

External Audit Annual Audit Plan

26th June 2009

1 Purpose of Report

To review Annual Audit Plan received from the External Auditor.

2 Summary

The 2008/9 Annual Audit Plan lays out the main areas of work to be covered by the External Auditors relating to the financial year to 31st March 2009 and how they intend to resource this work.

3 Main Report

3.1 The 2008/9 External Audit Plan is attached in Appendix 1.

3.2 Glen Bissett of Audit Scotland will attend the Board for this agenda item.

4 Recommendations

The Board is requested to note the contents of the Annual Audit Plan.


Per Donald McGougan
Treasurer

Appendices Appendix 1 – Annual Audit Plan 2008/9

Contact/Tel Ian Stirton, Chief Internal Auditor (0131) 469 3194

Background Papers None

Lothian Valuation Joint Board

Annual Audit Plan 2008/09

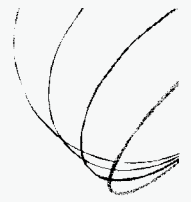




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Summary Plan



Summary of planned audit activity

Based on our analysis of the risks facing the Lothian Valuation Joint Board, our planned work in 2008/09 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of financial position of the board as at 31 March 2009 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2008 SORP
- a review and assessment of the board's governance and performance arrangements in a number of key areas including a review of internal audit and the Statement of Internal Financial Control

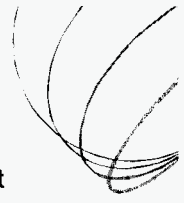
Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to the board in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the board's financial statements. This report summarises the key challenges and risks facing the board and sets out the audit work that we propose to undertake in 2008/09. Our plan reflects:

- the risks and priorities facing the board
- current national risks relevant to local circumstances
- the impact of changing international auditing and accounting standards
- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
- issues brought forward from previous audit reports.

Our responsibilities

2. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.
3. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on

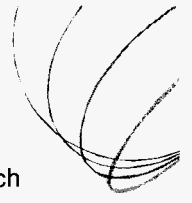


performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.

4. In carrying out our audit, we seek to gain assurance that the board:
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which give a true and fair view of the financial position of the board at 31 March 2009 and its income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2008 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - has made proper arrangements for securing best value in its use of resources.

Our approach

5. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the board, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of the board and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how the board will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.



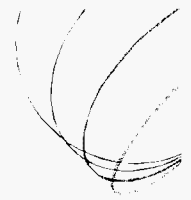
6. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2008/09 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff (the board utilises the financial systems of City of Edinburgh Council and the Treasurer, who is the board's S95 officer, follows the closedown procedures and timetables of the council)
 - clear responsibilities for provision of accounts and working papers being agreed
 - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2008/09.

7. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function. The board's internal audit is provided by the City of Edinburgh Council's Internal Audit Section. Based on our review of internal audit, we plan to place formal reliance on the areas of work set out in Appendix D.

8. At the completion of the audit we will provide the board with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

9. It is the responsibility of the board and the Treasurer as Proper Officer to prepare the financial statements in accordance with the SORP. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of the board as at 31 March 2009 and its expenditure and income for the year then ended
 - preparing an explanatory foreword.



Format of the Accounts

10. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.

Audit issues and risks

11. Based on our discussions with staff, consideration of your own risk management arrangements and a review of supporting information, we identified the main risk areas for your organisation as:
 - IFRS adoption
 - the 2010 revaluation
 - proposed local income tax
 - the current economic environment.
12. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

IFRS adoption

13. Central government and NHS bodies are to move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2009/10. The government also announced its intention to publish Whole of Government Accounts on an IFRS basis from 2009/10. The intention is that local government will adopt IFRS for 2010/11, although there is a possibility that early adoption may be required in some areas.

The 2010 revaluation programme

14. Lothian's Revaluation Roll for non-domestic properties is updated every 5 years with the next revaluation due to take effect on 1 April 2010. The board will need to ensure that it has appropriately planned and prepared for this event.

Proposed local income tax

15. The Scottish Government considers the council tax system as fundamentally unfair and believes this should be abolished and replaced with a local income tax. The Government concluded a

consultation exercise on “A Fairer Local Tax for Scotland” in July 2008. How the Government proposes to take forward this issue has yet to be determined.



Current economic environment

16. The UK economy is currently in recession and this is likely to impact on the ability of many businesses to meet their rating liability. This could impact on the board's service provision due a potential increase in the number of enquiries and appeals in relation to non-domestic rate liability.

Materiality

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
18. International Standard on Auditing 320 states that, *“information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.”*
19. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
20. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting Arrangements

21. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the board and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed



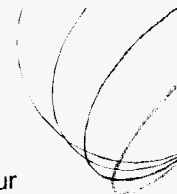
timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.

22. We will provide an independent auditor's report to the Lothian Valuation Joint Board and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the board's management of key risks.
23. The draft annual report will be issued to the Assessor to confirm factual accuracy. Responses to the draft report are expected within four weeks of submission. A copy of the final agreed annual report will be sent to the Assessor, Treasurer to the Board, Internal Audit and Audit Scotland's Public Reporting Group.
24. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).
25. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Governance	
Annual audit plan	31 January 2009
Internal audit reliance	31 March 2009
Financial statements	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	30 September 2009
Independent auditor's report on the financial statements	30 September 2009
Annual report to the Members and the Controller of Audit	31 October 2009
Audit opinion on Whole of Government Accounts	31 October 2009

Quality control

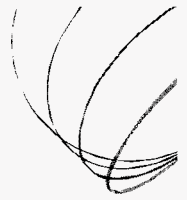
26. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the board and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Alasdair Craik, who is responsible for ensuring that our work is carried out on time and to a high quality standard.



27. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources


28. Our agreed fee for the 2008/09 audit of the Lothian Valuation Joint Board is £7,700 (2007/08 - £7,500) comprising a local audit fee of £6,400 and a fixed charge of £1,300. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at board meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.
29. In determining the agreed fee we have taken account of the risk exposure of the board, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2009. If the draft accounts and papers are late, or agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.
30. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
31. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors and Senior Audit Managers. For Lothian Valuation Joint Board the Senior Audit Manager is Alasdair Craik.
32. The local audit team will be led by Glen Bissett who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.



Independence and objectivity

33. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.

34. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

 **AUDIT SCOTLAND**

30 January 2009

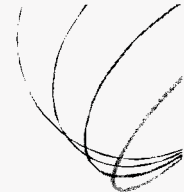


Appendix A

Summary assurance plan

In this section we identify a range of operational risks facing the Lothian Valuation Joint Board, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the Lothian Valuation Joint Board and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
IFRS adoption		
Looking ahead, the transition to International Financial Reporting Standards (IFRS) is the next significant development in local authority accounting. The board needs to ensure that this issue is considered in a timely manner to ensure a smooth transition.	<ul style="list-style-type: none"> ▪ Experienced and qualified staff preparing the accounts. 	<ul style="list-style-type: none"> ▪ Discuss progress with officers at financial statements planning meeting.
2010 revaluation programme		
There is a risk that the board is not prepared for the 2010 revaluation programme.	<ul style="list-style-type: none"> ▪ Corporate and service planning documents. ▪ Quarterly progress reports submitted to the Board. 	<ul style="list-style-type: none"> ▪ Monitor progress.
Proposed local income tax		
The Scottish Government is looking at ways of replacing the property based Council Tax with an alternative form of local taxation. There is a risk that the abolition of council tax could significantly reduce the board's responsibilities.	<ul style="list-style-type: none"> ▪ Quarterly progress reports submitted to the Board. 	<ul style="list-style-type: none"> ▪ Monitor progress.
Current economic environment		
As a result of the current economic environment, there is a risk of an increase in the number of enquiries and valuation appeals which could impact on the board's ability to conclude appeals within a statutory timeframe.	<ul style="list-style-type: none"> ▪ Appeals procedures in place. ▪ Performance reporting arrangements. 	<ul style="list-style-type: none"> ▪ Monitor progress. ▪ Update in annual report.

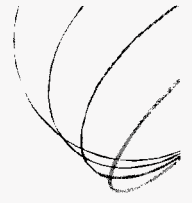


Appendix B

Financial statements audit timetable

Key stage	Date
Provision of closedown procedures to audit	March 2009
Meetings with officers to clarify expectations of detailed working papers and financial system reports	March 2009
Planned board approval of unaudited financial statements	26 June 2009
Latest submission of unaudited financial statements with working papers package	30 June 2009
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for submission of management letter on financial statements audit	30 September 2009
Latest date for final clearance meeting with Treasurer	22 September 2009
Agreement of unsigned financial statements for board agenda, and issue of report to the board on the audit of financial statements (ISA 260)	tbc
Board meeting date	tbc
Independent Auditors Report signed	30 September 2009
Latest date for submission of unaudited whole of government accounts return to external audit	30 September 2009
Latest date for signing of WGA return	31 October 2009
Annual report and certified accounts presented to Board	31 October 2009

Appendix C



Audit team

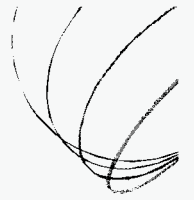
A summarised curriculum vitae for each core team member is set out below:

Alasdair Craik FCCA
Senior Audit Manager

Alasdair has over 20 years experience of public sector audit with Audit Scotland, covering local government, health and the education sector.

Glen Bissett
Senior Auditor

Glen has worked in public sector audit since 1979 training with KPMG before moving to NAO in Edinburgh and Audit Scotland subsequently. Glen has extensive experience of the central government sector and now works with clients in Local Government and Health.



Appendix D

Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit section concluded that the internal audit service provided by the City of Edinburgh Council's Internal Audit Section operates in accordance with the CIPFA code of practice for internal audit in local government. We therefore plan to place reliance on internal audit's work on corporate governance.



Appendix E

Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Board. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.