**ITEM No …6………..**

**REPORT TO:** **SCRUTINY COMMITTEE – 20 APRIL 2016**

**REPORT ON:** **TAYSIDE PENSION FUNDS - KPMG EXTERNAL AUDIT STRATEGY REVIEW & PLAN FOR YEAR ENDED 31ST MARCH 2016**

**REPORT BY:** **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO:** **130-2016**

## 1 PURPOSE OF REPORT

To submit to elected members the above report that provides a summary of the responsibilities and approach in respect of the Tayside Pension Funds for 2015/16.

## 2 RECOMMENDATIONS

It is recommended that elected members note the information included in the attached report.

## 3 FINANCIAL IMPLICATIONS

None

## 4 MAIN TEXT

4.1 Following their appointment by Audit Scotland as external auditor for the City Council for five years from 2011/12, KPMG LLP have produced the above report outlining the planned approach to the audit of Tayside Pension Fund and Tayside Transport Pension Fund ("the Pension Funds") for the year ending 31 March 2016. The document sets out the statutory and professional responsibilities in terms of the Code of Audit Practice and also outlines our key audit objectives.

4.2 The report sets out information on the proposed audit approach focussing on the key issues and risks facing the Pension Funds in terms of corporate governance arrangements, ownership and valuation of investments, regulatory and accounting compliance and other issues relevant to the opinions on the financial statements. The document also sets out the key stages of the planned audit process, together with a summary of procedures for working with internal audit, materiality considerations and arrangements for communication and reporting.

## 5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## 6 CONSULTATION

The Chief Executive and Head of Democratic and Legal Services.

## 7 BACKGROUND PAPERS

None

**MARJORY M STEWART**
**EXECUTIVE DIRECTOR OF CORPORATE SERVICES** **21 MARCH 2016**

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# Tayside Pension Funds

Audit strategy and plan

Year ending 31 March 2016

4 February 2016

For scrutiny committee consideration on 20 April 2016

# Contents



**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 for the benefit of Tayside Pension Fund and Tayside Transport Pension Fund ("the Funds") 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. 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.

**Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie, who is the engagement leader for our services to the Council, telephone 0131 527 6682 email: hugh.harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

# 2015-16 audit strategy on a page



## SIGNIFICANT RISKS AND OTHER MATTERS

From discussions with management, our knowledge of the organisation and review of risk registers, we have considered areas of risk and audit focus.

We have identified the significant risk as management override of controls. Other audit focus areas fraudulent revenue recognition and valuation of investments.

## MATERIALITY

MATERIALITY

**£2.9 million**

1.9% BENCHMARK

REPORTING THRESHOLD

**£145,000**

5% MATERIALITY

## WIDER SCOPE REQUIREMENTS

The audit will consider other areas:

- Audit Scotland's Code of Audit Practice ("the Code") and the audit dimensions set out in the 2016 code (in consultation).
- Code of Practice on Local Authority Accounting in the United Kingdom disclosures.
- Best Value.
- Targeted follow up.

## KPMG TEAM

The team benefits from strong continuity at senior level:

- Hugh Harvie – engagement partner; and
- Matt Swann– engagement manager.

We will harness the expertise of our investment valuation specialists to support our audit work where necessary.

KPMG

# Scoping and purpose



## Scope definition

The Accounts Commission has appointed KPMG LLP as auditor of Dundee City Council , and therefore Tayside Pension Fund and Tayside Transport Pension Fund (“the Funds”) under the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2011-12 to 2015-16, inclusive.

## Purpose

This document summarises our responsibilities as external auditor for the year ending 31 March 2016 and our intended approach to issues impacting the Fund’s activities in the year.

Auditors and audited bodies’ responsibilities are set out in the Code. This Code states the responsibilities in relation to:

- the financial statements;
- corporate governance and systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- arrangements for preparing and publishing statutory performance information;
- financial position; and
- Best Value, uses of resources and performance.

These responsibilities are outlined in appendix four.

KPMG’s planned audit work in 2015-16 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
  - give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom (“the 2015-16 Code”) of the state of the affairs of the Funds as at 31 March 2016 and of the income and expenditure of the Funds for the year then ended;
  - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2015-16 Code, the requirements of the Local Government (Scotland) act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government Scotland Act 2003.
- a review and assessment of the Funds’ governance arrangements including: a review of the adequacy of internal audit and review of the governance statement;
- a review of National Fraud Initiative arrangements; and
- a review of arrangements for preparing and publishing statutory performance information.

# Context



| Risk assessment | Financial position | Key developments |
|---|---|---|
| We have developed an understanding of your key risks based on our initial risk assessment procedures, including discussions with management. The key areas identified are detailed below.<br><br>The income of the Funds comprises contributions receivable in accordance with levels recommended by the Funds' independent actuary and can be related to the underlying employer records, therefore, we do not regard the risk of fraud from this revenue recognition as significant.<br><br>In addition, the other major source of income is earned from the independently managed investments held by the Funds. This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant. | Because of the longer term nature of the Funds' activities, financial reporting to the pension investment sub-committee of the Council's policy and resources committee focuses on investment performance rather than the detail of dealings between the Funds' members and employers. These are however expected to be broadly consistent with the prior year.<br><br>Our audit will include consideration of the process to transfer assets and whether the associated reconciliations are performed by management. As part of our year end audit we will obtain independent confirmation of investment balances held and undertake appropriate tests on the underlying investment information and valuations applied as at 31 March 2016. This will include confirmation of all listed securities by our investment valuations specialists to maximise the level of assurance on the valuation of the funds. | Matters to be considered during the 2015-16 audit and included within our annual audit report include: Areas of Funds' governance; for example, committee operations, provision and use of management information, the risk assessment and monitoring process, and, compliance with key areas of legislation and regulation. |

**Audit dimensions** – as they develop we will consider the wider scope Audit Dimensions as set out in the Code of Audit Practice 2016 (in consultation). The audit dimensions put Best Value at the core.

| Financial sustainability | Financial management | Governance and transparency | Value for money |
|---|---|---|---|
| Financial sustainability looks forward to the medium and longer term. | Financial management is concerned with financial capacity, and whether the control environment and internal controls are operating effectively. | 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. | Value for money is concerned with using resources effectively and continually improving services. |

# Materiality



We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

Audit differences will be presented to the scrutiny committee if they are material in size or material in nature. For 2015-16 we consider individual or aggregated financial statement errors of over £2.9 million (2014-15: £2.5 million) to be material.

To the extent that we identify misstatements above £145,000 (2014-15: £125,000) we report them to the scrutiny committee and assess whether the misstatement is indicative of a significantly deficient or materially weak control environment.

We recognise that matters can be important because of their nature regardless of their size, for example misstatements to key disclosures such as remuneration and related parties, and we will also report these to the scrutiny committee.

MATERIALITY

**£2.9 million**

1.9% BENCHMARK

REPORTING THRESHOLD

**£145,000**

5% MATERIALITY

## DETERMINING MATERIALITY

We consider materiality by reference to the Funds' contribution from members and employers and investment income which was £148.0 million in 2014-15. This is considered appropriate as the contributions are as recommended by the scheme actuary and investment income is subject to achievement of income from the investments held during the year.

Audit guidance typically puts this percentage at not higher than 2% of the chosen gross metric/benchmark (member and employers contributions and investment income).

We considered the Funds' contribution from members and employers and investment income in 2014-15 and consider the use of a materiality of £2.9 million, representing 1.9% of 2014-15 member and employers and investment income to be appropriate. Our materiality will be revised based on 2015-16 actual values when they are received.

# Significant audit risks and other focus areas



International Standard on Auditing (UK and Ireland) 315: *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore require specific audit consideration.

In determining whether a risk is significant, judgement is applied in respect of the whether, for example, the risk is associated with the complexity of transactions, the degree of subjectivity involved in the measurement of financial information, whether the associated transactions are outside the normal course of business, or whether there is an associated risk of fraud. We have set out our significant risks, along with other audit focus areas, in terms of the 2014-15 comprehensive income and expenditure statement and the balance sheet for illustrative purposes.

**Comprehensive income and expenditure statement**

| Caption | 14-15 £'000 |
|---|---|
| Contributions receivable | 91,412 |
| Transfers in | 3,324 |
| Benefits payable | (89,649) |
| Payments to and on account of leavers | (5,238) |
| Administration expenses | (1,232) |
| Investment income | 56,574 |
| Change in market value of investments | 336,802 |
| Investment management expenses | (11,921) |
| Net increase in funds | 380,072 |

Fraud risk from income recognition

Valuation of investments

**Net assets statement**

| Caption | 14-15 £'000 |
|---|---|
| Listed investments | 2,100,726 |
| Unlisted investments | 759,328 |
| Investment liabilities | (15,900) |
| Contributions due from employers | 7,903 |
| Sundry debtors | 1,471 |
| Cash at bank | 1,340 |
| Sundry creditors | (11,733) |
| Net assets | 2,843,135 |

**Key**

Significant audit risk

Other focus area

# Significant audit risks and other focus areas

| RISK | WHY | AUDIT APPROACH |
|---|---|---|
| **Fraud risk from management override of controls** | Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. | ■ Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Funds.<br>■ Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.<br>■ In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual. |
| **Fraud risk from income recognition** | Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. | The income of the Funds comprises contributions receivable in accordance with levels recommended by the Funds' independent actuary and can be related to the underlying employer records, therefore, we do not regard the risk of fraud from this revenue recognition as significant.<br>In addition, the other major source of income is earned from the independently managed investments held by the Funds. This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant. |
| **Valuation of investments** | Valuation of investments can be one of the more volatile elements of financial statements and in the case of the Funds is a material balance. Due to this inherent risk we give additional focus to the accounting for valuation of investments. | The majority of investments held are in listed securities. To gain comfort over the valuation of investments held at 31 March 2016 we will:<br>• Obtain confirmations of holdings and valuations from the custodians of investments; and<br>• Independently verify the pricing of listed securities against recognised independent sources using our investment valuations specialists. We will perform this in full over listed investments to give you maximum assurance over the largest balance in the financial statements. |

# Presentation of financial statements



| | |
|---|---|
| **Code of practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code")** | The 2015-16 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2015-16 ("*the Code*")* which is based on International Financial Reporting Standards ("IFRS").<br><br>The 2015-15 Code has a number of amendments from the 2014-15 version and management should consider if these changes will impact the financial statements. The amendments include:<br><br>▪ adoption of IFRS 13 *Fair Value Measurement,* including consequential amendments as a result of adopting this standard and the introduction of the concept of current value;<br><br>▪ amendments to underline the importance of the consideration of materiality when preparing disclosures; and<br><br>▪ amendments made as a result of the Local Authority Accounts (Scotland) Regulations 2014.<br><br>We consider that the adoption of IFRS 13 may have an impact on the Council's financial statements in relation to the fair value measurement of assets and liabilities.<br><br>Audit Scotland has also provided enhanced guidance in respect of a number of technical topics, which will be considered during the audit. |

# Approach to fraud

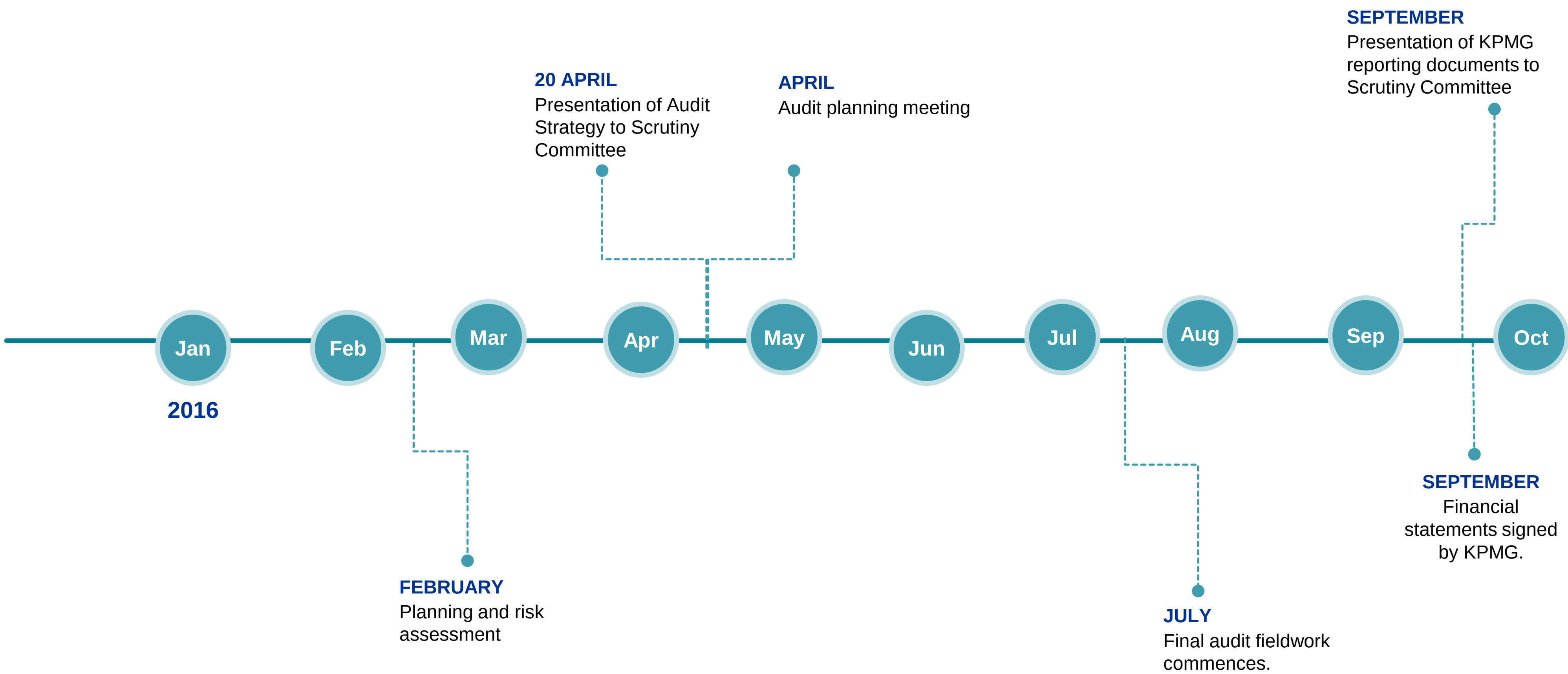


In accordance with International Standards on Auditing (UK and Ireland) ISA 240 *The Auditor's responsibility to consider fraud in an Audit of a Financial Report*, we will undertake specific procedures and report findings to management and the Scrutiny Committee in respect of financial reporting fraud. The following diagram highlights the phases of our work on fraud.

| Discuss fraud | Assess fraud risk | Tailor audit response |
|---|---|---|
| ■ We will hold discussions with the:<br>– scrutiny committee;<br>– director of corporate services; and<br>– corporate services team members. | ■ Our preliminary fraud risk assessment will consider:<br>– management oversight;<br>– the internal control framework;<br>– the nature of operations. | ■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. We:<br>– Review and test the fraud risk assessment process, systems and controls to prevent, deter and detect fraudulent activity.<br>– Evaluate the design of financial reporting controls during process testing to assess their effectiveness in detecting fraud.<br>– Identify and select specific journal entries for detailed substantiation and consolidation journals for appropriate evidence and basis.<br>– Review significant accounting estimates for management bias.<br>■ The audit team will review and discuss fraud related risks and controls with the director of corporate services and other members of senior management.<br>■ We will incorporate an element of unpredictability into our testing, as individuals within the Funds who are familiar with our audit procedures may be able to use that knowledge to conceal fraudulent financial reporting. |

# Timeline and reporting





# Appendices

# Mandated communications with the Scrutiny Committee



<table>
<tr><th>Matters to be communicated</th><th>Link to Audit Committee papers</th></tr>
<tr><td>Independence and our quality procedures ISA 260 (UK and Ireland).</td><td>■ See next page</td></tr>
<tr><td>The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260 (UK and Ireland).</td><td>■ Main body of this paper</td></tr>
<tr><td>■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity’s financial statements or the auditor’s report, and their resolution (AU 380).</td><td rowspan="7">■ In the event of such matters of significance we would expect to communicate with the Scrutiny Committee throughout the year.<br>■ Formal reporting will be included in our audit highlights memorandum for the September 2016 Scrutiny Committee meeting, which focuses on the financial statements.</td></tr>
<tr><td>■ Significant difficulties we encountered during the audit.<br>■ Significant matters discussed, or subject to correspondence, with management (ISA 260).</td></tr>
<tr><td>■ Our views about the qualitative aspects of the entity’s accounting and financial reporting.<br>■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540).</td></tr>
<tr><td>■ Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450).</td></tr>
<tr><td>■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity’s financial statements (ISA 570).</td></tr>
<tr><td>■ Material uncertainties related to events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern (ISA 570).</td></tr>
<tr><td>■ Expected modifications to the auditor’s report (ISA 705).</td></tr>
</table>

# Auditor independence



Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Hugh Harvie and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

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

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, directors 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; and
- Independent reviews.

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

## Confirmation of our audit independence

We confirm that as at 4 February 2016, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Hugh Harvie and the audit team is not impaired.

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

Please inform me if you would like to discuss any of these aspects of our procedures in more detail.

Yours faithfully

KPMG LLP

Audit Scotland requires that the fee for our work is set within an indicative range, depending on the assessment of risk and other factors facing the Council. The indicative fee range is calculated using a number of inputs:

- A central estimate of the number of days needed to complete the audit
- the average remuneration rate for the audit team
- the contribution to travel and expenses within the sector
- the contribution towards performance audits, where relevant
- the contribution towards other central costs not met by the Scottish Consolidated Fund

The indicative fee ranges are based on the following assumptions to ensure an efficient audit process:

- draft report, financial statements and full electronic files of supporting work papers available at the start date of our on site visit agreed with officers preferably in electronic format
- reliance on your internal controls
- availability of key members of staff during the audit fieldwork
- completion within the agreed timetable

The element of the fee agreed with Dundee City Council which we propose applying to the Funds is £28,050.

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arising, we will discuss with management the impact of this on our proposed fee.

As in 2014-15, an element of this fee will be allocated for our work on the audit of the financial statements of the Council's Pension Fund and we will agree this with officers for the purposes of the re-charge to, and disclosure in, the Pension Fund's financial statements.

# Audit Scotland code of audit practice – responsibilities of auditors and management



| Responsibilities of auditors | Responsibilities of management |
|---|---|
| **Financial statements** | |
| Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:<br>■ whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and<br>■ whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.<br>Auditors should review and report on, as appropriate, other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.<br>Where required, auditors should also review and report on the Whole of Government Accounts return. | Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:<br>■ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;<br>■ maintaining proper accounting records;<br>■ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);<br>■ preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and<br>■ preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return. |
| **Corporate governance arrangements** | |
| Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:<br>■ bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements;<br>■ the prevention and detection of fraud and irregularity;<br>■ standards of conduct and arrangements for the prevention and detection of corruption; and<br>■ the financial position of audited bodies. | Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring 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 usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements. |

# Audit Scotland code of audit practice – responsibilities of auditors and management



| Responsibilities of auditors | Responsibilities of management |
|---|---|
| **Systems of internal control** | |
| Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body. | Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees. |
| **Prevention and detection of fraud and irregularities** | |
| Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures. | Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:<br>▪ developing, promoting and monitoring compliance with standing orders and financial instructions;<br>▪ developing and implementing strategies to prevent and detect fraud and other irregularity;<br>▪ receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and<br>▪ participating, when required, in data matching exercises carried out by Audit Scotland. |

# Audit Scotland code of audit practice – responsibilities of auditors and management



| Responsibilities of auditors | Responsibilities of management |
|---|---|
| **Standards of conduct and arrangements for the prevention and detection of bribery and corruption** | |
| Auditors should consider whether bodies have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. Auditors review and, where appropriate, examine evidence that is relevant to these arrangements and reporting their findings.<br><br>While auditors are not responsible for preventing or detecting failure to maintain an appropriate level of integrity and openness, they should be alert to the potential for corruption and breaches of standards of conduct in all aspects of their work. If weaknesses in arrangements are identified or notified, auditors should report them promptly to management or those charged with governance. | Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:<br>▪ implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;<br>▪ promoting appropriate values and standards; and<br>▪ developing, promoting and monitoring compliance with standing orders and financial instructions. |
| **Financial position** | |
| Auditors should consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based, where appropriate, examining evidence that is relevant to the arrangements.<br><br>Auditors should have regard to audited bodies':<br>▪ financial performance in the period under audit;<br>▪ compliance with any statutory financial requirements and financial targets;<br>▪ ability to meet known or contingent statutory and other financial obligations;<br>▪ responses to developments which may have an impact on their financial position; and<br>▪ financial plans for future periods. | Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:<br>▪ such financial monitoring and reporting arrangements as may be specified;<br>▪ compliance with any statutory financial requirements and achievement of financial targets;<br>▪ balances and reserves, including strategies about levels and future use; and<br>▪ the impact of planned future policies and foreseeable developments on their financial position. |

# Audit Scotland code of audit practice – responsibilities of auditors and management

APPENDIX 4

| Responsibilities of auditors | Responsibilities of management |
| --- | --- |
| **Best Value, use of resources and performance** | |
| The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.<br><br>Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.<br><br>Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland. | Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision.<br><br>Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.<br><br>The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance. |

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The contacts at KPMG in connection with this report are:

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