

# Highland and Western Isles Valuation Joint Board

## Annual Audit Plan 2013/14



Prepared for Highland and Western Isles Valuation Joint Board  
March 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

# Contents

<b>Summary .....</b>	<b>4</b>
Introduction .....	4
Summary of planned audit activity .....	4
<b>Responsibilities .....</b>	<b>5</b>
Responsibility of the appointed auditor .....	5
Responsibility of the Treasurer .....	5
Format of the accounts .....	5
<b>Audit Approach .....</b>	<b>6</b>
Our approach .....	6
Materiality .....	7
Reporting arrangements .....	7
Quality control .....	8
Independence and objectivity .....	8
<b>Audit issues and risks .....</b>	<b>10</b>
Audit issues and risks .....	10
<b>Fees and resources .....</b>	<b>11</b>
Audit fee .....	11
Audit team .....	11
<b>Appendix A - Financial statements audit timetable .....</b>	<b>12</b>
<b>Appendix B - Audit team .....</b>	<b>13</b>

# Summary

## Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in Highland and Western Isles Valuation Joint Board (the Joint Board) financial statements. This report summarises our assessment of the key challenges and risks facing the Joint Board and sets out the audit work that we propose to undertake in connection with the 2013/14 audit. Our plan reflects:
  - the risks and priorities facing the Joint Board
  - current national risks relevant to local circumstances
  - the impact of changing international auditing and accounting standards
  - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission
  - issues brought forward from previous audit reports.

## Summary of planned audit activity

2. Our planned work in 2013/14 includes:
  - an audit of the financial statements and provision of an opinion on whether:
    - they give a true and fair view of the financial position of the Joint Board as at 31 March 2014 and its income and expenditure for the year then ended
    - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2013 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
  - a review and assessment of the Joint Board's governance and performance arrangements
  - provision of the annual report on the audit addressed to Highland and Western Isles Valuation Joint Board and the Controller of Audit.

# Responsibilities

3. The audit of the financial statements does not relieve management or the Joint Board, as the body charged with governance, of their responsibilities.

## Responsibility of the appointed auditor

4. 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.
5. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

## Responsibility of the Treasurer

6. It is the responsibility of the Treasurer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
  - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the financial position of the Joint Board as at 31 March 2014 and its expenditure and income for the year then ended.

## Format of the accounts

7. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice.

# Audit Approach

## Our approach

8. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Joint Board. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the business of the Joint Board and the risk exposure which could impact on the financial statements
  - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation and understanding how the Joint Board will include these in the financial statements
  - assessing and addressing the risk of material misstatement in the financial statements
  - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
9. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action. Management action being relied on for 2013/14 includes:
  - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for preparation of financial statements and the provision of supporting working papers
  - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package.
10. Auditing standards require internal and external auditors to work closely together to make optimal 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 early assessment of the internal audit function. Our review concluded that the internal audit service provided to the Joint Board by the Highland Council's internal audit section operates in accordance with the Public Sector Internal Audit Standards (PSIAS). We plan to place reliance on internal audit's work to support the Head of Internal Audit and Risk Management's opinion on the Joint Board's system of internal control as part of our audit of the 2013/14 accounts.

## Materiality

11. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively. Planning materiality for 2013/14 has been set at £26,665. The calculation is based on 1% of budgeted gross expenditure. This is based on the fact that there have been few misstatements in previous years accounts, transactions are generally routine with no complex areas for the preparers of the financial statements and there have been no major changes to the 2013/14 Code.
12. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement and experience and internal guidelines from peers. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

## Reporting arrangements

13. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the Joint Board and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements and planned Joint Board dates.
14. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the Assessor and Treasurer to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Assessor, Treasurer, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.
15. We will provide an independent auditor's report to the Joint Board and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members 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. All annual reports produced are published on Audit Scotland's website: ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

16. Planned outputs for 2013/14 are summarised at Exhibit 1.

### Exhibit 1: Planned outputs

Planned outputs	Final report issued by
<b>Governance</b>	
Annual Audit Plan	31 March 2014
<b>Financial statements</b>	
Report to Board in terms of ISA 260 (Communication of audit matters to those charged with governance)	4 September 2014
Independent auditor's report on the financial statements	4 September 2014
Annual report to Members and the Controller of Audit	31 October 2014

## Quality control

17. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. 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 issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.
18. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Maggie Bruce.

## Independence and objectivity

19. 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 Auditing Practices Board (APB) 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.

20. 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 the Joint Board.

# Audit issues and risks

## Audit issues and risks

21. Based on our discussions with staff, attendance at meetings and a review of supporting information, we have identified the following main risk areas for your organisation:
22. **Governance and Accountability:** We raised in our 2012/13 annual audit plan that a number of the Joint Board's governance and performance management policies had not been reviewed since 2010. Although the Joint Board has undertaken a process of refreshing and renewing policies it was noted that the Overview of Governance arrangements policy document had yet to be updated. We have been advised that the Joint Board continues to review all of its policies and procedures to ensure they are up to date and reflect the latest guidance. This is an area we will monitor as part of our 2013/14 audit and report to members as appropriate.
23. **Financial pressures:** Local government is facing continued financial pressures, including real-term reductions in financing. The Joint Board's latest revenue budget monitoring report, based on the position as at 30 November, projects the estimated outturn will be under budget by £0.058m. The Joint Board are predicting that Valuation Appeal Committee costs will be significantly over budget, but this will be offset by underspends in staff costs as a result of vacancies. We will monitor the position during the year and report to members as appropriate.

# Fees and resources

## Audit fee

24. In determining the audit fee we have taken account of the risk exposure of the Joint Board and the management assurances in place. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 May 2014.
25. The agreed audit fee for the 2013/14 audit of the Joint Board is £7,700 as summarised in Exhibit 2. Our fee covers:
- all of the work and outputs described in this plan
  - attendance at Joint Board meetings
  - access to advice and information on relevant audit issues
  - access to workshops/seminars on topical issues
  - travel and subsistence costs.

### Exhibit 2: Audit fee

Description	Audit fee 2010/11	Audit fee 2011/12	Audit fee 2012/13	Audit fee 2013/14
Total audit fee	£8,280	£8,090	£7,700	£7,700
% cash reduction on prior year	-2.0%	-2.3%	-4.8%	0%
Cumulative % real reduction, including GDP deflator	-4.3%	-7.9%	-14.1%	-15.9%

26. Where our audit cannot proceed as planned through, for example, late receipt of the 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.

## Audit team

27. Maggie Bruce, Senior Audit Manager, Audit Services is your appointed auditor. The local audit team will be led by Joni McBride who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided at Appendix B. The core audit team will call on other specialist and support staff, as necessary.

# Appendix A - Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2014
Submission of unaudited financial statements with working papers package	30 May 2014
Submission of unaudited financial statements to Joint Board	1 June 2014
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with Treasurer or other senior officers	15 August 2014
Independent auditor's report and report in terms of ISA 260 (Communication of audit matters with those charged with governance) considered by Joint Board	4 September 2014
Independent auditors report signed	4 September 2014
Annual report to Members and the Controller of Audit	31 October 2014

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# Appendix B - Audit team

A summarised curriculum vitae for each core team member is set out below:

## **Maggie Bruce MA (Hons) CA**

### **Senior Audit Manager**

Maggie has over 20 years experience of public sector audit with Audit Scotland, covering the local government, health and further education sectors. Prior to joining Audit Scotland, Maggie trained as an auditor in the private sector.

## **Joni McBride BSc (Hons) CPFA**

### **Senior Auditor**

Joni joined Audit Scotland in 2008 as part of our graduate training programme and qualified in September 2011. Joni has been involved in a range of audits covering local government, central government and health.

## **Lee McDowall BAcc (Hons)**

### **Auditor (Professional Trainee)**

Lee joined Audit Scotland in October 2013 as a professional trainee and will start studying towards obtaining his ICAS accountancy qualification in the Summer of 2014. Prior to joining Audit Scotland Lee was an Accounting student at the University of Strathclyde.