Audit Risk	Source of assurance	Planned audit work
	across the public sector due to COVID-19.		
Source: Audit Scotland			

8. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk for the board in 2020/21 because we consider the risk of fraud to be low as 90% of the board's income is council contributions from the three constituent local authorities. There is no history of material misstatement or error in recording income and therefore no requirement for additional audit procedures.

Reporting arrangements

9. 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.

10. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

11. At the end of our audit we will provide the board and the Accounts Commission with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit. We will also issue an independent auditor's report containing our opinion on the financial statements.

12. As a result of COVID-19 restrictions impacting completion of 2019/20 audits, we are starting work on 2020/21 significantly later than would normally be the case. For this reason, the target date for the annual audit report and independent auditor's report may be later than in previous years and may be subject to change.

Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	19 February 2021	25 June 2021
Annual Audit Report	16 September 2021	24 September 2021
Independent Auditor's Report	16 September 2021	24 September 2021

Source: Audit Scotland

Audit fee

13. The proposed audit fee for the 2020/21 audit of the board is £7,610 (2019/20: £7,450). In determining the audit fee, we have taken account of the risk exposure of the board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 25th June 2021.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, 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

Central Scotland Valuation Joint Board and management

15. 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 that enable them to successfully deliver their objectives.

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

Appointed auditor

17. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

18. 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 and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

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

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

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

- give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code) of the state of affairs of the board as at 31 March 2021 and of the income and expenditure of the board for the year then ended
- have been properly prepared with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations Act 2014, and the Local Government in Scotland Act 2003.

Statutory other information in the annual accounts

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

22. We also review the content of the management commentary for consistency with the financial statements and with our knowledge. We consider whether the information is otherwise materially misstated. We report any uncorrected material misstatements in statutory other information.

Materiality

23. 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.

24. We calculate materiality at different levels as described below. The calculated planning materiality values for the board are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2021 based on the 2019/20 audited accounts.	£31,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£23,000
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£2,000

Source: Audit Scotland



Timetable

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

26. Given the impact of ongoing COVID-19 restrictions, some of the dates below are still to be discussed and agreed with officers.

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by the board	25 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	25 June 2021
Latest date for final clearance meeting	10 September 2021
Issue of Letter of Representation (ISA 580) and proposed independent auditor's report	16 September 2021
Agreement of audited unsigned annual report and accounts	16 September 2021
Issue of Annual Audit Report to those charged with governance	16 September 2021
Independent auditor's report signed	24 September 2021

Source: Audit Scotland

Internal audit

27. Internal audit is provided under an agreement with Falkirk 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 the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

28. We will report any significant findings to management on a timely basis.

Using the work of internal audit

29. 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 to ensure the total resource is used efficiently or effectively.

Audit dimensions

30. 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.

31. 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 light of the low volume and lack of complexity of the board's financial transactions, we plan to apply the small body provisions of the Code to the 2020/21 audit of the board.

Financial sustainability

32. 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 board's financial sustainability. We define financial sustainability as having medium term (two to five years) and longer term (greater than five years) financial plans in place. 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 arrangements in place to address identified funding gaps.

Governance and transparency

33. 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 the appropriateness of the disclosures in the board's annual governance statement.

Independence and objectivity

34. 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. These arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

35. The engagement lead for the board is currently Tom Reid, Senior Audit Manager. From March 2021, Ursula Lodge, Senior Audit Manager, will take over as engagement lead. Auditing and ethical standards require the engagement lead 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 the board.

Quality control

36. 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.

37. 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 relevant 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. The Institute of Chartered Accountants of Scotland (ICAS) have also been commissioned to carry out external quality reviews of our work.

38. 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.

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