Item: 12

Orkney and Shetland Valuation Joint Board: 27 March 2025.

Annual Audit Plan 2024/25.

Report by Treasurer to the Board.

1. Purpose of Report

To consider the Audit Plan for financial year 2024/25.

2. Recommendations

The Board is invited to note:

2.1.

The indicative Audit Plan, prepared by KPMG, as the appointed auditors to the Orkney and Shetland Valuation Joint Board, for financial year 2024/25, attached as Appendix 1 to this report.

3. Background

3.1.

The annual Audit Plan provides information on the work that the Orkney and Shetland Valuation Joint Board's appointed external auditors will undertake to review and assess the governance and performance of the Board.

3.2.

It is considered that the audit process plays a key role in helping the Board to maintain good governance and accountability and provides assurance around financial stewardship. This includes a clear focus on identifying and assessing the key challenges and risks to the Board to mitigate future risks.

3.3.

This is the third year of the term of the audit appointment which is expected to run for five years from 2022/23 to 2026/27.

4. Annual Audit Plan for 2024/25

4.1.

The indicative Annual Audit Plan, attached as Appendix 1 to this report, presents the planned audit work by the Board's appointed external auditors, KPMG, for financial year 2024/25. Page 4 sets the indicative materiality for the Board at £27,000. Page 5 identifies the significant audit risks considered in designing the audit approach, namely:

- Fraud risk from income recognition and expenditure.
- Fraud risk from management override of controls.
- Retirement benefit obligations (assumptions and methodology).

4.2.

Page 9 depicts the audit schedule showing the deadline for completion of the audit, and presentation of the annual audit report set at the end of September 2025.

4.3.

The Wider Scope and Best Value of the audit, focusing on financial sustainability is detailed on pages 10-13.

4.4.

The Treasurer to the Board has been consulted in the development of the Annual Audit Plan. Any implications identified from the audit work will be duly considered before being taken forward and actioned as appropriate.

5. Financial Implications

The audit fee for the programme of work as set out in the Annual Audit Plan for financial year 2024/25 has been proposed at £9,510. On a comparable basis, excluding the fee for the additional audit work, this represents an increase of £180 or 2% on the previous year's original proposed fee and will be met from within existing budgets.

6. Governance Aspects

6.1.

The Board's external auditors are appointed under statute by the Accounts Commission for Scotland and are required to conduct an audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Commission's approved Code of Audit Practice.

6.2.

The content and implications of this report have been reviewed and, at this stage, it is deemed that the Board **DOES NOT** require external legal advice in consideration of the recommendations of this report.

7. Contact Officer

Erik Knight, Treasurer to the Board, extension 2127, Email Erik.Knight@orkney.gov.uk

8. Appendix

Appendix 1: Audit Plan for the 2024/25 audit.

KPMG

Indicative External Audit Plan for the year ended 31 March 2025

Orkney and Shetland Valuation Joint Board

DRAFT

27 March 2025

Key contacts

Your key contacts in connection with this report are:

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code").

This report is intended for the benefit of Orkney and Shetland Valuation Joint Board ("the Board") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report and it will not be quoted or referred to, in whole or in part, without our prior written consent. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Introduction

To the Orkney and Shetland Valuation Joint Board

We are pleased to have the opportunity to meet with you on 27 March 2025 to discuss our anticipated approach to the audit of the financial statements of Orkney and Shetland Valuation Joint Board, as at and for the year ending 31 March 2025.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

This report is indicative at this stage, as we complete our planning and risk assessment work, and sets out our approach to setting materiality and likely audit risks as well as other salient aspects of our approach.

The engagement team

Michael Wilkie is the engagement leader on the audit. Michael will lead the engagement and is responsible for the audit opinion. Taimoor Alam will be the manager responsible for the audit and will be responsible for overseeing the delivery of our audit. Other key members of the engagement team include Michelle Ho.

Yours sincerely,

Michael Wilkie

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion that is also important.

We define 'audit quality' as being the outcome when audits are:

- **Executed consistently**, in line with the requirements and intent of **applicable professional standards** within a strong **system of quality controls**; and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity**, **independence**, **ethics** and **integrity**.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of Orkney and Shetland Valuation Joint Board and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Orkney and Shetland Valuation Joint Board

Indicative Materiality (Board)

Total Board expenditure
£1,012k*
(2023-24 £984k)**
***Based on 2024-25 budget.**
***Based on 2023-24 actuals.**

Indicative Board materiality
£27k
(2023-24 £27k)
2.66% of total expenditure
(2023-24 – 2.74%)

£1,350
(2023-24 £1,350)
Misstatements reported to the Board

£20k
(2023-24 £20k)
Procedure designed to detect individual errors at this level

£27k
(2023-24 £27k)
Materiality for the financial statements as a whole

Our materiality levels

The materiality levels outlined above is indicative and will be confirmed when we receive the draft financial statements. We determine materiality for the financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We expect to use a benchmark of total expenditure for cost of services. (before asset impairments and defined benefit pension charges) which we consider to be appropriate as it reflects the scale of the Board's services and we consider this most clearly reflects the interests of users of the Board's accounts. To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of performance materiality. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as directors' salary information in the remuneration report.

Reporting to the Board

Under ISA 260, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Board, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1,350.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Board to assist it in fulfilling its governance responsibilities.

Significant audit risks and our audit approach

Our planning and risk assessment is ongoing at the time of preparing this report, and therefore this section of our report sets out the expected audit risks we anticipate to focus on and to take up significant audit time. This risk assessment is subject to change and we will provide an updated set of risks, should these change significantly.

Our risk assessment draws upon our knowledge of the industry and the wider economic environment in which Orkney and Shetland Valuation Joint Board operates.

We will update our risk assessment once we have completed our detailed planning procedures and provide a further update in our Audit Plan and Strategy.

Significant risks	
1	Fraud risk from income recognition and expenditure (presumed risk per ISA 240) – **rebutted***
2	Fraud risk from management override of controls (presumed risk per ISA 240)
3	Retirement benefit obligations (assumptions and methodology)

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Significant audit risks and our audit approach

1. Risk from income recognition and expenditure

Significant audit risk

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Income

We consider that the Board's significant income streams, which include funding requisitions from Orkney Islands Council and Shetland Islands Council. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is limited estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant.

We therefore plan to rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.

We will continue to assess this as we complete our planning and risk assessment and report any changes should this assessment change.

Expenditure

The Board works with Orkney Islands Council and Shetland Islands Council in order to deliver services delegated by the Board. The Board makes these decisions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.

We therefore plan to rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.

We will continue to assess this as we complete our planning and risk assessment and report any changes should this assessment change.

Significant audit risks and our audit approach

2. Management override of controls

Significant audit risk	Planned response
The risk Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.	– Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we will evaluate the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate. – We will analyse all journals through the year and focus our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition around year-end, or journals linked to our other recognised significant risks. – We will assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. – We will review the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business or are otherwise unusual. – We will assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

Significant audit risks and our audit approach

3. Risk of retirement benefit obligations

Significant audit risk

Risk: An inappropriate amount is estimated and recorded for the defined benefit obligation

The valuation of the Local Government Pension Scheme (Shetland Pension Fund) relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Board's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Board's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Board's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Board's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Pension Funds in surplus pose an additional risk to Boards, as the entity will need to assess the level of surplus that it can recognise. This will need to be assessed each year, and the conclusion can change from one year to the next based on facts and circumstances for each participation.

We do not consider there to be a significant level of estimation uncertainty over the valuation of the LGPS assets in year end valuation on the basis that this calculation is completed using an appropriate roll forward method. As a result procedures performed over this element of the valuation are not detailed in our audit plan.

Planned Response

Control design:

- Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with management's review of assumptions, to calculate the pension obligation.

Benchmarking assumptions:

- Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data.
- Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations.

Assessing transparency:

- Considering the adequacy of the disclosures in respect of the sensitivity of the liabilities to these assumptions.
- Assessing if the disclosures within the financial statements are in accordance with the 2024-25 Code's requirements.
- Considering the extent to which any potential surplus should be recognised or capped.

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Audit cycle and expected timetable

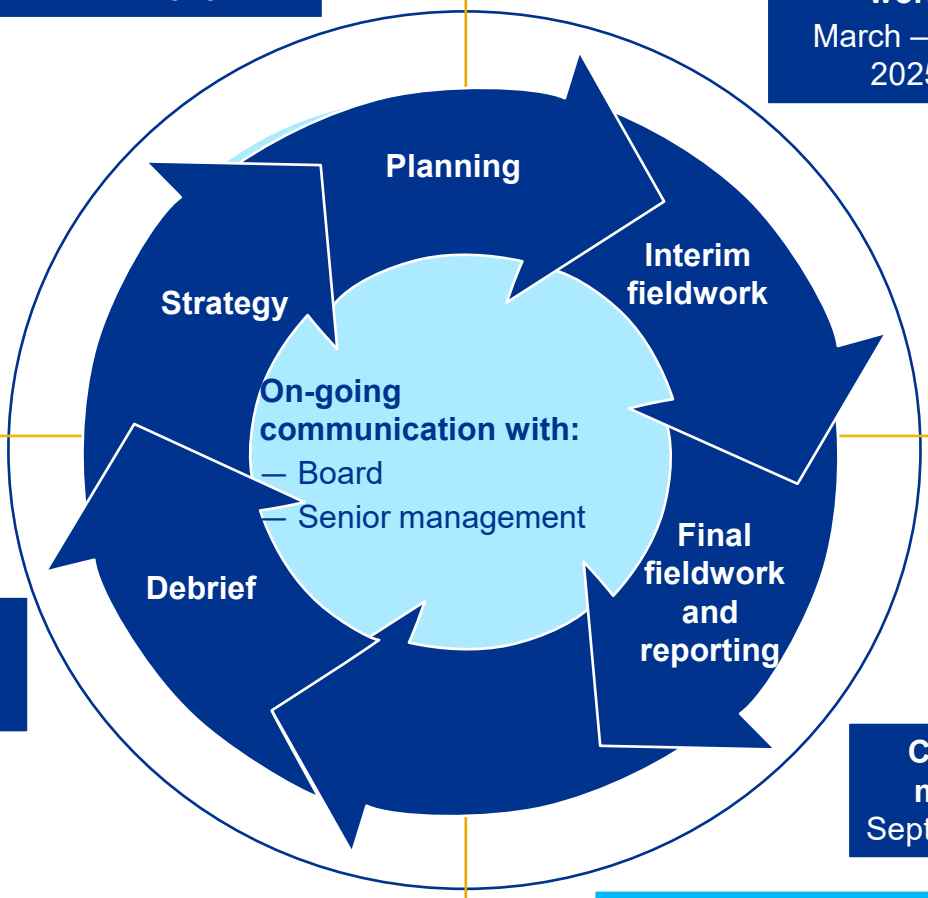
Our 2024/25 schedule

Planning meeting with management
March 2025

March 2025

Planning and risk assessment work
March – April 2025

Audit plan discussion and approval
March2025



October 2025

July 2025

Feedback & debrief
October 2025

Final fieldwork
July - Sept 2025

Clearance meetings
September 2025

Presentation of Management Letter to Board
September 2025

Deadline - 30 September 2025

Auditor's Annual Report
Sep 2025

Finalisation of Board accounts
September 2025

- **Key Events**
- **Board communications**

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Wider scope and best value approach

Orkney and Shetland Valuation Joint Board

Wider Scope and Best Value

Wider Scope Approach

The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission. These include financial sustainability; financial management; vision, leadership and governance; and use of resources to improve outcomes.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

AQA specifies in supplementary guidance that a body with gross income, expenditure, assets and liabilities less than £10.2 million is likely to be a Less Complex Body unless:

- the auditor identifies any wider scope risks beyond financial sustainability
- AQA advises that, despite its size, the body is of strategic importance
- the body is subject to significant public scrutiny
- the body requests a full wider scope audit
- a statutory report was prepared in 2023/24 related to wider scope issues.

The planning guidance permits an alternative audit approach where an audited body is less complex owing to its size and its limited financial activity i.e. required work is limited to evaluation of financial sustainability.

Based on the consideration of the quantitative and qualitative criteria we have assessed the entity to be less complex, therefore applying reduced scope as required by the code.

Our 2024/25 work will therefore cover financial sustainability, review of annual governance statement and follow-up of recommendations from the previous years.

Wider scope and best value

Wider Scope Approach (continued)

Financial Sustainability

Financial Sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

Risk Assessment

As part of our previous year audit we noted that a Medium-Term Financial Plan (MTFP) was in place which takes into account scenario planning and sensitivity analysis.

We noted that the plan identified a funding gap over the three-year period 2024/25 to 2026/27 of £65k based on a most “Likely Case” scenario as well as a larger gap over the 10 year longer term forecast period and noted that the MTFP will provide a practical framework within which choices can be identified, debated and approved. However, we had not seen any quantified plans being put in place to bridge this gap which was raised as a recurring recommendation.

As part of previous year audit, we were given to understand that there are very limited actions which can be taken by Officers or the Board to bridge the gap and continue to deliver the services and that no additional plans are being considered.

Based on above we understand that a possible significant risk in relation to financial sustainability may exist.

Audit Approach

- We will consider the updates to the Board’s longer term financial plans, as well as underlying specific plans.
- We will inquire with officers regarding reporting to Board surrounding the assumptions and judgements made in forecasting future funding and expenditure pressures.
- We will follow-up on our prior year recommendation including the consideration of the development of saving plans to bridge the funding gap identified in the medium-term financial plan.

Wider Scope and Best Value

Best Value Approach

Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions.

Auditors are required to consider and to be satisfied that bodies have made proper arrangements to secure Best Value. Work is required to be undertaken in a way that it is proportionate to the size and type of the body.

Auditors should consider how the body demonstrates that it is meeting its Best Value responsibilities, and report on the body's own arrangements for doing this in the Annual Audit Report.

In the case of Less Complex Bodies, auditors should consider how the work carried out on financial sustainability will also meet the Best Value responsibilities.

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Appendices

Appendix one

Mandatory communications

Type	Statement
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our engagement letter with Audit Scotland communicates our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities - Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our engagement letter with Audit Scotland communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Auditor's responsibilities – wider scope and best value	Pages 11 -13 set out our responsibilities for reporting on wider scope and best value. We have set out on these pages the methodology we will adopt in discharging our responsibilities in these areas.
Independence	Our independence confirmation on page 16 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Confirmation of independence

Assessment of our objectivity and independence as auditor of the Orkney and Shetland Valuation Joint Board ("the Board")

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings.

Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the Board and its affiliates for professional services provided by us during the reporting period. No non-audit services are expected to be provided during 2024/25.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Board.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Board and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix three

Audit team and rotation

Your audit team has been drawn from our specialist public sector audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit director and firm.

	Michael Wilkie is the partner responsible for our audit. He will lead our audit work, attend the Board and be responsible for the opinions that we issue.
	Taimoor Alam is the manager responsible for our audit. He will co-ordinate our audit work, attend the Board and ensure we are co-ordinated across our accounts and wider scope work.
	Michelle Ho is the in-charge responsible for our audit. She will be responsible for our on-site fieldwork. She will complete work on more complex section of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit director. There are no other members of your team which we will need to consider this requirement for:

This will be Michael's third year as your engagement lead. He can therefore complete a further 7 years before rotation.

Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2024-25. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration (** average of Tender values)
- Audit Scotland Pooled costs
- Contribution to PABV costs
- Audit Scotland sectoral cap adjustment

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

Entity	2024-25	2023-24
Auditor Remuneration **	£21,660	£20,790
Pooled Costs	£540	£760
PABV Contribution	£0	£0
Sectoral Cap Adjustment	-£12,690	-£12,220
TOTAL AUDIT FEES (Incl VAT)	**£9,510**	**£9,330**

Source: Audit Scotland

Billing arrangements

Fees will be billed by Audit Scotland in accordance with a billing schedule as outlined in correspondence with management.

Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- The Board's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied; A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-forms as necessary. Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

Appendix five

Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Management responsibilities

Adopt sound accounting policies.

With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.

Establish proper tone/culture/ethics.

Require periodic confirmation by employees of their responsibilities.

Take appropriate action in response to actual, suspected or alleged fraud.

Disclose to Board and auditors:

- Any significant deficiencies in internal controls; and
- Any fraud involving those with a significant role in internal controls

KPMG's response to identified fraud risk factors

Accounting policy assessment.

Evaluate design of mitigating controls.

Test effectiveness of controls.

Address management override of controls.

Perform substantive audit procedures.

Evaluate all audit evidence.

Communicate to Board and management.

KPMG's identification of fraud risk factors

Review of accounting policies.

Results of analytical procedures.

Procedures to identify fraud risk factors.

Discussion amongst engagement personnel.

Enquiries of management, Board, and others.

Evaluate broad programmes and controls that prevent, deter, and detect fraud.

KPMG's identified fraud risk factors

- Whilst we consider the risk of fraud at the financial statement level to be low for the Board, we will monitor the following areas throughout the year and adapt our audit approach accordingly:
- Income recognition;
- Cash;
- Procurement;
- Management control override; and
- Assessment of the impact of identified fraud.

Appendix six

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of management

Financial Statements

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Board;
- maintaining proper accounting records; and
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body.

Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Audited bodies are responsible for providing the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.

Appendix six

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of management
Prevention and detection of fraud and irregularities
Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Corporate governance arrangements
Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.
Financial position
Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to: — such financial monitoring and reporting arrangements as may be specified; — compliance with any statutory financial requirements and achievement of financial targets; — balances and reserves, including strategies about levels and their future use; — how they plan to deal with uncertainty in the medium and longer term; and — the impact of planned future policies and foreseeable developments on their financial position.
Best Value, use of resources and performance
The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

Appendix six

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors

Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, ISAs, professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  - suitability and effectiveness of corporate governance arrangements; and
  - financial position and arrangements for securing financial sustainability.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.

Appendix six

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors
General principles
This Code is designed such that adherence to it will result in an audit that exhibits these principles.
Independent
When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the FRC ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour. Our independence confirmation letter (**Appendix two**) discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff. We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.
Proportionate and risk based
Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self - evaluation evidence when assessing and identifying audit risk.
Quality focused
Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.

Appendix six

Audit Scotland code of audit practice – responsibility of auditors and management

Responsibilities of auditors
Coordinated and integrated
It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.
Public focussed
The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.
Transparent
Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.
Adds value
It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement w here significant risks are identified.

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