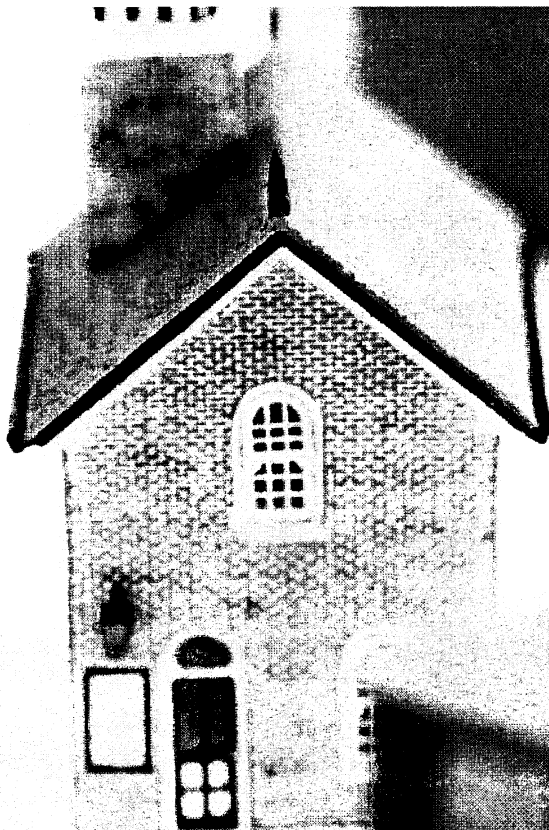


ITEM No. 7

Lothian Valuation Joint Board

Annual Audit Plan 2010/11

November 2010



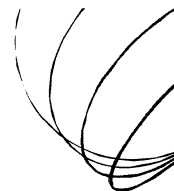
 AUDIT SCOTLAND

Lothian Valuation Joint Board

Annual Audit Plan 2010/11

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Summary Plan

Summary of planned audit activity

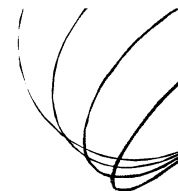
Based on our analysis of the risks facing Lothian Valuation Joint Board, our planned work in 2010/11 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of the Board as at 31 March 2011 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 “Code of practice on local authority accounting in the UK, 2010-11 – A statement of recommended practice” (the SORP).
- a review of the IFRS 2009/10 shadow accounts
- 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 Assurance on Corporate Governance, and a review of the accounts payable process undertaken within the board prior to submission to the City of Edinburgh Council for processing.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Lothian Valuation Joint 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 2010/11. 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 Local Government (Scotland) Act 1973 and the Code of Audit Practice 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 provides 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 the financial position at 31 March 2010 and 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 2010 "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

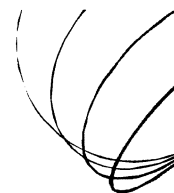
5. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the Board, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding 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 2010/11 includes:
- comprehensive closedown procedures for the financial statements (including the 2009/10 IFRS compliant shadow accounts) 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 2010/11.
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. 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 work which they undertake as 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 2011 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. 2010/11 is the first full year of adoption of International Financial Reporting Standards (IFRS) and the 2010 SORP reflects the changes required to ensure the financial statements comply with those standards.

Audit issues and risks

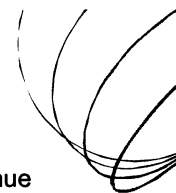
11. Based on our discussions with staff, consideration of your own risk management arrangements and a review of supporting information, we identified the main risk areas for your organisation:
 - budget pressures
 - IFRS implementation

In addition, we are planning to conduct a high level review of the authorisation process and controls in the accounts payable system as operated by the Board due to the inherent risks in any purchasing and accounts payable system.

12. Further details of those risks, and actions to manage these risks are set out in Appendix A. 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.

Budget Pressures

13. The funding constraints in the public sector are likely to impact the Board as its budget and funding is dependent on its constituent authorities. The September 2010 /11 budget report to the Board showed a projected underspend of £125k against budgeted net expenditure of £6,374m. The Board continues to manage its expenditure within its available resources, for example by continuing not to fill staff vacancies and managing its repairs and maintenance budget. However, it is likely that the board will have to deliver its services within even tighter financial resources once the funding constraints in local government feed through to the Boards budget. We have already been advised via our 'Report to Members and the Controller of Audit' that the Board is considering all areas of expenditure to seek



savings while at the same time trying to ensure that service delivery is maintained. We will continue to monitor the budget position as the audit progresses.

IFRS Implementation

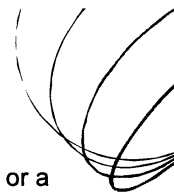
14. As noted in our 2009/10 Report to Members and the Controller of Audit (October 2010), local government is moving from UK GAAP to IFRS based accounting for 2010/11. It is therefore important that the Board completes the necessary work in sufficient time to allow the preparation of IFRS compliant financial statements for 2010/11. It was noted in the Annual report to Members that the Treasurer and the Board are actively progressing the actions necessary to implement IFRS based accounting. Due to the significance of this change, we will be undertaking a review of the 2009/10 restated shadow accounts prior to receipt of the draft 2010/11 financial statements. We will liaise with the board to ensure that the restated 2009/10 financial statements are received in sufficient time to allow the audit to be completed, and to agree any significant judgements and assumptions.

Purchasing / accounts payable process

15. The Board links into the City of Edinburgh Council and its established systems for the purposes of purchasing and the payment of goods and services. We obtain assurances on the Council's process and controls from their Internal Audit section and from their external auditors. Due to the inherent risks in any process we intend therefore to carry out a high level audit against the internal procedures operated by the Board in respect of the decision and authorisation processes associated with order placement and payments made.
16. As advised in the 'Report to Members and the Controller of Audit' a draft Service Level Agreement (SLA) has been developed and it is expected that this will be finalised by June 2011. The SLA between the Board and the Council will incorporate the accounts payable service process provided by the Council. We welcome this development and look forward to the SLA between the two parties being formalised and signed.

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.*"

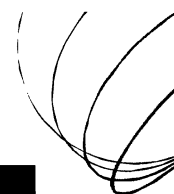


19. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering 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 Board 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. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).
24. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Governance	
Annual Audit Plan	December 2010
Internal audit reliance	31 March 2011
Financial statements	
Report to the Board in terms of ISA 260 (Communication of audit matters to those charged with governance)	September 2011



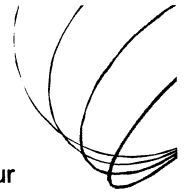
Planned outputs	Target delivery date
Independent auditor's report on the financial statements	30 September 2011
Annual report to the Members and the Controller of Audit	31 October 2011

Quality control

25. 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, Mary Bowman who is responsible for ensuring that our work is carried out on time and to a high quality standard.
26. 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


27. Our fee for the 2010/11 audit of Lothian Valuation Joint Board will comprise a local audit fee and a fixed charge. It is anticipated that the fee will broadly be in line with the 2009/10 agreed fee. We will agree the fee in due course, with the Depute Assessor. 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.
28. 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 2011. 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.



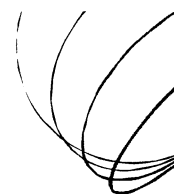
29. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
30. Fiona Kordiak, Director, Audit Services 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 Mary Bowman.
31. The local audit team will be led by Anne Marie Machan 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

32. 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.
33. 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**

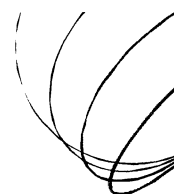
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Appendix A - Summary assurance plan

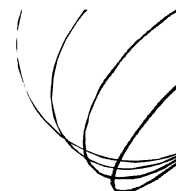
In this section we identify a range of operational risks facing Lothian Valuation Joint Board, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the Board and its officers, with the auditor's 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
<p>1. Budgetary Constraints</p> <p>There is a risk that service delivery may be compromised in future years if sufficient budget savings can not be identified in response to increased financial pressures and budget constraints.</p>	<p>Within the Board we are considering all areas of expenditure to seek the necessary savings while at the same time trying to ensure that service delivery is maintained.</p> <p>We are currently considering changes to the way our service is delivered with a view to securing savings, for example an increased use of electronic engagement with stakeholders to save on postage, printing and stationery costs.</p>	<ul style="list-style-type: none"> ▪ Monitor progress and information reported to the Board ▪ Comment in annual report
<p>2. IFRS adoption in 2010/11</p> <p>The Board may not produce its shadow restated 2009/10 IFRS compliant accounts and 2010/11 compliant accounts by the appropriate dates.</p>	<p>External advisers PWC and CIPFA have been engaged to aid in the preparation for the implementation of IFRS.</p> <p>Treasurer and Lothian Valuation Joint Board are actively progressing necessary actions.</p>	<ul style="list-style-type: none"> ▪ Undertake audit of shadow restated 2009/10 accounts when available ▪ Undertake audit of 2010/11 accounts ▪ Comment in annual report
<p>3. Purchasing / accounts payable Purchasing Process</p> <p>There are risks inherent in any purchasing process, such as goods and services being paid for which are not legitimate or inappropriately authorised. Therefore, a high level review of the manual authorisation process operated by the Board will be undertaken to confirm that the process operated by the Board can be relied upon.</p>	<p>Established process in place for purchasing.</p>	<ul style="list-style-type: none"> ▪ Conduct a high level review of process ▪ Comment in annual report



Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	March 2011
Provision of closedown procedures to audit	March 2011
Meetings with officers to clarify expectations of detailed working papers and financial system reports	March 2011
Planned Board approval of unaudited financial statements	24 June 2011
Latest submission of unaudited financial statements with working papers package	30 June 2011
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with Treasurer	25 August 2011
Agreement of unsigned financial statements and issue of report to Board on the audit of financial statements (ISA 260)	September 2011
Independent Auditors Report signed	30 September 2011
Annual report and certified accounts presented to Board	October 2011



Appendix C - Audit team

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

Mary Bowman, B.Sc., CPFA

Senior Audit Manager

Mary has over 31 years experience of public sector audit covering all sectors – central government, health and local government. Previously Mary worked with the National Audit Office on a wide range of national and European audits. Mary is currently responsible for the audits of Midlothian and Scottish Borders Councils as well as a number of Joint Boards. She also has a special interest in FOI matters.

Anne Marie Machan, BA, CPFA

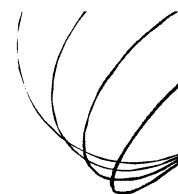
Senior Auditor

Anne Marie joined Audit Scotland in 2008, covering local government. Anne Marie has 14 years audit experience, most recently 3 years working in internal audit in the NHS and local government and prior to this 9 years in public sector external audit.

David Wightman, MAAT

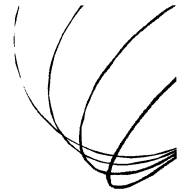
Auditor

David has worked in both private and public sectors, including 6 years within the Health Service. David has 12 years of experience gained from working in both internal and external auditing.



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 service 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 the work of internal audit on the Corporate Governance Statement, Treasurer's Control Statement and on the Council systems operated on behalf of the Board.



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:

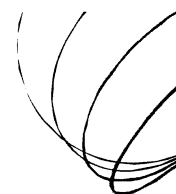
- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are 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 members who comprise the Lothian Valuation Joint 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.