

## RENFREWSHIRE VALUATION JOINT BOARD

**To:** Renfrewshire Valuation Joint Board

**On:** 28 February 2020

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**Report by:** The Treasurer

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**Heading:** Annual Audit Plan 2019/20

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### 1. **Background**

- 1.1 The Annual Audit Plan 2019/20 for the Renfrewshire Valuation Joint Board is submitted for Members' information. It outlines Audit Scotland's planned activities during their audit of the 2019/20 financial year.
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### 2 **Recommendations**

- 2.1 It is recommended that members note the Annual Audit Plan 2019/20 by Audit Scotland (Appendix 1).
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### 3 **Background**

- 3.1 Based on its analysis of the risks facing the Board, Audit Scotland has submitted an Audit Plan that outlines its approach to the audit of the 2019/20 annual accounts of the Board. This will assess whether the accounts provide a true and fair view of the Board's financial position, and also whether they have been prepared in accordance with proper accounting practice, i.e. the 2019 Code of Practice on Local Authority Accounting in the UK.
- 1.2 The Audit Plan outlines the responsibilities of the Board and of Audit Scotland; its assessment of key challenges and risks and the approach and timetable for completion of the audit.
- 1.3 The Annual Audit Plan 2019/20 includes a section on Audit Risks. Within this section, the identified risks are included in the audit plans of many bodies that Audit Scotland work with and their inclusion is not a reflection of any specific risk within Renfrewshire Valuation Joint Board.



# Renfrewshire Valuation Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

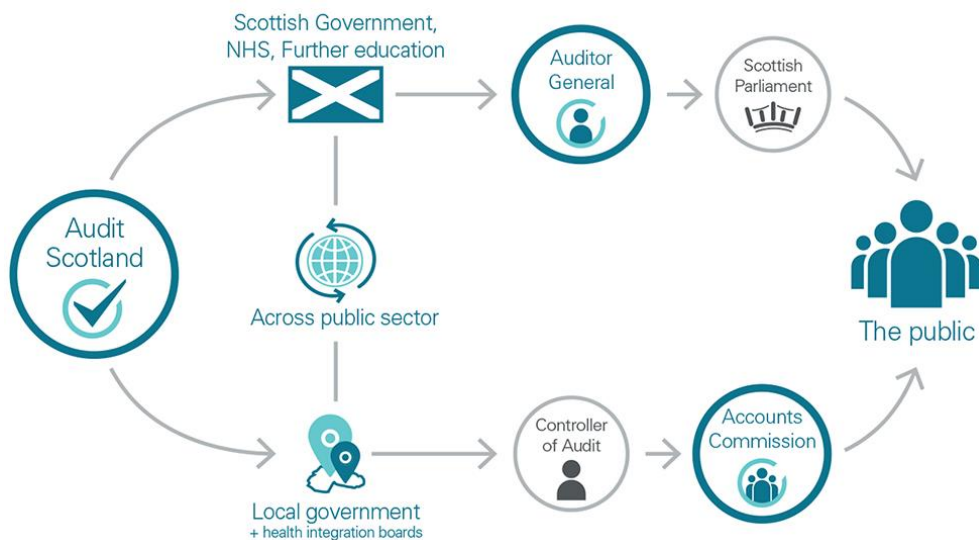
Prepared for Renfrewshire Valuation Joint Board

February 2020

## 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

1. This Annual Audit Plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the 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.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency, and value for money.


## Adding value


3. We aim to add value to Renfrewshire Valuation Joint Board (RVJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement, and by recommending and encouraging good practice. In doing this, we intend to help RVJB promote improved standards of governance, better management and decision making, and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at board meetings, and a review of supporting information, we have identified the following significant risks for RVJB. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Management's source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by 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 to change the position disclosed in the financial statements.</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>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p>2 <b>Risk of material misstatement caused by fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in</p>	<p>Expenditure is closely monitored and discussed at budget monitoring meetings. Significant differences from actuals</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed testing of expenditure transactions focusing on whether</li> </ul>


	Audit Risk	Management's source of assurance	Planned audit work
	<p>expenditure. There is a risk that expenditure may be materially misstated in the financial statements.</p> <p>RVJB incurs expenditure on a range of activities. The extent and complexity of expenditure means that there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.</p>	<p>compared to projected expenditure are investigated.</p>	<p>expenditure is processed in the correct accounting year.</p>

<b>3</b>	<p><b>Risk of material misstatement caused by accounting for pensions</b></p> <p>RVJB recognised a net liability of £3.083 million relating to its share of Strathclyde Pension Fund at 31 March 2019. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates, and changes can result in material changes to the valuation.</p> <p>Additionally, successful legal action was brought against the UK government in relation to pension schemes for judges and firefighters in 2018/19, on the grounds of age discrimination. The judgements for these pension schemes will impact on Strathclyde Pension Fund as it had similar arrangements in place. Uncertainty remains over the remedy for the legal judgements. The expected impact of the legal judgements, or remedy if agreed, will need to be reflected in the pension fund liability valuation in 2019/20.</p>	<p>Any significant estimates and judgements are clearly explained in the Notes to the Accounts.</p> <p>Where these are required, they are based on the best information available at the time of the estimate and on both a professional and a prudent approach, either by Renfrewshire Council staff, or appointed experts, such as the Pension Fund Actuary.</p>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of Management's expert' for the pension fund actuary.</li> <li>• Review of the estimates used, and assumptions made in calculating the pension fund liability.</li> </ul>
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### Wider dimension risks

<b>4</b>	<p><b>Financial sustainability</b></p> <p>The 2019/20 Revenue Estimates highlight increasing costs in the medium-term, putting pressures on available resources. Funding from the Cabinet Office for Individual Electoral Registration (IER) will cease in 2020/21 and RVJB will need to meet the costs associated with IER from its core budget. RVJB has also experienced difficulties in recruiting and retaining professionally qualified staff to assist in the delivery of the new duties on Assessor's following the Barclay review of non-domestic rates. This</p>	<p>RVJB Management work closely with the Treasurer to the Board to identify any issues in both the short, medium and long term to ensure appropriate measures are taken to address these matters.</p> <p>Monthly meetings are held to confirm the current financial status and highlight any areas of concern which, if required, the Treasurer and Assessor &amp; ERO will</p>	<ul style="list-style-type: none"> <li>• Review of budget monitoring reports and future Revenue Estimates and discussions with management on RVJB's medium-term financial position.</li> <li>• Conclude on financial position and financial sustainability within the Annual Audit Report.</li> </ul>
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	Audit Risk	Management's source of assurance	Planned audit work
	<p>issue will need to be closely monitored going forward.</p> <p>There is also uncertainty around funding for implementing the recommendations of the Barclay review. Funding has been announced by the Scottish Government. Local authorities will also be allocated funding for the Barclay review with the expectation that this will be passed on to valuation joint boards. The arrangements for the passing through of this funding have yet to be agreed between RVJB and its member authorities.</p> <p>Due to the pressures above, it is likely savings will be required over the medium-term to achieve a breakeven position and maintain reserves at an appropriate level.</p>	<p>take on board at their regular meetings throughout the year.</p> <p>If funding from the Scottish Government is passed through to the Board, this should ensure any extra costs incurred in delivering Barclay will be met through this funding. With canvas reform due to happen this summer, there are expected savings to be realised going forward over the next few years which in turn will help the Board deliver within budget.</p>	

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. For RVJB, we have rebutted the risk of material misstatement caused by fraud in income recognition in 2019/20. This risk has been rebutted due to the nature of RVJB's income. The majority of income is in the form of requisitions from member authorities or funding from the Cabinet Office for IER. There is limited scope to manipulate these in the financial statements as the requisitions are set on approval of the Revenue Estimates and IER funding is agreed with the Cabinet Office. The remainder of income is generated from services provided by RVJB and is not material.

## Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs as detailed in [Exhibit 2](#), 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).

7. 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.

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

## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Board Date
Annual Audit Plan	14 February 2020	28 February 2020
Annual Audit Report	4 September 2020	18 September 2020
Independent Auditor's Report	4 September 2020	18 September 2020

Source: Audit Scotland

### Audit fee

**9.** The proposed audit fee for the 2019/20 audit of RVJB is £7,450 (2018/19: £7,280). 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. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package, on 1 June 2020.

**10.** 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.

### Responsibilities

#### Joint Board and Treasurer

**11.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to successfully deliver their objectives.

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

#### Appointed auditor

**13.** 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.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information within the financial statements. We also review and report on the arrangements within RVJB to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial Statements

**15.** The annual accounts, which include the financial statements, will be the foundation and source for most 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 RVJB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses 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 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.

**16.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of the state of affairs of the body as at 31 March 2020 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Other information in the annual accounts

**17.** We also review and report on other information published within the annual accounts including the Management Commentary, Governance Statement, and the Remuneration Report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the Remuneration Report and report on any uncorrected material misstatements.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**20.** The calculated materiality values for RVJB are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

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% of gross expenditure for the year ended 31 March 2019 based on the 2018/19 audited annual accounts.	£29,000
<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 calculated performance materiality at 75% of planning materiality.	£22,000
<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. This has been calculated at 5% of planning materiality.	£1,000



Source: Audit Scotland

## Timetable

**21.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	29 May 2020
Latest submission date of unaudited annual accounts with complete working papers package	1 June 2020
Latest date for final clearance meeting with Treasurer or finance officer	28 August 2020
Issue of Letter of Representation and proposed independent auditor's report	18 September 2020
Agreement of audited unsigned annual accounts	18 September 2020
Issue of Annual Audit Report to those charged with governance	18 September 2020
Independent auditor's report signed	23 September 2020

## Internal audit

**22.** Internal audit is provided by the internal function at Renfrewshire Council. As part of our planning process, we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). This has been carried out by the Renfrewshire Council audit team and concluded that the internal audit function at Renfrewshire Council complies with PSIAS and that appropriate documentation standards and reporting procedures are in place.

## Using the work of internal audit

**23.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication. We do not plan to use the work of internal audit for our financial statements audit work. However, we have considered the findings of the work of internal audit as part of our planning process.

## Audit dimensions

**24.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and transparency, and value for money.

**25.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit 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 the light of the nature of operations and arrangements for processing transactions, we plan to apply the small body provisions of the Code of Audit Practice to the 2019/20 audit of RVJB.

## Financial sustainability

**26.** 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 financial sustainability in the longer term. We define this as medium-term (two to five years) and longer-term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether RVJB can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

## Governance and transparency

**27.** 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 review, conclude and report on the appropriateness of disclosures in the Governance Statement.

## Independence and objectivity

**28.** Auditors appointed by the Accounts Commission or Auditor General 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.

**29.** The engagement lead (i.e. appointed auditor) for RVJB is Mark Ferris, Senior Audit Manager. Auditing and ethical standards require the engagement lead 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.

## Quality control

**30.** 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.

**31.** 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.

**32.** 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.

# Renfrewshire Valuation Joint Board

## Annual Audit Plan 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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