

RENFREWSHIRE VALUATION JOINT BOARD

To: Renfrewshire Valuation Joint Board

On: 20 May 2016

Report by: The Treasurer

Heading: Annual Audit Plan 2015-16

1. Summary

- 1.1 The Annual Audit Plan 2015-16 for the Joint Board is submitted for Members' information. The Plan outlines Audit Scotland's planned activities in their audit of the 2015-16 financial year.
- 1.2 The Annual Audit Plan 2015-16 includes a section on Audit Issues and Risks. Within this section Audit Scotland have identified a risk of "Management override of controls". This risk is being included in the audit plans of all bodies which Audit Scotland are working with in light of updated international standards on auditing. The inclusion of this risk is not a reflection of increased risk within Renfrewshire Valuation Joint Board. Audit Scotland has confirmed that they have not found any issues on this in previous years.

2 Recommendations

- 2.1 The Joint Board is asked to note the Annual Audit Plan 2015-16 by Audit Scotland.
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Renfrewshire Valuation Joint Board

Annual Audit Plan
2015/16

Prepared for Members of Renfrewshire Valuation Joint
Board

May 2016



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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Anne McGregor as the external auditor of Renfrewshire Valuation Joint Board for the period 2011/12 to 2015/16.

This report has been prepared for the use of Renfrewshire Valuation Joint Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Joint Board. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Contents

Summary	3
Responsibilities	4
Audit Approach	5
Audit issues and risks	9
Fees and resources	11
Appendix 1: Planned audit outputs	13
Appendix 2: Significant audit risks	14
Appendix 3 - Progress on Annual Audit Report Actions	16

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Renfrewshire Valuation Joint Board's (RVJB) financial statements.
 2. This report summarises the key challenges and risks facing RVJB and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing RVJB
 - current national risks that are 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
 - issues brought forward from previous audit reports.
- they give a true and fair view of the state of affairs of RVJB as at 31 March 2016 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 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - a review and assessment of RVJB's governance and performance arrangements and financial position
 - provision of annual audit report to the Joint Board and the Controller of Audit.

Summary of planned audit activity

3. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:

Responsibilities

4. 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

5. 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.
6. 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

7. 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:
 - maintaining proper accounting records

- preparing financial statements which give a true and fair view of the state of affairs of RVJB as at 31 March 2016 and its expenditure and income for the year then ended.

Format of the accounts

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

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of RVJB. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of RVJB 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 RVJB 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.

10. 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 and reliance on systems of internal control. Planned management action being relied on for 2015/16 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
- completion of the internal audit programme for 2015/16.

11. 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 early assessment of the internal audit function. Internal audit services are provided by the Internal Audit section within Renfrewshire Council. Overall we concluded that the internal audit function operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.

12. In respect of our wider governance and performance audit work we plan to review the findings of internal audit's annual report and review of the valuation system.

Materiality

13. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.
14. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.
15. Based on our knowledge and understanding of RVJB we have set our planning materiality at £25,400 (1% of projected gross expenditure).
16. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:
 - extent of estimation and judgement within the financial statements

- nature and extent of prior year misstatements
- extent of audit testing coverage.

17. For 2015/16 performance materiality has been set at £19,000. We will report, to those charged with governance, all misstatements identified which are greater than £1,000.

Reporting arrangements

18. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The Joint Board (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
19. The Joint Board must publish the unaudited accounts on their websites and give public notice of the inspection period.
20. The 2014 regulations require the Joint Board (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
21. The Joint Board is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October.

The annual audit report is required to be published on the website by 31 December.

22. A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Consideration of unaudited financial statements by those charged with governance	20 May 2016
Latest submission date of unaudited financial statements with complete working papers package	24 June 2016
Progress meetings with lead officers on emerging issues	As and when required during the audit process
Latest date for final clearance meeting with officers	5 August 2016
Agreement of audited unsigned financial statements, and issue of proposed Annual Audit Report which includes the ISA 260 report to those charged with governance	11 August 2016
Joint Board meeting where accounts are approved	19 August 2016
Independent Auditor's Report signed and issue of final annual report on the audit	22 August 2016

23. 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 responsible head of service and relevant officers to confirm factual accuracy. 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.

24. 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. The combined ISA 260 and Annual Audit Report will be issued by 30 September.

25. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.

26. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

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. This is to provide reasonable assurance that those 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 reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

28. 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, Anne McGregor.

Independence and objectivity

29. 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 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.

30. 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 RVJB.

Audit issues and risks

Audit issues and risks

31. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for RVJB. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#). Updates on risks from our Annual report on the audit 2014/15 are included at appendix 3.

Financial statement issues and risks

32. **Management override of controls:** Internal Standards on Auditing 240, *The Auditor's responsibilities relating to fraud in an audit of financial statements* states that audit procedures should be responsive to risks related to management override of controls. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus an audit risk. We have not identified any audit issues on this in the past but each year have to address the risk. We will design and perform audit procedures to address these risks at RVJB.

Wider dimension issues and risks

33. **Corporate Plan:** The Assessor and Deputy Assessor are currently updating the corporate plan but this is still to be submitted to the RVJB for discussion and approval.

34. The previous business plan was *Meeting Future business challenges 2012-2015*. A formal corporate plan would allow the RVJB to highlight the actions required to achieve its priorities as well how they are addressing the challenges and it faces through its business operations.

35. This is part of wider calendar of governance requirements which is currently being prepared; it will schedule all the key governance documents to be prepared. These will be tracked by senior officers and members provided with progress reports. An example is the records management Plan which is now completed.

36. **Financial sustainability:** As across the public sector, future funding settlements for RVJB are uncertain, putting pressure on agreeing priorities and financial plans. In our 2014/15 annual report on the audit we noted that the level of reserves at 31 March 2015 represented 24% of gross expenditure for 2015/16 and that the level of reserves should be reviewed to see if they could be used as part 2016/17 budget setting.

37. Financial reports to members explain that with uncertainty over future funding settlements, it is still forecast that savings will need to be made into 2017/18; income will be reducing as requisitions decrease but there are pressures on costs e.g. with additional costs

for Individual Electoral Registration, EU referendum and potential costs arising from the restoration of Shootings and Deer Forests into the Valuation roll. Management has been reviewing the shape and size of the workforce to ensure it remains affordable while still meeting the needs of the service. The level of reserves helps manage finances in the medium term and we can see them being utilised as part of 2016/17 budget setting; in the mean time the Assessor will undertake further review of the service in order to identify savings options.

Fees and resources

Audit fee

38. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
39. In determining the audit fee we have taken account of the risk exposure of RVJB, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 20 June 2016.

40. The agreed audit fee for the 2015/16 audit of RVJB is £7,080. Our fee covers:

- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
- your organisations allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National

Fraud Initiative), support costs and auditors' travel and subsistence expenses.

41. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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.

Audit team

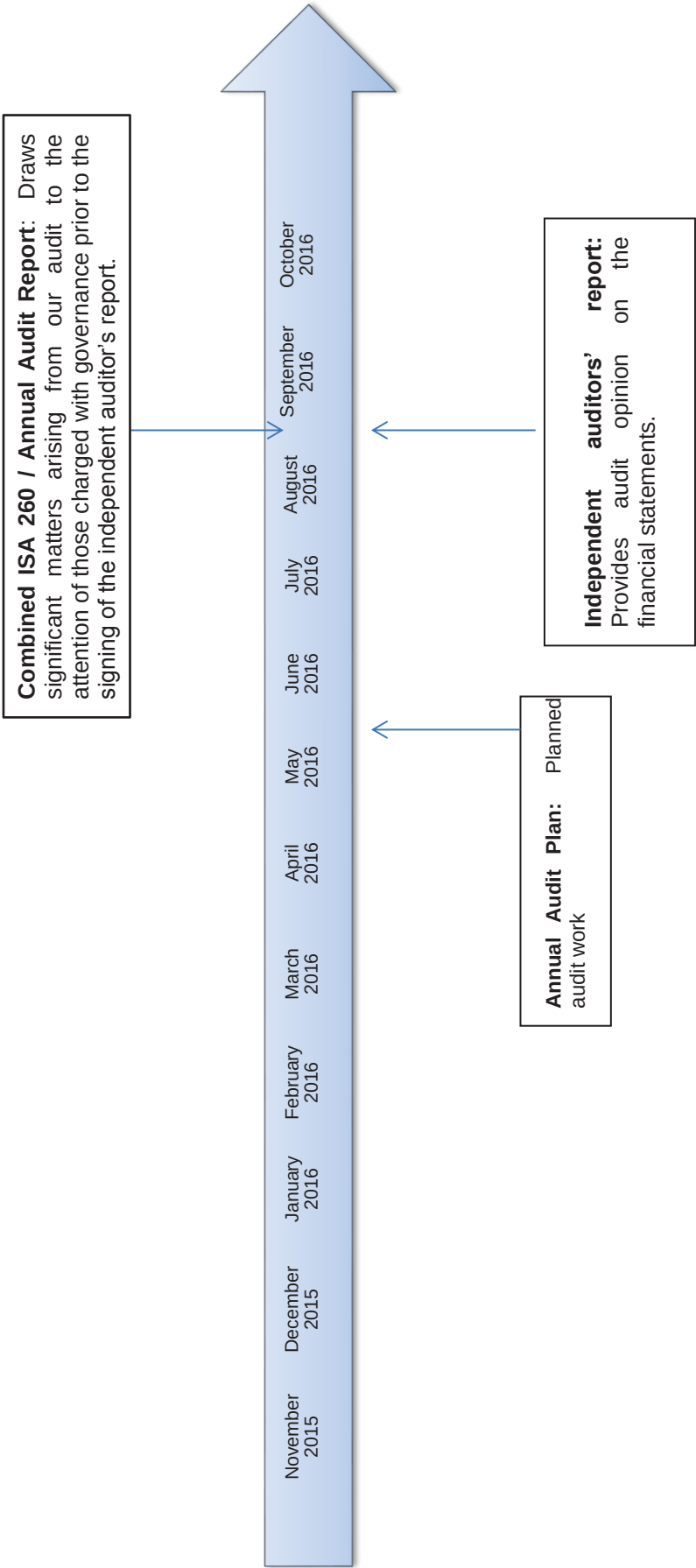
42. Anne McGregor, Senior Audit Manager is your appointed auditor. The local audit team will be led by Andrew Wallace who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name		Experience
Anne McGregor, CA Senior Audit Manager		Anne has over 16 years experience of public sector audit after working in the private sector for 8 years. Her public sector audit experience includes central and local government and she has been involved in a number of business improvement projects within Audit Scotland
Kenny McFall, CPFA Senior Auditor		Kenny has 14 years experience of public sector audit with Audit Scotland, covering local government, central government and health sectors. Kenny leads the audit of Renfrewshire Council.
Andrew Wallace Professional Trainee		Andrew joined Audit Scotland in October 2014 and is currently studying towards his ICAS qualification. This is Andrew's second year on the audit of RVJB.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for RVJB in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	Management override of controls As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	N/A	- Detailed testing of journal entries. - Review of accounting estimates for bias. - Evaluate significant transactions that are outside the normal course of business.
Wider dimension issues and risks			
2	Corporate Plan There is no formal updated corporate plan which has been provided to members; the previous plan being <i>Future business challenges 2012-2015</i> . Without a plan, there is a risk there is no clear statement of priorities for services and improvement, nor clear information	- A corporate plan is currently being prepared as part of suite of governance documents. These will be tracked by senior officers and members provided with progress reports. - Budget papers for 2016/17 highlight key issues and how they impact future financial position e.g. PSN and	- Review calendar of governance requirements - Review corporate plan when issued and provide an update in the annual report on the audit

Appendix 2: Significant audit risks

#	Audit Risk	Source of assurance	Audit assurance procedure
	about how RVJB will address significant issues in the context of other priorities and challenges.	Individual Electoral Registration. Progress reports on key projects and developments are regularly provided to members.	
3	Financial Sustainability Financial reports to members explain that with uncertainty over future funding settlements, it is still forecast that savings will need to be made into 2017/18; income will be reducing as requisitions decrease but there are increasing pressures on costs.	- Budget for 2016/17 approved and includes utilising reserves to fund voluntary exit packages. - Assessor reviewing services in order to develop sustainable staff structure and identify further savings.	Review of financial monitoring reports during the year and comment on the financial position within our annual report on the audit.

Appendix 3 - Progress on Annual Audit Report Actions

No.	Issue/risk/Recommendation	Management action/response	Current Position
1	Balances due to local authorities The level of reserves at 31 March 2016 represents 24% of gross expenditure for 2015/16. Risk RVJB might not be making best use of accumulated balances. Staff may not express interest in the VER scheme, leaving again a high level of reserves balances at the year end. Recommendation Level of reserves should be reviewed for 2016/17 budget setting and plans implemented to use part of reserves in 2015/16.	In 2015/16, RVJB will be undertaking a staffing review and have earmarked £200k of reserve balances for VER. Treasurer and Assessor continue to monitor level of balances and should there be delays with VER, they update members with progress on utilising balances.	Small reduction in reserves projected for 2015/16. From review of the 2016/17 budget papers taken to the Board in January 2016 it states that by the end of 2016/17 the reserves balance is projected to reduce to £336k, 14% of net expenditure. Costs of staff leaving under voluntary early retirement/ voluntary redundancy scheme will be funded from reserves.

No.	Issue/risk/Recommendation	Management action/response	Current Position
2	PSN connection RVJB achieved PSN accreditation in October 2014 and recently completed a separate connection. The final stage is for Renfrewshire Council to separate RVJB from the council PSN connection but this work has still to take place. Risk There is a risk RVJB incur additional costs and confusion over who has responsibility over security of connections. Recommendation RVJB work with Renfrewshire Council officers and agree a timetable for RVJB to be disconnected from council PSN.	Assessor and Deputy assessor will liaise with Treasurer to agree a timetable for RVJB to be separated from the Renfrewshire Council PSN.	PSN accreditation was achieved for a second year.

No.	Issue/risk/Recommendation	Management action/response	Current Position
3	Disaster Recovery RVJB achieved PSN accreditation in October 2014 and recently completed a separate connection. The final stage is for Renfrewshire Council to separate RVJB from the council PSN connection but this work has still to take place. Risk There is a risk that RVJB would not be able to provide services during a period of interruption, or quickly get services up and running after a period of interruption. Recommendation Implementation plans are prepared which include timetable for testing disaster recovery plans.	The senior management team are rewriting the disaster recovery plan under PSN guidelines and then testing will take place.	The Renfrewshire Council Disaster Recovery site is to be transferred to the cloud and space will be allocated on the cloud for RVJB. This is due to be finalised by September 2016. Therefore there will be no physical disaster recovery site and this is being reflected in revised plans.
4	Register of interests The register of interests is not available on-line. Risk There is a risk that RVJB is not demonstrating that there are no conflicts of interests in its decision making. Recommendation The register of interests is put onto RVJB website.	Members' registers are available of their own council websites and we will look at putting links from our own website to these sites. Register of interests for senior officers will be put onto the RVJB website.	Both management and staff now have a register of interests however this is not yet available on the RVJB website.

No.	Issue/risk/Recommendation	Management action/response	Current Position
5	Audit Scotland National Reports There is no formal process in place to review Audit Scotland national reports pertinent to RVJB. Risk There is a risk that RVJB miss out on lessons learned from other audits across local government. Recommendation Audit Scotland reports are reviewed by officers and summary information or lessons learned disseminated to members.	Deputy assessor will put in place arrangements for reports to be reviewed and decide which should be summarised for members.	Arrangements being reviewed.