



# Indicative External Audit Plan

for the year ended  
31 March 2024

Inverclyde Integration Joint Board

28 March 2024

## Key contacts

Your key contacts in connection with this report are:

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#### About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code").

This report is intended for the benefit of Inverclyde Integration Joint Board ("the Board") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report and it will not be quoted or referred to, in whole or in part, without our prior written consent. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.



# Introduction

## To the Audit Committee of Inverclyde Integration Joint Board

We are pleased to have the opportunity to meet with you on 13 May 2024 to discuss our anticipated approach to the audit of the financial statements of Inverclyde Integration Joint Board, as at and for the year ending 31 March 2024.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

### The engagement team

Michael Wilkie is the engagement leader on the audit. Michael will lead the engagement and is responsible for the audit opinion. Taimoor Alam will be the manager responsible for the audit and will be responsible for overseeing the delivery of our audit. Other key members of the engagement team include Richard Yang (In-charge).

Yours sincerely,  
Michael Wilkie  
28 March 2024

## How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion that is also important.

We define 'audit quality' as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics and integrity**.

## Restrictions on distribution

This report is intended solely for the information of those charged with governance of Inverclyde Integration Joint Board and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

# Indicative Materiality (Board)

Total Board expenditure\*  
£222m (PY: £222m)

\*Based on 2022-23 financial statements.



Indicative Board materiality  
£5m (PY: £5m)  
2.25% of total expenditure



Misstatements reported to the Audit Committee

Procedure designed to detect individual errors at this level

Materiality for the financial statements as a whole

## Our materiality levels

The materiality levels outlined above is indicative and will be confirmed when we receive the draft financial statements for 2023-24. We determine materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We expect to use a benchmark of total expenditure for cost of services. (before asset impairments and defined benefit pension charges) which we consider to be appropriate as it reflects the scale of the Authority’s services and we consider this most clearly reflects the interests of users of the Authority’s accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as directors’ salary information in the remuneration report.

## Reporting to the audit committee

Under ISA 260, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Board, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.25 million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

# Significant audit risks and our audit approach

This section of our report sets out the expected audit risks we anticipate to focus on and to take up significant audit time. This risk assessment is subject to change and we will provide an updated set of risks, should these change significantly.

Our risk assessment draws upon our knowledge of the industry and the wider economic environment in which Inverclyde Integration Joint Board operates.

We also use our regular meetings with senior management to update our understanding and take input from component audit teams and internal audit reports.

We will update our risk assessment once we have completed our detailed planning procedures and provide a further update in our Audit Plan and Strategy.

## Relevant factors affecting our risk assessment

### Significant risks

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- 1 Fraud risk from income recognition and expenditure (presumed risk per ISA 240 – **rebutted**)
  - 2 Fraud risk from management override of controls (presumed risk per ISA 240 – **notrebutted**)
- 

### Other risks

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- 3 Completeness and accuracy of expenditure
-

# Significant audit risks and our audit approach

## 1. Risk from income recognition and expenditure

### Significant audit risk

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

#### ***Income***

We consider that the Board's significant income streams, which include funding requisitions from Inverclyde Council and NHS Greater Glasgow and Clyde. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant.

**We therefore plan to rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.**

**We will continue to assess this as we complete our planning and risk assessment and report any changes should this assessment change.**

#### ***Expenditure***

The Board works with Inverclyde Council and NHS Greater Glasgow and Clyde in order to deliver services delegated by the Board. The Board makes these decisions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.

**We therefore plan to rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.**

**We will continue to assess this as we complete our planning and risk assessment and report any changes should this assessment change.**

# Significant audit risks and our audit approach

## 2. Management override of controls

### Significant audit risk

#### The risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

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.

We have not identified any specific additional risks of management override relating to this audit.

### Planned response

- Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we will evaluate the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate.
- We will evaluate the design and implementation of general IT controls.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition around year-end, or journals linked to our other recognised significant risks.
- We will assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We will review the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual.
- We will assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

# Other audit risks and our audit approach

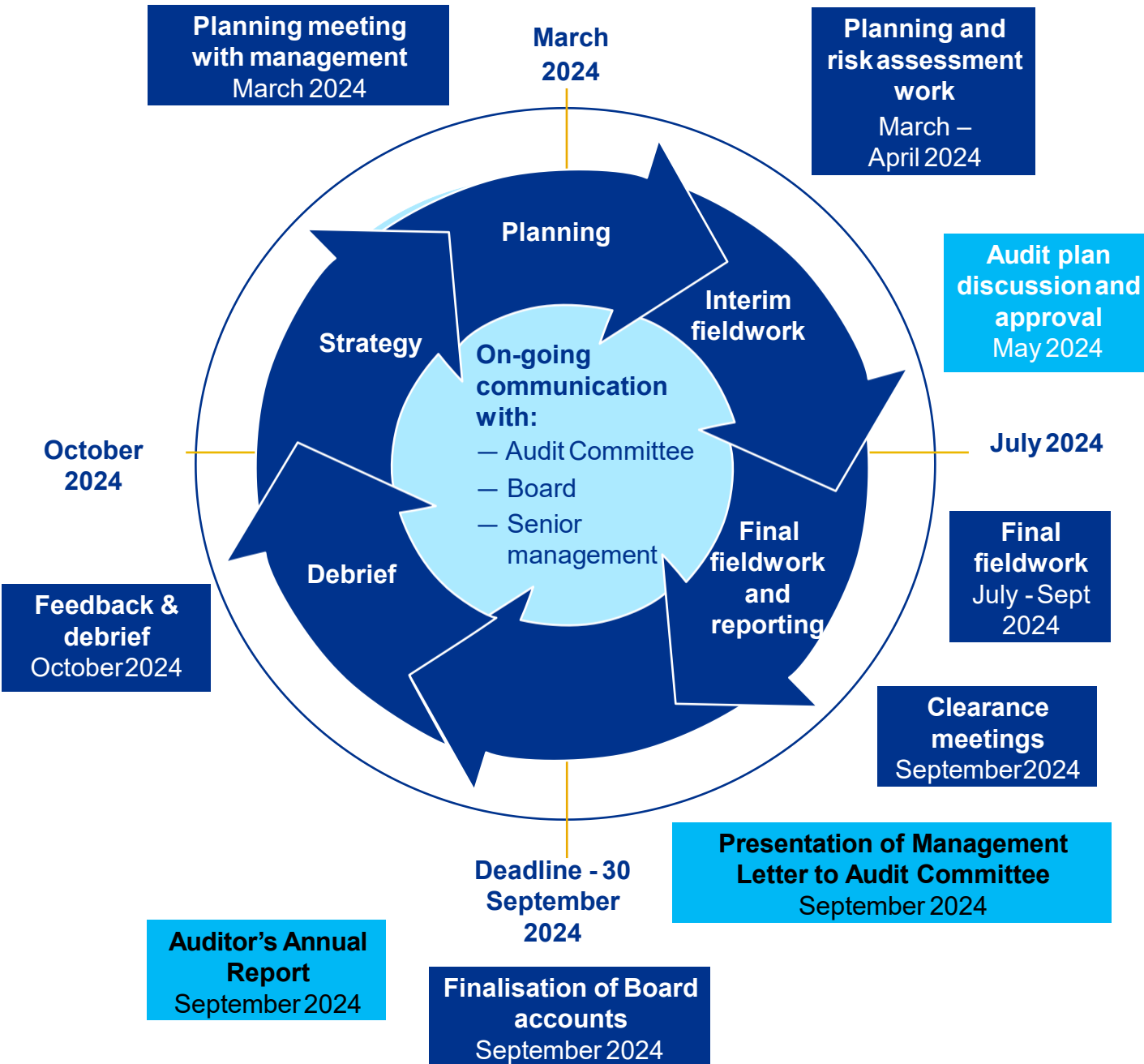
## 3. Completeness and accuracy of Expenditure

Other risks	Planned response
<p><b>The risk</b></p> <p><b>Completeness and accuracy of expenditure</b></p> <p>There is a risk that the actual expenditure and resulting funding is not correctly captured.</p>	<ul style="list-style-type: none"><li>- Our substantive audit will obtain support for the gross expenditure included in Inverclyde Council and NHS Greater Glasgow and Clyde's accounting records.</li><li>- We will obtain written confirmations of expenditure from each of these bodies.</li></ul>



# Audit cycle and expected timetable

## Our 2023/24 schedule



- Key Events
- AC communications



# Wider scope and best value approach

Inverclyde Integration Joint Board

# Wider Scope and Best Value

## Wider Scope Approach

The Code of Audit Practice sets out four areas that constitute the wider scope of public audit in Scotland: financial sustainability; financial management; vision, leadership and governance; and use of resources to improve outcomes.

We set out below an overview of our approach to wider scope requirements of our annual audit.

### **.Local Risk assessment**

We are required to consider the arrangements in place for the wider-scope areas when undertaking annual risk assessment with a view to preparing the Annual Audit Plan.

As part of our risk assessment, we have considered the arrangements in place for the wider-scope areas and have summarised the results of our assessment and our planned response on the following pages.

### **.National Risk assessment**

Guidance may supplement auditors' own local risk assessments where there are particular areas of national or sectoral risk that the Auditor General and Accounts Commission wish auditors to consider. However, there are no such risks specified for 2023/24.

# Wider Scope and Best Value

## Wider Scope Approach (continued)

### Financial Management

**Financial management** is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

#### **Risk Assessment**

As part of our previous year audit we noted that:

A budget setting and monitoring system is in place.

An established Internal Audit system is in place.

We further noted that financial regulations need to be reviewed and refreshed on a timely basis.

As part of our planning work we noted that a report was presented to the Board in their meeting dated 25 March 2024 to consider the Revenue Budget for 2024/26.

Based on above we have not identified any significant risks in relation to financial management.

#### **Planned Audit Response**

We will continue to review the financial management arrangements in place.

We will follow-up on the progress made in relation to our prior year recommendations.

# Wider scope and best value

## Wider Scope Approach (continued)

### Financial Sustainability

**Financial Sustainability** looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

#### Risk Assessment

As part of our previous year audit we noted that the Board has a number of arrangements in place, in relation to financial sustainability, including a medium term financial plan and reserves strategy.

We further noted that the plan recognises the need for and indicates that a programme of future year savings is under development by officers and these will be brought to a future meeting of the IJB for consideration in order to bridge the anticipated gap of circa £8.9 million by 2027/28.

Based on above we understand that a possible significant risk in relation to financial sustainability exists.

#### Audit Approach

- We will continue to consider the Board's longer term financial plans, as well as underlying specific plans.
- We will inquire with officers regarding reporting to Board surrounding the assumptions and judgements made in forecasting future funding and expenditure pressures.
- We will follow-up on our prior year recommendation including the consideration of the development of saving plans to bridge the funding gap identified in the medium term financial plan.

# Wider scope and best value

## Wider Scope Approach (continued)

### Vision, Leadership and Governance

**Vision, Leadership and Governance** is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

#### Risk Assessment

As part of our previous year audit we noted that:

- Board has a number of governance arrangements in place.
- A new Strategic Plan for the five years from 2024 was being developed.
- Risk management arrangements were in place.
- Arrangements are in place in relation to security, challenge and transparency

Based on above we have not identified any significant risk in relation to the Board's arrangements around vision, leadership and governance dimension of the wider scope audit.

#### Audit Approach

We will continue to review the arrangements in place in relation to vision, leadership and governance.

We will follow-up on the progress made in relation to our prior year recommendations.

# Wider Scope and Best Value

## Wider Scope Approach (continued)

### Use of Resources to Improve Outcomes

**Use of Resources to Improve Outcomes** is concerned with demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes

#### **Risk Assessment**

As part of our prior year audit we noted that performance management arrangements were in place including a new performance management system and an outcomes framework which maps the headline actions as per the Strategic Plan to the national outcomes and provide guidance on measuring progress against these.

We further noted that the annual performance reports are publicly available.

Based on above we have not identified any significant risk in relation to the Board's arrangements around use of resources to improve outcomes.

#### **Audit Approach**

We will continue to review the relevant arrangements in place.

We will follow-up on the progress made in relation to prior year recommendation.

# Wider Scope and Best Value

## Best Value Approach

Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions.

Auditors are required to consider and to be satisfied that bodies have made proper arrangements to secure Best Value. Work is required to be undertaken in a way that it is proportionate to the size and type of the body. Auditors should consider how the body demonstrates that it is meeting its Best Value responsibilities, and report on the body's own arrangements for doing this in the Annual Audit Report.

In the case of IJBs, work undertaken on the wider-scope areas will contribute to this consideration. We have included our approach, in relation to each of the wider scope dimensions, on pages 11 to 15.





# Appendices

# Mandatory communications

Type	Statement
Management's responsibilities (and, where appropriate, those charged with governance)	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p>
Auditor's responsibilities	Our engagement letter with Audit Scotland communicates our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities - Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our engagement letter with Audit Scotland communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Auditor's responsibilities – wider scope and best value	Our wider-scope and best value methodology slide on pages 11 -16 set out our responsibilities for reporting on wider scope and best value. We have set out on these pages the methodology we will adopt in discharging our responsibilities in these areas.
Independence	Our independence confirmation on page 19 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

# Confirmation of independence

## Assessment of our objectivity and independence as auditor of the Inverclyde Integration Joint Board (“the Board”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings.

Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews

We are satisfied that our general procedures support our independence and objectivity.

## Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the Board and its affiliates for professional services provided by us during the reporting period. No non-audit services are expected to be provided during 2023/24.

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

## Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully,  
*KPMG LLP*



# Audit team and rotation

Your audit team has been drawn from our specialist public sector audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit director and firm.

	<p>Michael Wilkie is the director responsible for our audit. He will lead our audit work, attend the Audit Committee and be responsible for the opinions that we issue.</p>
	<p>Taimoor Alam is the manager responsible for our audit. He will co-ordinate our audit work, attend the Audit Committee and ensure we are co-ordinated across our accounts and wider scope work.</p>
	<p>Richard Yang is the in-charge responsible for our audit. He will be responsible for our on-site fieldwork. He will complete work on more complex sections of the audit.</p>

To comply with professional standard we need to ensure that you appropriately rotate your external audit director. There are no other members of your team which we will need to consider this requirement for:



This will be Michael's second year as your engagement lead. He can therefore complete a further 8 years before rotation.

# Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2023-24. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration (\*\* average of Tender values)
- Audit Scotland Pooled costs
- Audit Scotland Audit Support Costs
- Audit Scotland sectoral cap adjustment

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

Entity	2023/24	2022/23
Auditor Remuneration **	£35,400	£33,400
Pooled Costs	£1,290	£0
PABV Contribution	£7,560	£6,350
Audit Support Costs	£0	£1,270
Sectoral Cap Adjustment	-£10,890	-£9,550
<b>TOTAL AUDIT FEES (Incl VAT)</b>	<b>£33,360</b>	<b>£31,470</b>

**Source: Audit Scotland**

## Billing arrangements

Fees will be billed by Audit Scotland in accordance with a billing schedule as outlined in correspondence with management.

## Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- The Board's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied; A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-forms as necessary. Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

# Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

## Management responsibilities

Adopt sound accounting policies.  
 With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.  
 Establish proper tone/culture/ethics.  
 Require periodic confirmation by employees of their responsibilities.  
 Take appropriate action in response to actual, suspected or alleged fraud.  
 Disclose to Audit Committee and auditors:

- Any significant deficiencies in internal controls; and
- Any fraud involving those with a significant role in internal controls

## KPMG’s identification of fraud risk factors

Review of accounting policies.  
 Results of analytical procedures.  
 Procedures to identify fraud risk factors.  
 Discussion amongst engagement personnel.  
 Enquiries of management, Audit Committee, and others.  
 Evaluate broad programmes and controls that prevent, deter, and detect fraud.

## KPMG’s response to identified fraud risk factors

Accounting policy assessment.  
 Evaluate design of mitigating controls.  
 Test effectiveness of controls.  
 Address management override of controls.  
 Perform substantive audit procedures.  
 Evaluate all audit evidence.  
 Communicate to Audit Committee and management.

## KPMG’s identified fraud risk factors

— Whilst we consider the risk of fraud at the financial statement level to be low for the Board, we will monitor the following areas throughout the year and adapt our audit approach accordingly:

- Income recognition;
- Cash;
- Procurement;
- Management control override; and
- Assessment of the impact of identified fraud.

# Audit Scotland code of audit practice – responsibility of auditors and management

## Responsibilities of management

### Financial Statements

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Board;
- maintaining proper accounting records; and
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body.

Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate 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.

Audited bodies are 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 their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Audited bodies are responsible for providing the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.

# Audit Scotland code of audit practice – responsibility of auditors and management

<b>Responsibilities of management</b>
<b>Prevention and detection of fraud and irregularities</b>
Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
<b>Corporate governance arrangements</b>
Each body, through its chief executive or accountable officer, 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. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.
<b>Financial position</b>
Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: <ul style="list-style-type: none"> <li>— such financial monitoring and reporting arrangements as may be specified;</li> <li>— compliance with any statutory financial requirements and achievement of financial targets;</li> <li>— balances and reserves, including strategies about levels and their future use;</li> <li>— how they plan to deal with uncertainty in the medium and longer term; and</li> <li>— the impact of planned future policies and foreseeable developments on their financial position.</li> </ul>
<b>Best Value, use of resources and performance</b>
The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.



# Audit Scotland code of audit practice – responsibility of auditors and management

## Responsibilities of auditors

### Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, ISAs, professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies’ financial statements and, where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  - suitability and effectiveness of corporate governance arrangements; and
  - financial position and arrangements for securing financial sustainability.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.

# Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors
<p><b>General principles</b></p> <p>This Code is designed such that adherence to it will result in an audit that exhibits these principles.</p>
<p><b>Independent</b></p> <p>When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the FRC ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.</p> <p>Our independence confirmation letter (<b>Appendix two</b>) discloses matters relating to our independence and objectivity including any relationships that may bear on the firm’s independence and the integrity and objectivity of the audit engagement partner and audit staff.</p> <p>We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.</p>
<p><b>Proportionate and risk based</b></p> <p>Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies’ self-assessment and self-evaluation evidence when assessing and identifying audit risk.</p>
<p><b>Quality focused</b></p> <p>Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.</p>

# Audit Scotland code of audit practice – responsibility of auditors and management

<b>Responsibilities of auditors</b>	
<b>Coordinated and integrated</b>	It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.
<b>Public focussed</b>	The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm’s-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.
<b>Transparent</b>	Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.
<b>Adds value</b>	It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified.

# KPMG's Audit Quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

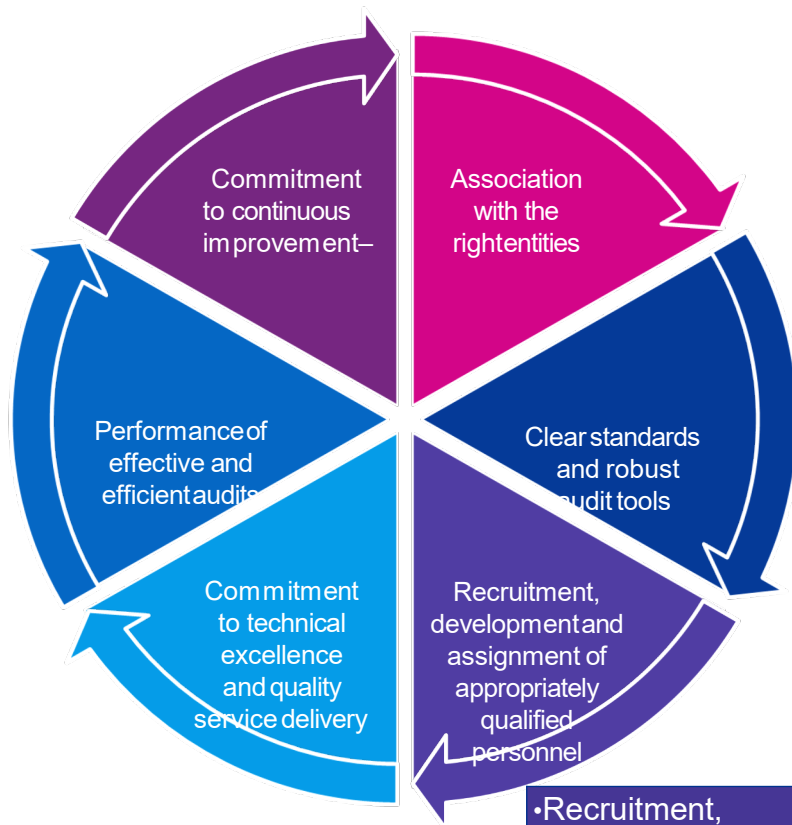
- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists



Source: KPMG



# ISA (UK) 315 Revised: Overview

## Summary

In the prior period, ISA (UK) 315 Revised “Identifying and assessing the risks of material misstatement” was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after 15 December 2021.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

### **What impact did the revision have on audited entities?**

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to

- (i) promoting consistency in effective risk identification and assessment,
- (ii) modernising the standard by increasing the focus on IT,
- (iii) enhancing the standard’s scalability through a principle based approach, and
- (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

### **Implementing year 1 findings into the subsequent audit plan**

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity’s audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period. Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

**Source: KPMG**

## ISA (UK) 315 Revised: Overview (continued)

### What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

# ISA (UK) 240 Revised: changes embedded in our practices

## Summary and background

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor’s responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor’s obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding 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.

Area	Our approach following the revision
<p>Risk assessment procedures and related activities</p>	<p>1 Increased focus on applying professional scepticism – the key areas affected are:</p> <ul style="list-style-type: none"> <li>• the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence,</li> <li>• remaining alert for indications of inauthenticity in documents and records, and</li> <li>• investigating inconsistent or implausible responses to inquiries performed.</li> </ul> <p>2 Requirements to perform inquiries with individuals at the entity are expanded to include, amongst others, those who deal with allegations of fraud.</p> <p>3 We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.</p>
<p>Internal discussions and challenge</p>	<p>We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.</p>



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