



# Renfrewshire Valuation Joint Board

## External Audit Annual Plan 2022/23

February 2023



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# Introduction

Azets have been appointed by Audit Scotland as the external auditor to Renfrewshire Valuation Joint Board (“the Board”) for the period 2022/23 to 2026/27.

This document summarises the work plan for our 2022/23 external audit of the Board.

The core elements of our work include:

- An audit of the 2022/23 annual accounts and related matters;
- Consideration of the wider scope areas of public audit work as they apply to less complex bodies;
- Any other work requested by Audit Scotland.

We expect that our audit will have a similar underlying approach to that of your previous external auditor, Audit Scotland, although there are some changes to the Code of Audit Practice and auditing standards that come into effect for the first time in 2022/23, which are reflected in this document.

## Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We will add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

## Openness and transparency

This report will be published on Audit Scotland’s website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Audit scope and general approach

## Responsibilities of the auditor and the Board

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

The Board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Board is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

Appendix 1 provides further detail of both our responsibilities and those of the Board.

## Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	Our understanding of the sector, its key priorities and risks	Attendance at the Board
Guidance from Audit Scotland	Discussions with Audit Scotland and other public sector auditors	Consideration of the work of internal audit
Review of the Board's corporate strategies and plans	Review of the Board's corporate risk register	Outcomes of prior year audits

Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

## Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Board.

## Professional standards and guidance

We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

## Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

### Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

### Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the Board is used as efficiently and effectively as possible.

### Service organisations

Renfrewshire Council (“the Council”) is the lead administrative authority for the Board, providing Treasurer and board Clerk roles, as well as other service support, such as payroll, ICT, legal and HR. Where those services (and associated systems) have a material impact on the annual accounts we will work with the Council to understand the controls in place over the systems used in delivering these services.

## Delivering the audit – post pandemic

### Hybrid audit approach

We intend to adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Skype, Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

### Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

### Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location and there is no longer a need for duplicate copies to be signed.

## Approach to audit of the annual accounts

Our objective when performing an audit of the annual accounts is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our general approach, we will:

- perform risk assessment procedures including updating our understanding of the entity and its environment, the financial reporting framework and system of internal control;
- review the design and implementation of key internal controls;

- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances or disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

## Key audit developments in 2022/23

Revised auditing standards<sup>1</sup>, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The in-depth nature of these additional procedures, as well as updated tools and techniques that may come into scope, will also offer additional opportunity to provide insights and constructive feedback on the way the Board manages risks. Appendix 2 provides further details on the implications of these new requirements.

## Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be

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<sup>1</sup> Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement in the financial statements and ISA (UK) 240 on material misstatements caused by fraud came into effect for audits of financial statements with periods commencing on or after 15 December 2021.

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

The basis for our assessment of materiality is set out in Appendix 3.

## Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work is not for the purpose of expressing an opinion on the effectiveness of internal controls.

We will report to the Board, significant deficiencies in internal controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

## Specialised skill or knowledge required to complete the audit procedures

Our intended audit approach is to consult internally with our Technology Risk team for them to support the audit team in assessing the information technology general controls (ITGC).

## Going concern

The concept of going concern applies in the public sector but in a different way to the private sector. In many public sector entities (but not all), the use of going concern basis of accounting is not a significant matter because the applicable financial reporting framework envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest that the application of the going concern basis.



## Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing. Audit Scotland has extended this responsibility to the Accounts Commission in respect of local government.

We require the Board to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Wider scope audit work

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 providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. Appendix 1 provides detail of the wider scope areas of public sector audit work.

The Code of Audit Practice provides for the Accounts Commission to specify an alternative audit approach where an audited body might be considered less complex due to its size and its limited financial activity.

We have concluded, based on an assessment of the nature and circumstances of the Board, that a limited wider scope audit is appropriate. Our audit will be limited to:

- A review of the Annual Governance Statement

- Concluding on the financial sustainability of the Board and the services it delivers over the medium to longer term.

## Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Board's best value arrangements will be integrated into our audit approach, including our work on the wider scope areas as set out in this plan.

We will review and consider how the Board demonstrates and reports that it has Best Value arrangements in place to secure continuous improvement.

# Significant and other risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

## Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p><b>Management override of controls</b></p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p><b>Risk of material misstatement: Very High</b></p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> <li>• Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals;</li> <li>• Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals;</li> <li>• Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for</li> </ul>

Identified risk of material misstatement	Audit approach
	<p>appropriateness, corroboration and to ensure approval has been undertaken in line with the Board's journals policy;</p> <ul style="list-style-type: none"> <li>• Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud; and</li> <li>• Evaluating the rationale for any changes in accounting policies estimate or significant unusual transactions.</li> </ul>

## Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risks of material misstatement assertion level for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p><b>Fraud in revenue recognition</b></p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the Board could adopt accounting policies or recognise income in such a way as</p>	<p>We have rebutted this risk.</p>

Identified risk of material misstatement	Audit approach
<p>to lead to a material misstatement in the reported financial position.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end. However, we do not deem this risk to be present in requisitions received from the constituent local authorities due to a lack of incentive and opportunity to manipulate transactions. We also rebut this risk in relation to other income as it is not material to the accounts.</p> <ul style="list-style-type: none"> <li>• <b>We have rebutted this risk.</b></li> </ul>	
<p><b>Fraud in non-pay expenditure</b></p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end.</p> <p><b>Inherent risk of material misstatement:</b></p> <ul style="list-style-type: none"> <li>• <b>Non-pay expenditure (occurrence / completeness): High</b></li> </ul>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> <li>• Evaluating the significant non-pay expenditure streams and reviewing the controls in place over accounting for expenditure.</li> <li>• Consideration of the Board's key areas of expenditure and obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.</li> <li>• Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.</li> </ul>

Identified risk of material misstatement	Audit approach
<ul style="list-style-type: none"> <li>• <b>Accruals (existence / completeness): High</b></li> </ul>	
<p><b>Pension asset / liability (key accounting estimate)</b></p> <p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities.</p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation, and mortality rates) can have a material impact on the pension asset/liability.</p> <p>There is a risk that the assumptions used are not appropriate.</p> <p><b>Inherent risk of material misstatement:</b></p> <p><b>Pensions (valuation): High</b></p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> <li>• Review of the controls in place to ensure that the data provided from the pension fund to the actuary is complete and accurate.</li> <li>• Reviewing the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.</li> <li>• Agreeing the disclosures in the financial statements to information provided by the actuary.</li> <li>• Considering the competence, capability and objectiveness of the management expert in line with ISA (UK) 500 Audit Evidence.</li> </ul>

## Wider scope

As described previously, the Code of Audit Practice frames a significant part of our audit responsibilities. Following consideration of the size, nature and risks of the Board, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work will therefore be restricted to:

- A review of the Annual Governance Statement
- Concluding on the financial sustainability of the Board and the services it delivers over the medium to longer term.

Our planned audit work against these two areas is risk based and proportionate. Our initial assessment builds upon our understanding of the Board's key priorities and risks, along with discussions with management and review of Board minutes and key strategy documents.

At this stage of our audit planning process, we have identified one significant risk to the wider scope of our audit as set out in the table below.

Audit planning however is a continuous process. We will report any other identified significant risks in our annual audit report.

Financial sustainability	Audit approach
<p>In February 2023 the Board considered its revenue budget for 2023/24 and indicative budget estimates for the subsequent two years (to 2025/26).</p> <p>At the end of the current financial year the Board is estimating to have a total reserve of £816k which represents circa 29% of the net expenditure or 35% of the requisition funding in the year. The key cost driver is staff expenditure which is expected to increase over the period of the estimate. The local authorities' requisitions in 2023/24 will not change and will increase slightly in the two years that follow, representing 4% cumulative increase over the three year period.</p> <p>To reduce the level of reserves to a more appropriate level and make up for the lower than inflation increases in the requisitions</p>	<p>We will review the Board's arrangements for managing its financial position. Our work will include an assessment of progress made in developing financially sustainable plans which support the delivery of the Board's statutory functions and strategic objectives.</p>

Financial sustainability	Audit approach
<p>the Board plans to utilise its reserves and decreasing them by £292k over this period. This represents 15% of net expenditure as at March 2026.</p> <p>There is a level uncertainty in the above estimates due to:</p> <ul style="list-style-type: none"> <li>• Indirect dependence on the Scottish Government annual allocation of funding to local authorities who in turn fund the Board activities through their requisitions. The funding levels from the Scottish Government beyond 2023/24 are uncertain and impacted by wider economic factors in Scotland.</li> <li>• The Boards faces cost pressures, particularly in its staff cost which make up 74% of its expenditure. While the most recent Bank of England's expectation is that the inflation will fall to 4% at the calendar year end the current levels are still high and around 10%.</li> </ul> <p>We note that the Board has savings of £51k planned in 2023/24 budget in relation to its ICT development reprofiling, property cost reduction, staffing adjustments and other efficiencies.</p> <p>The Board medium to longer term financial planning is therefore challenging due to wider economy environment and local government funding uncertainties. The Board is proactive at addressing these by considering its use of reserves and establishing a savings plan.</p>	



# Your Azets audit management team

The external audit team will be led by Gary Devlin and managed by Adrian Kolodziej.

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## Gary Devlin: Engagement Lead

[gary.devlin@azets.co.uk](mailto:gary.devlin@azets.co.uk)

Gary is the partner in charge of our audit of Renfrewshire Valuation Joint Board. Gary has over 20 years' experience in local government auditing and also leads our external audit appointment to Renfrewshire Council.



## Adrian Kolodziej: Engagement Manager

[adrian.kolodziej@azets.co.uk](mailto:adrian.kolodziej@azets.co.uk)

Adrian will manage the delivery of the onsite work and work alongside Gary to deliver the audit engagement. Adrian has over 14 years of public sector experience performing the external audits of local authorities, central government and further education bodies.



# Audit timetable

The submission date for audited annual accounts in local government is generally set to be consistent with the date specified in the accounts regulations by which the Board is required to approve its audited accounts. The Coronavirus (Scotland) Act 2000 permitted a deferral in 2019/20 and 2020/21 to 30 November, and a temporary amendment to the accounts regulations allowed a submission date of 31 November for 2021/22. However, the submission date is returning to pre-pandemic 30 September for 2022/23.

We have set out below target months which align to the schedule of Board meetings. We aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues.

Audit work/output	Description	Target month/s	Board	Deadline
Audit plan	Audit plan setting out the scope of our audit, including key audit matters, presented to the Board.	February	24 February 2023	31 March 2023
Interim audit	Interim audit including review of accounting systems.	March - April	N/A	N/A
Final audit	Accounts presented for audit and final audit visit begins	July - September	N/A	N/A
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	September	15 September 2023	30 September 2023

Audit work/ output	Description	Target month/s	Board	Deadline
Annual Report to the Board and the Controller of Audit	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	September	15 September 2023	30 September 2023

Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

## Audit fee

For 2022/23, the new appointment process provided Audit Scotland with a fair representation of the current audit market for each individual body with the outcome of this exercise highlighting the increasing requirements, expectations and scrutiny of the audit profession.

The quality of audit work is an essential requirement in successfully delivering a fully compliant ISA and Code of Audit Practice audit. These factors have led to above inflationary increases in the cost of audit. Whilst these increases are significant these are consistent with evidence obtained from the profession and other UK audit agencies. On setting fees, Audit Scotland has ensured that efficiencies have been fully utilised to mitigate the impact.

For the local government sector, the average fee increase is 12.5%.

Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

As auditors we negotiate a fee with the Board during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

For 2022/23, we propose setting the audit fee at c.13% above the expected fee level (expected fee level £8,800 which is £980 higher than the fee agreed in the previous year and reflects the sectoral increase of 12.5%). This reflects the level of work we consider is required in response to the key audit matters identified in this document.

	2022/23	2021/22
Auditor remuneration	£21,500 (base is 20,360)	£6,760
Pooled costs	-	£700
Audit support costs	£770	£360
Sectoral cap adjustment	(£12,330)	-
<b>Total fee</b>	<b>£9,940</b>	<b>£7,820</b>

We will take account of the risk exposure of the Board and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

# Audit independence and objectivity

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non-audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by the Board to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

# Appendix 1: Responsibilities of the Auditor and the Board

## The Accounts Commission, Controller of Audit and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

## Auditor responsibilities

### Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

### Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.



We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the Board and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

### Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

	<h3>Financial management</h3> <p>Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.</p> <p><b>Auditor considerations</b></p> <p>Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.</p>
	<h3>Financial sustainability</h3> <p>Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.</p> <p><b>Auditor considerations</b></p> <p>Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.</p>



	<h3>Vision, leadership and governance</h3> <p>Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.</p> <p><b>Auditor considerations</b></p> <p>Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.</p>
	<h3>Use of resources to improve outcomes</h3> <p>Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.</p> <p><b>Auditor considerations</b></p> <p>Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.</p>

## Limited wider scope audit work

The Code of Audit Practice provides for the Accounts Commission to specify an alternative audit approach where an audited body might be considered less complex due to its size and its limited financial activity.

We have concluded, based on an assessment of the nature and circumstances of the Board, that a limited wider scope audit is appropriate. Our audit will be limited to:

- A review of the Annual Governance Statement
- Concluding on the financial sustainability of the Board and the services it delivers over the medium to longer term.

## Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Board's best value arrangements will be integrated into our audit approach, including our work on the wider scope areas as set out in this plan.

We will review and consider how the Board demonstrates and reports that it has Best Value arrangements in place to secure continuous improvement.

## Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

## Board responsibilities

The Board has 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 enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	Board responsibilities
<b>Corporate governance</b>	<p>The Board is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<b>Financial statements and related reports</b>	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures;</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and</li> <li>• preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable.</li> </ul> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p>

Area	Board responsibilities
	<p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The Board is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p><b>Standards of conduct for prevention and detection of fraud and error</b></p>	<p>The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Financial position</b></p>	<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Best value</b></p>	<p>The Board has a specific responsibility to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:</p> <ul style="list-style-type: none"> <li>• The quality of its performance of its functions</li> </ul>

**Area**

**Board responsibilities**

- The cost to the body of that performance
- The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the Board shall have regard to:

- Efficiency
- Effectiveness
- Economy
- The need to meet the equal opportunity requirements.

The Board should discharge its duties in a way which contributes to the achievement of sustainable development.

# Appendix 2: Potential impact on the Board and our audit approach following revisions to auditing standards

Revised auditing standards which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The table below provides further detail on the implications of these new requirements.

Key change	Potential impact on the Board & our approach
<b>Enhanced risk identification and assessment, promoting more focused auditor responses to identified risks</b>	<p>Management and those charged with governance may receive more up-front questions as we plan the audit and identify and assess risks of material misstatement.</p> <p>We may conduct planning and risk assessment procedures at a different time to ensure that our understanding is comprehensive, and that information is leveraged effectively and efficiently.</p> <p>To facilitate a more robust risk-assessment, we may request additional information to enhance our understanding of systems, processes and controls. For example, we may request:</p> <ul style="list-style-type: none"> <li>• a better understanding of the Board's structure and operations and how it integrates information technology (IT)</li> <li>• more information about the Board's processes for assessing risk and monitoring its system of internal control</li> </ul>

Key change	Potential impact on the Board & our approach
	<ul style="list-style-type: none"> <li>• more detailed narratives about how transactions are initiated, recorded, processed and reported</li> <li>• policies and procedure manuals, flowcharts and other supporting documentation to validate our understanding of the information systems relevant to the preparation of the financial statements</li> <li>• more information to support our inherent risk assessment.</li> </ul> <p>This information not only informs our risk assessment but also assists us in determining an appropriate response to risks identified, including any new significant risks which require a different response.</p>
<p><b>Understanding and acting on risks associated with IT</b></p>	<p>We will be asking tailored questions and making information requests to understand the IT environment, including:</p> <ul style="list-style-type: none"> <li>• IT applications</li> <li>• supporting IT infrastructure</li> <li>• IT processes</li> <li>• personnel involved in the IT processes.</li> </ul> <p>Combined with the controls that may be needed to address the identified and assessed risks of material misstatement, this understanding may also identify existing and new risks arising from the use of IT. Therefore, we will be asking more focused questions and requesting additional information to understand the general IT controls that address such risks. For example, we may have questions in relation to general IT controls over journal entries (e.g., segregation of duties related to preparing and posting entries) to address risks arising from the use of IT.</p> <p>Depending on our assessment of the complexity of systems and associated risks, we may also involve additional team members, such as IT specialists.</p>
<p><b>Enhanced procedures in connection with fraud</b></p>	<p>We will be asking targeted questions as part of an enhanced approach to fraud, including discussing with the Board:</p> <ul style="list-style-type: none"> <li>• any allegations of fraud raised by employees or related parties</li> </ul>

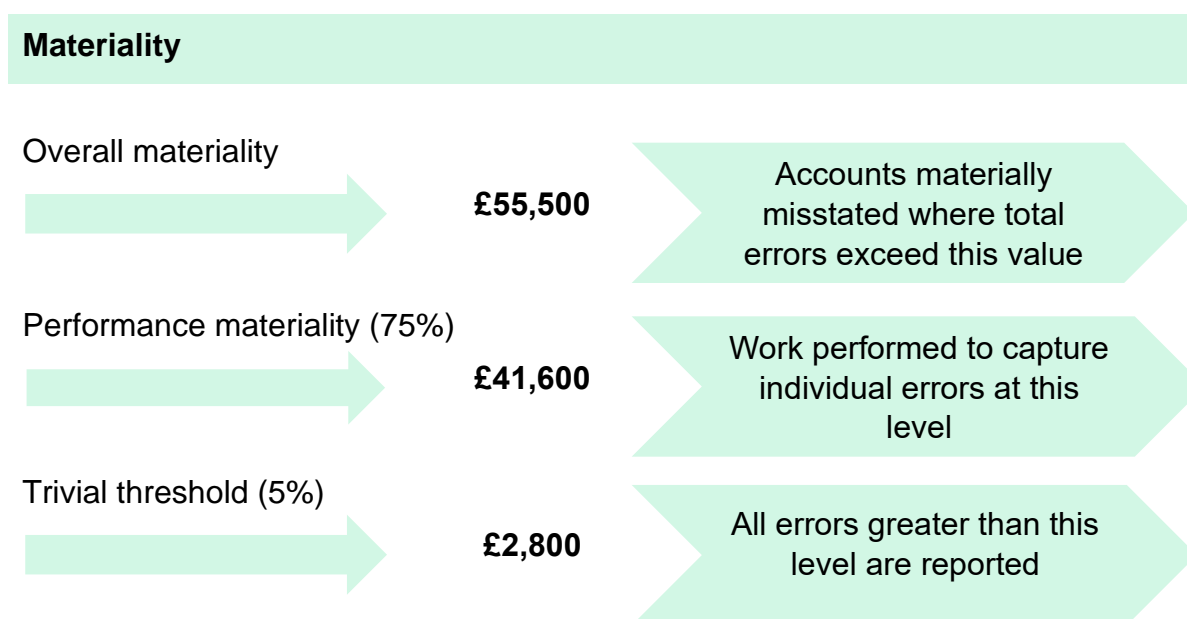
Key change	Potential impact on the Board & our approach
	<ul style="list-style-type: none"> <li>the risks of material fraud, including those specific to the local government sector.</li> </ul> <p>Combined with other information, and any inconsistencies in responses from those charged with governance and management, we determine implications for further audit procedures. Work in connection with fraud may also now include the use of audit data analytics, or the inclusion of specialists in our engagement team to ensure we obtain sufficient appropriate audit evidence to conclude whether the financial statements are materially misstated as a result of fraud.</p> <p>In addition to existing communication and reporting requirements relating to irregularities and fraud, there may be further matters we report in connection with management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.</p> <p>These enhanced requirements may assist in the prevention and detection of material fraud, though do not provide absolute assurance that all fraud is detected or alter the fact that the primary responsibility for preventing and detecting fraud rests with the Board and management.</p>
<p><b>Enhanced requirements for exercising professional scepticism</b></p>	<p>Challenge, scepticism and the application of appropriate professional judgement are key components of our audit approach. You may receive additional inquiries if information is found that contradicts what our team has already learned in the audit or in instances where records or documents seen in the course of the audit appear to have been tampered with, or to not be authentic.</p>
<p><b>Using the right resources, in the right way, at the right time</b></p>	<p>One of our new strategic quality objectives sets out that we will strive to use the right resource, in the right way, at the right time. This may mean increasing the use of specialists (for example in relation to general IT controls) or changing the shape of the audit engagement team to ensure that we are able to provide appropriate challenge and feedback in specialist areas.</p> <p>This will include appropriate use of technology, including data analytics.</p>



# Appendix 3: Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Board and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.



**Materiality**

Our assessment is made with reference to the Board’s gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance.

Our assessment of materiality equates to approximately 2% of the Board’s gross expenditure as estimated in the most recent revenue monitoring report.

In performing our audit, we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

**Performance  
materiality**

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

**Trivial  
misstatements**

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.



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