

# Lanarkshire Valuation Joint Board

Annual Audit Plan 2016/17



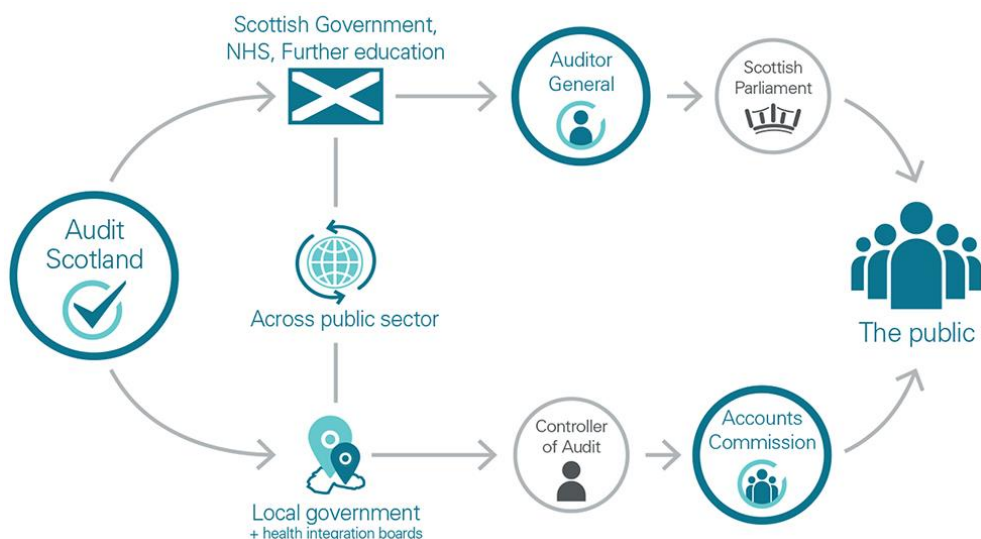
Prepared for Lanarkshire Valuation Joint Board

February 2017

## Who we are

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

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



## About us

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

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

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

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# Risks and planned work

## Introduction

1. This annual audit plan contains an overview of the planned scope and timing of our audit of the Lanarkshire Valuation Joint Board (LVJB). Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland and endorsed by the Accounts Commission.

2. This plan sets out the audit work necessary to allow us to provide an independent auditor's report and meet the wider scope requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, governance and transparency and value for money. We make a public report of conclusions on these matters in our annual audit report to members and the Controller of Audit.

## Audit risks

3. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for LVJB. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p>1 <b>Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls.</p>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable.</li> </ul>	<ul style="list-style-type: none"> <li>Review of journal entries.</li> <li>Testing of accruals and prepayments.</li> </ul>
<p>2 <b>Risk of fraud over income and expenditure</b></p> <p>ISA 240 requires us to address inherent risk of fraud over income. The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure.</p>	<ul style="list-style-type: none"> <li>Internal controls in financial systems to mitigate risks of error or manipulation.</li> <li>Income and expenditure is closely monitored and reported. Significant differences between projected outturn and actual are investigated.</li> </ul>	<ul style="list-style-type: none"> <li>Analytical procedures on income and expenditure streams.</li> <li>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>3 Financial sustainability</b></p> <p>LVJB relies on contributions from constituent councils for almost all of its income. Continuing pressure on constituent councils' budgets means that the Board faces a risk that in future years the same level of funding may not be available with a consequential impact on the level of service delivered.</p>	<ul style="list-style-type: none"> <li>Financial strategy reflects known and anticipated activity for future years.</li> </ul>	<ul style="list-style-type: none"> <li>Review budget and funding arrangements for 2017/18.</li> <li>Review arrangements for delivering efficiencies.</li> </ul>
<p><b>4 Revaluation</b></p> <p>The board have recently completed a revaluation of non-domestic property which is effective from 1 April 2017. LVJB is also responsible for assessing the rateable values of electricity subjects in Scotland in line with the responsibilities remitted to the position of Assessor for Lanarkshire under the Non-Domestic Rating (Valuation of utilities) (Scotland) Order, as amended. Inevitably there will be challenges to revaluations and these can be costly in terms of staff time and expenditure on legal fees. There is a risk going forward that the resources available to the Board will be insufficient to cover the increased demands of dealing with the cyclical appeals process.</p>	<ul style="list-style-type: none"> <li>Budgets will be prepared using best estimates to ensure that the cost of the appeals process is factored in year on year.</li> </ul>	<ul style="list-style-type: none"> <li>Review status of live appeals to assess requirement for additional disclosures under <i>IAS 37 - Provision, Contingent Liabilities and Contingent Assets</i>.</li> </ul>

## Reporting arrangements

4. This annual audit plan and the outputs set out in [Exhibit 2](#), and any other outputs on matters of public interest, will be published on Audit Scotland's website:

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy prior to the issue and publication of final reports.

6. We will provide an independent auditor's report to Lanarkshire Valuation Joint Board and the Accounts Commission setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide the Treasurer and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Board Date
Annual audit report	15 September 2017	tbc*
Latest date for issue of independent auditor's report (audit certificate)	29 September 2017	tbc*

\* Programme of committee meetings beyond Local Government elections in May still to be determined.

### Audit fee

7. The agreed audit fee for the 2016/17 audit of LVJB is £7,857. In determining the audit fee we have taken account of the risk exposure of LVJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Joint Board and Treasurer

9. The Joint Board and Treasurer are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and scrutiny.

10. The audit of the financial statements does not relieve management or the Joint Board of its responsibilities.

#### Appointed auditor

11. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

# Audit scope and timing

## Financial statements

**12.** The statutory financial statements audit will be the foundation and source for much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

**13.** We will give an opinion on the financial statements as to whether they:

- give a true and fair view of the state of the affairs of LVJB and of the income and expenditure for the year
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014.

## Materiality

**14.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments to the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for LVJB are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the figure we use in assessing the overall impact of potential audit adjustments to the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016 (based on the most recent audited accounts).	£36,000
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have set performance materiality at 50% of planning materiality.	£18,000
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of a pre-specified reporting threshold amount. We consider that an appropriate figure of interest to members would be £1,000.	£1,000



15. Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. We will report to the Board as necessary.

#### Timetable

16. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Board dates, although meeting dates will not be confirmed until after the local government elections in May.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	tbc*
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with the Treasurer	8 September 2017
Agreement of audited unsigned financial statements; Issue of annual audit report	15 September 2017
Latest date for issue of independent auditor's report	29 September 2017

\* Programme of committee meetings beyond Local Government elections in May still to be determined.

## Internal audit

17. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function of audited bodies.



### Adequacy of Internal Audit

**18.** Internal audit is provided by the internal audit section of the host authority, South Lanarkshire Council. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

### Areas of reliance

**19.** In respect of our wider dimension audit responsibilities we plan to consider the following work carried out by internal audit:

- review of annual report, planning and administration arrangements
- review of bulk printing, scanning and mailing supplier arrangements
- follow-up of earlier audit recommendations.

### Audit dimensions

**20.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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## Exhibit 5

### Audit dimensions




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### Financial sustainability

**21.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term.

### Financial management

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

- whether the Board has arrangements in place to ensure that systems of internal control are operating effectively

- the effectiveness of the budgetary control system in reporting accurate and timely financial performance
- how the Board has assured itself that its financial capacity and skills are appropriate
- whether the Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### **Governance and transparency**

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

- whether the Board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny and challenge
- the quality and timeliness of financial and performance reporting.

### **Value for money**

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

- the Board can demonstrate value for money in the use of resources.

### **Independence and objectivity**

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

**26.** The engagement lead is Dave Richardson, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of LVJB.

### **Quality control**

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

**28.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and engages external bodies to conduct independent quality reviews.

# Lanarkshire Valuation Joint Board

## Annual Audit Plan 2016/17

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