

Lanarkshire Valuation Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Lanarkshire Valuation Joint Board

February 2018

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

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

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

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Risks and planned work

1. This audit plan provides an overview of the planned scope and timing of our audit of the Lanarkshire Valuation Joint Board (LVJB) for 2017/18. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland.

2. The plan sets out the audit work necessary to allow us to provide an independent auditor's report on the financial statements 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 the Joint Board and the Controller of Audit.

Audit risks

3. Based on our discussions with staff, attendance at meetings and a review of supporting information we have identified the following main risk areas for the Lanarkshire Valuation Joint Board. We have categorised these risks into financial risks and wider dimension risks, [exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over expenditure</p> <p>Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of expenditure.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Analytical procedures of expenditure streams. Detailed testing of expenditure transactions focusing on the areas of greatest risk.

Audit risk	Source of assurance	Planned audit work
Wider dimension risks		
<p>3 Cyber security</p> <p>The Joint Board faces the risk of cyber attacks targeting ICT systems, networks and infrastructure. There is a risk that the Joint Board is not fully aware of vulnerabilities in its ICT systems and may be at risk of unauthorised access and subsequent damage and interruption to its IT services.</p>	<p>LVJB utilises South Lanarkshire Council's IT network and infrastructure. IT systems are hosted, supported and maintained by the council; this includes the monitoring, assessment and mitigation of vulnerabilities.</p> <p>South Lanarkshire Council's current cyber security assurance is based on compliance with the UK Cabinet Office's Public Service Network (PSN) Information Assurance Conditions and the council has provisionally committed to fully implementing the Scottish Government's Cyber Resilience Public Sector Action Plan by the end of 2018. This includes achieving the associated Cyber Essentials Plus accreditation.</p>	<ul style="list-style-type: none"> Assess Council's cyber security arrangements against the Scottish Government Cyber Resilience Action Plan.
<p>4 Financial sustainability</p> <p>The Joint Board continues to face significant financial pressures arising from increasing workloads and unavoidable costs. There is a risk that the Joint Board is not able to identify sustainable savings measures or meet cost pressures as they arise.</p>	<p>In our 2016/17 Annual Audit Report we recommended that management should prepare a 3-5 year rolling budget using available information and incorporating sensitivity analysis and scenario planning. Management advised that will be completed within 2017/18.</p>	<ul style="list-style-type: none"> Review and assess financial plans prepared.

Reporting arrangements

4. This Annual Audit Plan, 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.

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.

6. We will provide an independent auditor's report to Lanarkshire Valuation Joint Board and the Accounts Commission, setting out our opinions on the annual accounts. We will provide the Joint Board and the Controller of Audit with an Annual Audit Report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit output	Submission to LVJB	Audit Scotland deadline
Annual Audit Plan	5 March 2018	31 March 2018
Annual Audit Report	3 September 2018	30 September 2018
Latest date for issue of independent auditor's report (audit certificate)	Not applicable	30 September 2018

Audit fee

7. The agreed audit fee for the 2017/18 audit of LVJB is £7,080 (2016/17 £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. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 25 June 2018.

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 annual accounts does not relieve management or the Joint Board, as those charged with governance, of their 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.

12. Auditors in the public sector give an independent opinion on the annual accounts. We also aim to support improvement and accountability by reviewing and reporting on arrangements to manage performance and use of resources.

Audit scope and timing

Financial statements

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

- understanding the business of 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.

14. We will give an opinion on:

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



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

15. We apply the concept of materiality in planning and performing the audit. It defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [exhibit 3](#).

Exhibit 3

Materiality levels

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the latest probable outturn for 2018.	£40,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of planning materiality.	£30,000
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£2,000

Source: Revenue Budget Monitoring and Probable Outturn Position Report, Lanarkshire Valuation Joint Board 4 December 2017

16. 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 consider whether the supporting information is consistent with the financial statements and our wider knowledge of the LVJB and its environment and provide comment and recommendations as appropriate.

Timetable

17. An agreed timetable is included at [exhibit 4](#) which takes account of submission requirements and planned Joint Board meeting dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	4 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	25 June 2018
Latest date for final clearance meeting with the Treasurer	18 July 2018
Agreement of audited unsigned annual accounts Issue of Annual Audit Report including ISA 260 report	16 August 2018
Latest date for issue of signed independent auditor's report	30 September 2018

Internal audit

19. 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.

20. LVJB has a service level agreement with the internal audit function 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).

21. We will adopt a substantive approach to the audit of the LVJB and therefore we do not plan to place any formal reliance on the work of Internal Audit in 2017/18. However, we will consider the work of Internal Audit throughout the year to inform the audit process.

Audit dimensions

22. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 5](#). The Code of Audit Practice requires this full wider scope to apply unless the auditor judges that it is not appropriate due to the size, nature and risk profile of the body. We have determined that LVJB meets the criteria set out in the Code, consequently we will audit LVJB as small body. As well as the audit of LVJBs financial statements we will undertake sufficient work to conclude on the following:

- financial sustainability
- governance arrangements

23. In addition, we will review and comment on LVJBs performance against service performance indicators agreed between that Scottish Government and the Scottish Assessors' Association and other available performance information.

Exhibit 5

Audit dimensions



Financial sustainability

24. As external auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit of the financial statements. We also comment on financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2017/18:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term; including the potential impact of the end of the public sector pay cap, new financial powers and EU withdrawal
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Governance and transparency

25. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements; leadership and decision-making; and, transparent reporting of financial and performance information. We will assess:

- whether governance arrangements are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

26. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the Joint Board's performance against national performance indicators.

Independence and objectivity

27. Auditors appointed by the Accounts Commission 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

28. 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

29. 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.

30. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal and external quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

31. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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