

REPORT TO: SCRUTINY COMMITTEE–22 APRIL 2015

REPORT ON: EXTERNAL AUDIT REPORT – TAYSIDE PENSION FUNDS AUDIT STRATEGY REVIEW AND PLAN 2014/15

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 139-2015

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 2014/15.

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 2015. 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
DIRECTOR OF CORPORATE SERVICES

2 APRIL 2015



cutting through complexity

Tayside Pension Funds

Audit strategy review and plan

Year ending 31 March 2015

For scrutiny committee consideration on 22 April 2015

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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 for the benefit of only Dundee City Council and is made available to the Accounts Commission and Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

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 scope and objectives 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 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 Tayside Pension Funds, telephone 0141 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, 110 George Street, Edinburgh, EH2 4LH.

This document describes how we will deliver our audit for Tayside Pension Funds for the year ending 31 March 2015.

This includes the opinions on the financial statements prepared by the Funds in accordance with the relevant legal and accounting requirements.

Our audit work is undertaken in accordance with Audit Scotland's Code of Audit Practice. This specifies a number of objectives for our audit.

The Accounts Commission has appointed KPMG LLP as auditor of the Dundee City Council 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.

KPMG's planned audit work in 2014-15 will include:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of the Funds;
 - the accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (pension funds) in the United Kingdom 2013-14, the requirements of the Local Government (Scotland) act 1973 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.

Auditors and audited bodies' responsibilities are set out in Audit Scotland's Code of Audit Practice ("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

The responsibilities of the auditor and management are summarised below; appendix two sets out the detailed responsibilities.

Responsibilities of the appointed auditor

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the wider responsibilities embodied in the Code.

We have set out opposite the key elements of our audit work for 2014-15 on the financial statements and corporate governance arrangements. While auditors are not responsible for preventing or detecting fraud or irregularity and do not substitute for audited bodies own responsibilities, we will review and report on these arrangements. We will review and report whether the Funds have adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. We will also report on whether management has established adequate arrangements to manage performance, regularity, use of resources and performance information.

Responsibilities of the accountable officer

The audit of the financial statements does not relieve management or the audit and governance committee of their responsibilities. The Funds are responsible for financial statements which show a true and fair view of the Funds' affairs, and for making available to us all the information and explanations we require for the purposes of our audit.

The Funds are responsible for establishing arrangements for ensuring the proper conduct of its affairs and developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. These systems should include arrangements to prevent and detect fraud and other irregularity. Management is responsible for implementing proper arrangements to ensure that their financial position is soundly based.

Our audit approach is risk-based, and focuses on the areas most likely to lead to material misstatement in the Funds' financial statements.

We have performed initial risk assessment procedures to identify focus areas for the 2014-15 audit.

Continued areas of audit focus are:

- **investments;**
- **governance; and**
- **value adding audit methods.**

We have developed an understanding of your key audit focus areas based on our initial risk assessment procedures, including discussions with management. The key areas identified are detailed below. Our risk assessment procedures are ongoing throughout the audit, and we will update you in respect of any emerging risks as we become aware of them.

Financial performance

Because of the nature of the longer term nature of the Funds' activities, detailed 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 Funds members and employers. These are however expected to be broadly consistent with the prior year which had contributions receivable and transfers in of £93 million and benefits payable and payments to and on account of leavers of £88.9 million. Administration expenses were £1.2 million.

At 30 November 2014, Fund investments were £2,666 million, with the Funds outperforming their benchmark in the quarter, year, three and five years to that date. The Funds' actuary performed a valuation exercise in December 2014, these were received in final approved format for Tayside Pension Fund and draft for Tayside Transport Pension Fund at the end of March 2015. KPMG will review these in the course of our audit work.

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 also obtain independent confirmation of investment balances held and undertake appropriate tests on the underlying investment information and valuations applied as at 31 March 2015.

Fund governance

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 require an administering authority to prepare and publish a governance compliance statement to measure their pension funds' governance arrangements against the standards set out in guidance from the Scottish Ministers. Regulation 5 of the Local Authority Accounts (Scotland) Regulations 2014 introduces a new requirement from 2014/15 for local authorities to undertake an annual review of their system of internal control and report this in an annual governance statement. The Scottish Government has recommended that one statement be prepared which satisfies both requirements.

The annual governance statement is to be prepared in accordance with the proper practices outlined in *Delivering good governance in local government: framework* published by CIPFA and SOLACE.

Our audit will focus on the key 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. We are required to review the governance compliance statement and the annual governance statement (or the combined statement) and to read these to identify material inconsistencies with the financial statements and the knowledge gained through our audit work.

We will carry out a high level compliance and regulatory review as part of our normal audit procedures. Our team has access to pensions audit who can keep management and the audit team fully briefed on any emerging pensions technical and accounting matters.

Our audit approach is risk-based, and focuses on the areas most likely to lead to material misstatement in the financial statements.

We have performed initial risk assessment procedures to identify focus areas for the 2014-15 audit.

Significant risks

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 requiring 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 include one significant risk below:

Significant risk and implications

Pervasive risk: fraud risk from management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant. 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.

Other focus area

Fraud risk from income recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk.

Our planned audit approach


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 significant risk. This includes testing of journals at the year end and throughout the year, review of unusual transactions in the year, enquiries with employees outside the finance department, tests of unpredictability and controls testing, including higher level controls.

Our planned audit approach

Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. However, as 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, we do not regard the risk of fraud from this revenue recognition as significant. 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.

Risk classification

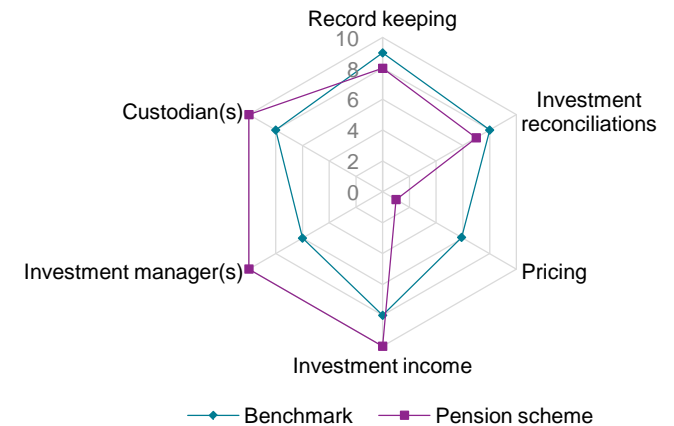
 Significant risk

 Other focus area

KPMG benchmarking analysis

Adding value through extended assurance

We use technology and specialists within KPMG to help us form audit conclusions for the purposes of our audit. They also provide powerful assurance. For example, we will use our in-house investment pricing tool, iRadar, to independently scrutinise the price of every position in the segregated investment portfolios, covering all quoted and most unquoted positions, such as over-the-counter derivatives. This service will provide independent assurance on the valuation of these investments and will quickly identify any complex or harder to value positions or any stale pricing issues which we will focus our audit on. Our results will also provide you with a view of the quality of internal controls of your custodians and/or investment managers.



How does your scheme measure up?

As part of our annual audit, we will show how the financial controls compare to those of other pension schemes of a similar size and what we assess as best practice through our unique pension scheme benchmarking analysis. Our audit practice comprises some 700 pension schemes, including 72 with net assets of over £200 million, giving us a comprehensive database from which to develop authoritative comparative information. Our analysis plots your scheme against a 'benchmark' which is derived from KPMG audit clients of a similar size. We present the results in a 'web-o-gram' across four categories (trustee governance, scheme administration, investments and scheme accounting). An example for 'Investments' is shown above.

This will give the trustees another lens through which to determine if the control environment within the administrator is satisfactory.

The Council is required to prepare financial statements for the Pension Funds in accordance with the *Code of Practice on Local Authority Accounting (pension funds) in the United Kingdom 2014-15* (“the Code”).

While there are some changes in the content of the Code for 2014-15, the financial statements and underlying accounting policies are expected to remain substantially consistent with the previous year.

KPMG remains committed to working with management to enhance the clarity and impact of the financial statements, including the implications of the revisions to the Code.

Code of practice on Local Authority Accounting (pension funds) in the United Kingdom 2014-15 (“the Code”)

The 2014-15 financial statements will be prepared in accordance with the *Code of practice on local authority accounting (pension funds) in the United Kingdom 2014-15* (“the Code”) which is based on International Financial Reporting Standards (“IFRS”).

The 2014-15 Code has a number of amendments from the 2013-14 version and management should consider if these changes will impact the financial statements. The amendments include:

- changes in relation to changes in legislation – see Local Authority Accounts (Scotland) Regulation 2014 below;
- new guidance in relation to management costs; and
- new, revised or enhanced guidance from Audit Scotland’s Technical Service Unit (“TSU”) in relation to actuarial valuations, funding, administrative expenses/management costs, management commentary and the annual governance statement..

Audit Scotland has also provided enhanced guidance in respect of a number of technical topics, which will be considered during the audit.

Changes to Local Authority Accounts (Scotland) Regulations

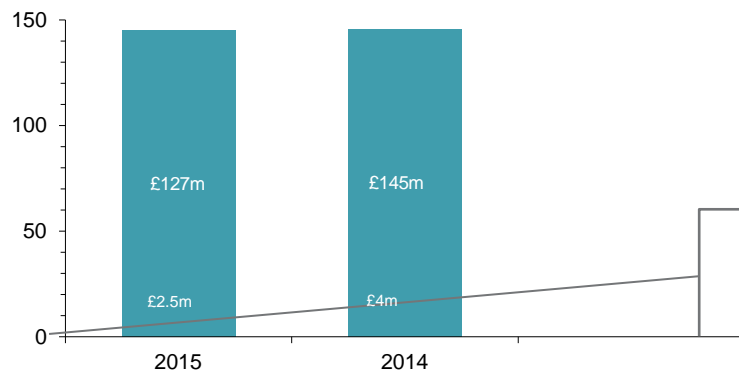
The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014, replacing the 1985 regulations. The new regulations include a number of changes designed to help strengthen corporate governance processes. These amendments include:

- clarification of the composition of the annual accounts, requiring the inclusion of a management commentary, a statement of responsibilities, an annual governance statement and a remuneration report;
- changes to the process for approving the unaudited accounts, including a requirement for the scrutiny committee to consider the unaudited accounts by 31 August;
- changes to the process for approval of the audited annual accounts, with a deadline of 30 September; and
- changes to the requirements for the publication of the audited annual accounts.

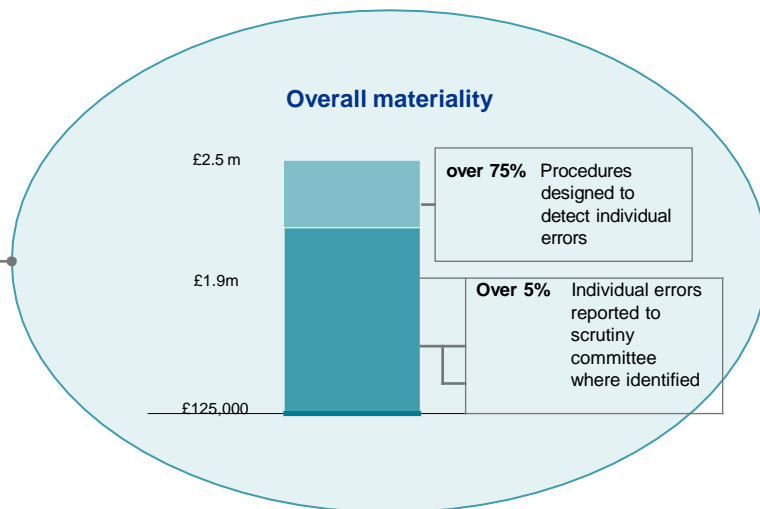
Our audit work is planned to detect errors that are material to the financial statements as a whole.

Our materiality is based on income arising from dealings with members and employers and takes into account the low risk nature of the Funds.

Total income



Source: 2013-14 financial statements



Determining materiality

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

We have reassessed our level of materiality this year based on our knowledge and understanding of the Funds' risk profile and, therefore, financial statements. Materiality has been set at £2.5 million which is approximately 2% of members, employer related and investment income in 2014-15. This will be revised once draft financial statements for 2014-15 are received.

We design our procedures to detect errors at a lower level of precision, i.e. £1.9 million.

We will report identified errors greater than £125,000 to the scrutiny committee.

Reporting to scrutiny committee

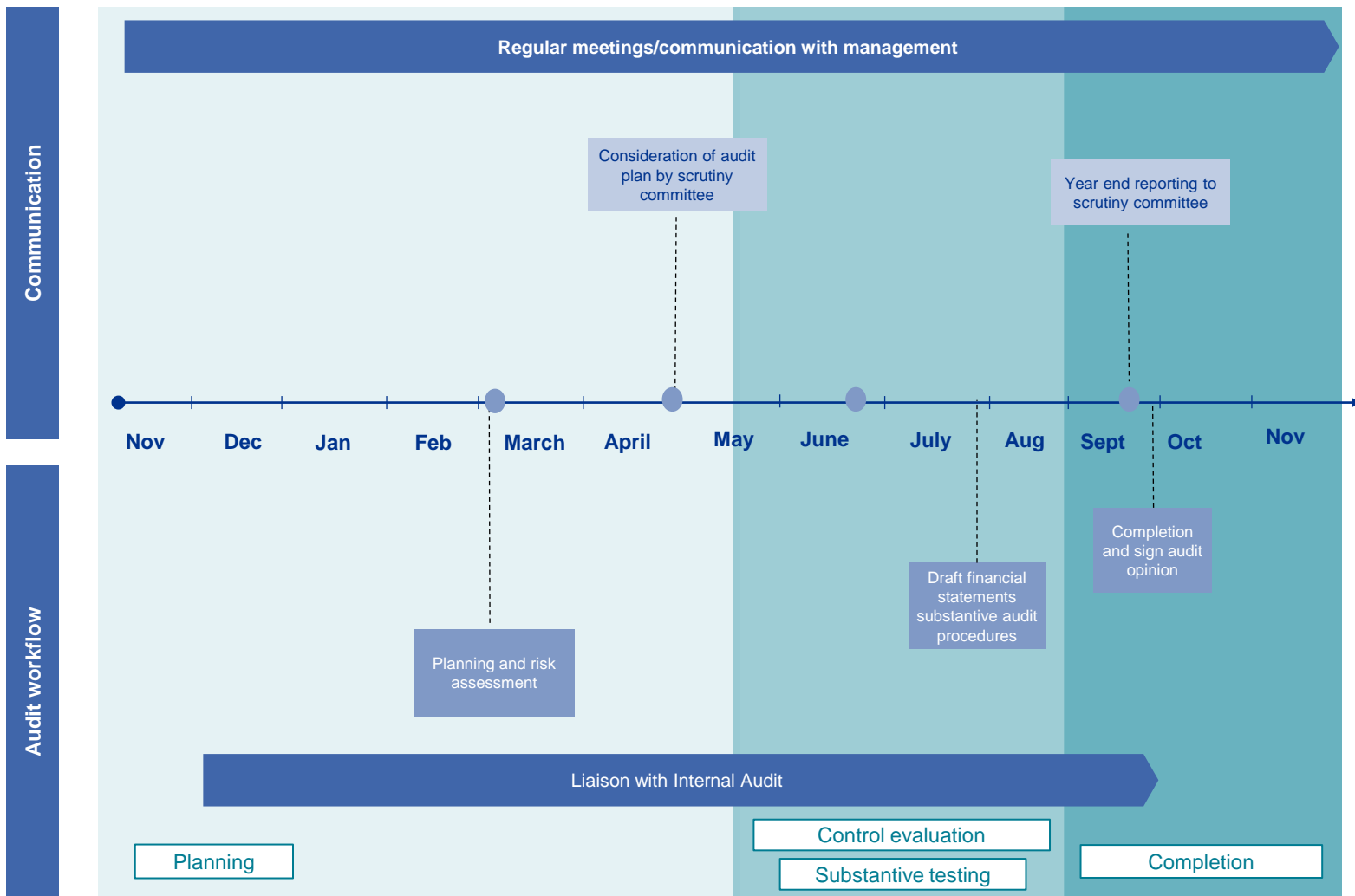
To comply with Auditing Standards, the following three types of audit differences will be reported to the scrutiny committee:

- adjusted audit differences;
- unadjusted audit differences; and
- disclosure differences (adjusted and unadjusted).

Audit planning

2014-15 audit timeline; reporting; fees

Our timetable is largely unchanged from the prior year but will be subject to refinement through discussions with management.



● Scrubiny committee meetings

The team benefits from strong relevant experience, alongside continuity at manager and in-charge level. We are able to build on our teams combined knowledge of both the Funds' activities and of the requirements of local authority guidelines and reporting.

Team member (your main Fund contacts)

Hugh Harvie; Partner

Hugh has overall authority and responsibility for the audit engagements, including reporting on the financial statements, and will review key conclusions reached by the engagement team on all accounting and auditing matters. Hugh undertakes work across the public sector working with a range of councils and central government bodies.

Suzanne Amabile; Manager

Suzanne serves as the day-to-day audit liaison between management and KPMG and a first point of contact. She also provides technical accounting, regulatory and other advice in the first instance.

Alan Smith; Pensions Specialist

Alan is a senior manager in our financial services sector. He will assist the audit team in terms of technical knowledge of the pensions arena, updates to regulation and the use of data analytics techniques taken from our financial services practice.

Juhi Srivastava; Audit In-charge

Juhi coordinates the onsite audit fieldwork, liaising directly with the key finance staff in respect of the preparation for, and conduct of the financial statements audit work.

Team member (your main Council contacts)

Hugh Harvie; Partner

Michael Wilkie; Senior Manager

Michael serves as the day-to-day audit liaison between management and KPMG and a first point of contact. He also provides technical accounting, regulatory and other advice in the first instance.

Natalie Dyce; Audit In-charge

Natalie continues to coordinate the onsite audit fieldwork, liaising directly with the key finance staff in respect of the preparation for, and conduct of the financial statements audit work.

Fee arrangements

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 Funds. The indicative fee range is calculated using a number of inputs:

- a central estimate of the number of days needed to do 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; and
- 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; and
- 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.

Mandatory communications with those charged with governance as required by International Auditing Standards are set out opposite.

These cover:

- fraud;
- related party transactions; and
- independence.

Area	Management responsibility/ action	KPMG response
Fraud risks	<ul style="list-style-type: none"> ■ It is the responsibility of management to implement accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems reduce but do not eliminate the risk of misstatements caused by fraud or error. ■ Those charged with governance must ensure, through oversight of management, the integrity of these systems and that appropriate controls are in place, including those for monitoring risk, financial control and compliance with laws. This is in the context of preparing financial statements that give a true and fair view and that do not contain material misstatements arising from fraudulent reporting (intentional misstatements/ omissions to deceive the financial statement user) or from the misappropriation of assets. 	<ul style="list-style-type: none"> ■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. The audit team will review and discuss fraud related risks and controls with internal audit, the chief financial officer and senior management. ■ Our risk assessment procedures will include a number of interviews with senior personnel concerning processes to identify and respond to risks of fraud.
Related party transactions	<ul style="list-style-type: none"> ■ Management has processes in place to identify related party transactions and a number were disclosed in the 2013-14 financial statements. All material related party transactions must be disclosed in the financial statements. 	<ul style="list-style-type: none"> ■ We will ensure that there continues to be appropriate processes in place as part of the financial statements preparation process to identify any related party transactions.
Independence	<ul style="list-style-type: none"> ■ Auditing Standards require us to consider our independence and related matters in our dealings with the Funds. 	<ul style="list-style-type: none"> ■ We have provided our formal independence communication in appendix one. In respect of non-audit services provided to the Funds we have completed internal conflict checks to confirm that the services may be provided with no threat to our audit independence.

Appendices

Auditing Standards require us to communicate to the scrutiny committee on writing at least annually on any matters which may reasonably be thought to bear on our independence and set out the safeguards in place in relation to these matters and confirm that we are independent.

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 the partner 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.

We are satisfied that our general procedures support our independence and objectivity, except for those detailed below where additional safeguards are in place.

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.

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

Confirmation of audit independence

We confirm that as of 31 March 2015, 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 letter is intended solely for the information of the scrutiny committee and should not be used for any other purposes.

Yours faithfully

KPMG LLP

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

Responsibilities of auditors	Responsibilities of management
Financial statements	
<p>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:</p> <ul style="list-style-type: none"> ■ whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and ■ whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements. <p>Auditors should review and report on, as appropriate, other information published with the financial statements, including the management commentary, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.</p> <p>Where required, auditors should also review and report on the Whole of Government Accounts return.</p>	<p>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:</p> <ul style="list-style-type: none"> ■ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; ■ maintaining proper accounting records; ■ 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); ■ 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 ■ preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.
Corporate governance arrangements	
<p>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:</p> <ul style="list-style-type: none"> ■ bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements ■ the prevention and detection of fraud and irregularity 	<p>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.</p>

Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

Responsibilities of management	
Corporate governance arrangements (continued)	
<ul style="list-style-type: none"> ■ standards of conduct and arrangements for the prevention and detection of corruption; and ■ the financial position of audited bodies. 	
Systems of internal control	
<p>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.</p>	<p>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.</p>
Prevention and detection of fraud and irregularities	
<p>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.</p>	<p>Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:</p> <ul style="list-style-type: none"> ■ developing, promoting and monitoring compliance with standing orders and financial instructions; ■ developing and implementing strategies to prevent and detect fraud and other irregularity; ■ receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and ■ participating, when required, in data matching exercises carried out by Audit Scotland.

Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

Responsibilities of auditors	Responsibilities of management
Best Value, use of resources and performance	
<p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance.</p>



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