

# Dunbartonshire and Argyll & Bute Valuation Joint Board

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Dunbartonshire and Argyll & Bute Valuation Joint Board

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# Contents

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Introduction	3
Financial statements audit planning	5
Reporting arrangements, timetable, and audit fee	8
Other matters	11

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Dunbartonshire and Argyll & Bute Valuation Joint Board (DABVJB). The main elements of our work include:

- provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual report and accounts including the management commentary, the annual governance statement and the remuneration report.
- consideration of the wider audit dimensions arrangements in relation to financial sustainability and the annual governance statement

## Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to Dunbartonshire and Argyll & Bute Valuation Joint Board (DABVJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help DABVJB promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the joint board and actively participate in discussions.

## Respective responsibilities of the auditor and Dunbartonshire and Argyll & Bute Valuation Joint Board

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and DABVJB. Key responsibilities are summarised below.

## Auditor responsibilities

**6.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

**7.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also aim to support improvement and accountability.

## Dunbartonshire and Argyll & Bute Valuation Joint Board and Treasurer responsibilities

**8.** DABVJB is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

**9.** Also, DABVJB has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and that enable them to deliver their objectives.

## Managing the transition to 2022/23 audits

**10.** Audit appointments are usually for five years but were extended to six years due to the Covid-19 pandemic. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for DABVJB are set out below.

## Exhibit 1

### 2021/22 Materiality levels for DABVJB

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£45,870
<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 assessed performance materiality at 75% of planning materiality.	£34,500
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£2,300

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of Dunbartonshire and Argyll & Bute Valuation Joint Board, its major transaction streams, key systems

of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at joint board meetings and a review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This is a risk which has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

## Exhibit 2

### 2021/22 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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"> <li>• Test journals entries with a focus on significant risk areas.</li> <li>• Evaluate significant transactions outside the normal course of business identified through audit testing of income and expenditure, accruals and cut off transactions.</li> <li>• Review accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>

Source: Audit Scotland

**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for DABVJB because, while the possibility of fraud exists, we assess the risk of the financial statements being materially misstated as a result of fraud to be low. This is due to the nature of the joint board's revenue streams and key sources of income, namely government grants and the constituent councils' contributions.

**16.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for DABVJB, as our assessment of the joint board's expenditure streams, including consideration of historical

instances of fraud, has identified the risk of a material misstatement as a result of fraud to be low.

**17.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### **Other areas of audit focus – pension liability**

**18.** As part of our assessment of audit risks, we have identified the pension liability valuation to be an area of audit focus due to the material value and significant assumptions used in the calculation of the liability. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk of material misstatement.

**19.** We will keep this area under review as our audit progresses. If our assessment of risk changes and we consider this risk to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

### **Audit risk assessment process**

**20.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

### **Audit dimensions**

**21.** Our standard audits are based on four audit dimensions from the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance & accountability, and value for money.

**22.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider scope is judged by auditors not to be appropriate to an audited body, then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In light of the financial transactions being relatively low in volume and without complexity, we plan to apply the small body provision of the Code to the 2021/22 audit of the Dunbartonshire and Argyll & Bute Valuation Joint Board.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**23.** Audit reporting is the visible output for the annual audit. All our outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**24.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans.

**25.** We will provide an independent auditor's report to Dunbartonshire and Argyll & Bute Valuation Joint Board and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the DABVJB and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**26.** [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19. Due to the May 2022 local government elections, the joint board's planned meeting dates from June 2022 onwards are yet to be finalised. However, our audit work has been scheduled to ensure the planned statutory deadline is met.

## Exhibit 3

### 2020/21 Audit outputs

Audit Output	Target date	Joint board date
Annual Audit Plan	04/03/2022	04/03/2022
Independent Auditor's Report	31/10/2022	To be agreed
Annual Audit Report	31/10/2022	To be agreed

Source: Audit Scotland

## Timetable

**27.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

**28.** The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**29.** We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

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### Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	June 24, 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	By June 2022
Latest date for final clearance meeting with Treasurer	To be agreed
Issue of Letter of Representation and proposed Independent Auditor's Report	To be agreed
Agreement of audited and unsigned annual report and accounts	To be agreed
Issue of Annual Audit Report to those charged with governance.	To be agreed
Signed Independent Auditor's Report	By 31 October 2022

Source: Audit Scotland

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## Audit fee

**30.** The proposed audit fee for the 2021/22 audit of Dunbartonshire and Argyll & Bute Valuation Joint Board is £7,810 (2020/21: £7,610). In determining the audit fee, we have taken account of the risk exposure of the DABVJB, the planned

management assurances in place and the level of reliance we plan to take from the work of internal audit.

**31.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Internal audit

**32.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**33.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit across a range of work and report relevant findings within our Annual Audit Report.

## Independence and objectivity

**34.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. 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 robust arrangements in place 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.

**35.** The engagement lead (i.e. appointed auditor) for Dunbartonshire and Argyll & Bute Valuation Joint Board is Christopher Gardner, 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 DABVJB.

## Quality control

**36.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

**37.** 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**38.** 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.

# Dunbartonshire and Argyll & Bute Valuation Joint Board

## Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

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

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