

Highland and Western Isles Valuation Joint Board

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Highland and Western Isles Valuation Joint Board

February 2024

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Introduction

Summary of planned audit work

1. I, Esther Scoburgh, have been appointed by the Accounts Commission as external auditor of Highland and Western Isles Valuation Joint Board (the Joint Board) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of my five-year audit appointment.

2. This document summarises the work plan for my 2023/24 audit. The main elements of the audit include:

- Understanding the key systems of internal control, and how weaknesses in these systems could impact on the financial statements.
- An audit of the annual accounts and provisions of an Independent Auditor's Report.
- An audit opinion on statutory other information published within the annual accounts including the Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report.
- Consideration of arrangements in relation to wider scope areas: concluding on the financial sustainability of the Joint Board.

Respective responsibilities of the auditor and Audited Body

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the audited Body. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor 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.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at the Joint Board. In doing this, we aim to support improvement and accountability.

Highland and Western Isles Valuation Joint Board responsibilities

6. The Joint Board is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. The Joint 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.

Adding Value

8. My team and I aim to add value by:

- tailoring audit work to the circumstances of the Joint Board and the audit risks identified;
- being constructive and forward looking; providing independent conclusions;
- attending meetings of the Joint Board;
- recommending and encouraging good practice.

9. In so doing, we will help the Joint Board promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

10. The annual accounts are an essential part of demonstrating the Joint Board's stewardship of resources and its performance in the use of those resources.

11. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform 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. I am required to plan my audit to obtain reasonable assurance about 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 2023/24 audit

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

Exhibit 1

2023/24 Materiality levels for Highland and Western Isles 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 Joint Board's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£76,000

Materiality	Amount
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 are required. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£57,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£4,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the 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 risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's 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 ISA (UK) 240, management is in a unique position to perpetrate fraud</p>	Owing to the nature of this risk, assurances from management are not applicable in this instance	<ul style="list-style-type: none"> Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
because of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

18. As set out in ISA (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.

19. We have rebutted this risk as the requisitions received from the constituent authorities are clearly communicated and can be readily agreed to third party confirmations. We have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements as the income stream is deemed to be low risk.

20. 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.

21. We have rebutted this risk as the main expenditure streams of the Joint Board are predominantly staff costs, property costs and supplies and services. These are low-risk areas which can be predicted due to their recurring nature, individual transactions can be controlled (such as staff costs in a well-defined salary system) and mainly comprise low value items. We consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

22. 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

23. As part of our assessment of audit risks, we have identified one area where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risks, we do not consider this to represent a significant risk. We will keep these areas under review as our audit progresses.

24. The areas of specific audit focus is:

- Valuation of IAS19 pension asset/liability: This is an area of focus due to the material value and significant, complex actuarial assumptions and estimates that are used to calculate the pension valuation based on CPI growth and life expectancy.

25. We will assess the independence and competence of the professionals engaged in providing the estimates for the pensions and review the appropriateness of the actuarial assumptions and results including comparison with similar organisation. We will establish officers' arrangements for ensuring the reasonableness of the professional estimations and the accuracy of the information provided to the actuary on behalf of the Joint Board by Highland Council.

Wider Scope and Best Value

Introduction

26. Public audit is planned and undertaken from a wider perspective than in the private sector reflecting the fact that public money is involved. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit.

27. In summary, the four wider scope areas are:

- **Financial management:** This means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** We will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance:** We conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Joint Board. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** We will consider how the Joint Board demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

28. The Code of Audit Practice includes provisions relating to the audit of less complex bodies owing to their size and limited financial activity. As part of our planning process we have applied this guidance and concluded that in light of the lack of complexity of the financial transactions in the Joint Board, we plan to apply the less complex public body approach for 2023/24. As a result our annual audit work in relation to the wider code risks will focus on

- The financial sustainability of the Joint Board.

Best Value

29. Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. We will consider how the Joint 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

30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

31. We will provide to the Joint Board and the Accounts Commission:

- An Independent Auditor's Report setting out our opinions on the annual accounts.
- An Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

32. [Exhibit 5](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

Exhibit 5

2023/24 Audit outputs

Audit Output	Target date	Board Meeting Date
Annual Audit Plan	31 March 2024	9 February 2024
Independent Auditor's Report	30 September 2024	23 September 2024
Annual Audit Report	30 September 2024	23 September 2024

Source: Audit Scotland

33. All Annual Audit Plans and the outputs detailed in [Exhibit 5](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

34. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

35. 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 6

Proposed annual accounts timetable

Key stage	Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	By 30 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	By 30 June 2024
Latest date for final clearance meeting	26 August 2024
Agreement of audited and unsigned annual accounts	2 September 2024
Issue of draft Letter of Representation (ISA 580) and proposed Independent Auditor's Report and draft Annual Audit Report	2 September 2024
Issue of proposed Independent Auditor's Report and Annual Audit Report to those charged with governance	11 September 2024
Board meeting to approve and sign audited annual accounts	23 September 2024
Independent Auditor's Report certified by appointed auditor	23 September 2024

Source: Audit Scotland

Audit fee

36. In determining the audit fee, we have taken account of the risk exposure of the Joint Board and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The audit fee for 2023/24 is £9,330 (2022/23: £8,800). In setting the fee for 2023/24, we have assumed that the Joint Board has effective governance arrangements and will prepare a comprehensive and accurate set of annual 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

37. It is the responsibility of the Joint Board to establish adequate internal audit arrangements. Internal audit is provided by the in-house team at Highland Council. While we are not planning to place formal reliance on the work of internal audit in 2023/24, 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

38. I am independent of the Joint Board in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

39. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

40. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of the Joint Board.

Audit Quality

41. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

42. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (Siq) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

43. To monitor the quality of individual audits, Audit Scotland carries out internal quality reviews of a sample of audits on an annual basis. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on Audit Scotland's work.

44. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

45. Audit Scotland may periodically seek your views on the quality of our service provision. The team also welcomes feedback more informally at any time.

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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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