

10.00am, Monday 24th April 2023

2022/23 External Audit Annual Plan

1. Recommendations

- 1.1 The Board is recommended to note the External Audit Annual Plan 2022/23.

Hugh Dunn,

Treasurer

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2022/23 External Audit Annual Plan

2. Executive Summary

- 2.1 The Annual Audit Plan 2022/23 summarises the work plan for the external audit of Lothian Valuation Joint Board.

3. Background

- 3.1 Audit Scotland has been appointed as the Board's external auditor for the five-year term from 2022/23 to 2026/27. The External Audit Annual Plan for 2022/23 outlines the proposed areas of scrutiny and timescales for the 2022/23 audit.

4. Main Report

External Audit Plan 2022/23

- 4.1 The External Audit Plan 2022/23 is appended at Appendix 1. The Plan includes:
- 4.1.1 the responsibilities of Audit Scotland as the external auditor;
 - 4.1.2 the planned audit work and how Audit Scotland will approach it; and
 - 4.1.3 the proposed audit outputs and timetable.

5. Background reading/external references

None

6. Appendices

- 6.1 Appendix 1 – Annual Audit Plan to members of Lothian Valuation Joint Board

Lothian Valuation Joint Board

Annual Audit Plan 2022/23 – DRAFT



 AUDIT SCOTLAND

Prepared for Lothian Valuation Joint Board
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Lothian Valuation Joint Board (the Board). The main elements of our work include:

- an audit of the Annual Accounts and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the Annual Accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
- a review of the Annual Governance Statement and concluding on the financial sustainability of the Board over the medium to longer term.
- consideration of Best Value arrangements

Audit Appointment

2. We are pleased to be appointed as the external auditor of Lothian Valuation Joint Board for the period 2022/23 to 2026/27 inclusive.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to Lothian Valuation Joint Board through our external audit work by being constructive and forward looking, by attending meetings of the Board and by recommending and encouraging good practice. In so doing, we will help Lothian Valuation Joint Board promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Lothian Valuation Joint Board

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Lothian Valuation Joint Board. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. 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.

Lothian Valuation Joint Board responsibilities

9. Lothian Valuation Joint Board is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. The board 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 regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

11. The Annual Accounts are an essential part of demonstrating Lothian Valuation Joint Board's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. 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 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Lothian Valuation Joint Board are set out below.

Exhibit 1

2022/23 Materiality levels for Lothian Valuation Joint Board

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Board's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross cost of services expenditure based on the audited financial statements for 2021/22.	£135,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£95,000

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £7,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our knowledge of Lothian Valuation Joint Board, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. 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.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have 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

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</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"> • Test journal entries with a focus on significant risk areas. • Consider any unusual material transactions identified through our audit testing for any evidence of management override of controls. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Review accounting estimates for evidence of management bias

Significant risk of material misstatement	Sources of assurance	Planned audit response
		including assessing any changes to the methods and underlying assumptions used.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, 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 Lothian Valuation Joint Board 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.

19. 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 Lothian Valuation Joint Board as our assessment of the joint board's main expenditure streams has identified the risk of material misstatement to be low.

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

Wider scope risks

21. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. These are: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

22. The Code of Audit Practice includes provisions relating to the audit of less complex 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.

23. We plan to apply the less complex body provision of the Code to the 2022/23 audit of Lothian Valuation Joint Board. Our wider scope work will therefore focus on the financial sustainability of the Board and the services that it delivers over the medium to long term, and the arrangements in place for securing best value.

Exhibit 3**2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>Funding from constituent councils has remained at the same level for several years and the joint board's budget planning assumes that this will continue.</p> <p>The joint board plans to rely on reserves to produce a balanced budget for the next two years, and has projected a funding shortfall of £1.129m by 2026/27 .</p> <p>There is a risk that in the medium term, the joint board is not able to secure further funding to fully meet cost pressures as they arise.</p>	<ul style="list-style-type: none"> • Lothian VJB is in the process of introducing a transformation programme to provide ongoing cost savings. • Sound budgetary control and monitoring arrangements. 	<ul style="list-style-type: none"> • Ongoing review of financial budget monitoring and reporting arrangements in place to achieve a balanced budget. • Continue to monitor the financial position throughout the year and provide an update in our 2022/23 Annual Audit Report.

Source: Audit Scotland

Best Value

24. Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how the Board demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

27. We will provide an independent auditor's report to Lothian Valuation Joint Board, the Scottish Parliament and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Board meeting Date
Annual Audit Plan	31 March 2023	24 th April 2023
Independent Auditor's Report	11 September 2023	18 September 2023
Annual Audit Report	11 September 2023	18 September 2023

Source: Audit Scotland

Timetable



29. 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 5](#) that has been discussed with management.

30. Covid-19 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. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

31. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	12 th June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 th June 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	TBC September 2023
Issue of Annual Audit Report to those charged with governance.	11 th September 2023
Signed Independent Auditor's Report	18 th September 2023

Source: Audit Scotland

Audit fee

32. In determining the audit fee, we have taken account of the risk exposure of the Board and the planned management assurances in place. The audit fee for 2022/23 is £8,800 as set out in [Exhibit 6](#).

33. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

Exhibit 6**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	20,200
Contribution to Audit Scotland costs	770
Sectoral Cap Adjustment	(12,170)
Total 2022/23 fee	8,800

Source: Audit Scotland

34. In setting the fee for 2022/23 we have assumed that Lothian Valuation Joint Board has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

35. It is the responsibility of Lothian Valuation Joint Board to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

36. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

37. 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.

38. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

39. The appointed auditor for Lothian 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 Lothian Valuation Joint Board.

Audit Quality

40. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

41. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

42. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

43. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

44. 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.

Lothian Valuation Joint Board

Draft Annual Audit Plan 2022/23

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

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