

Lothian Valuation Joint Board

Annual Audit Plan 2011/12



Prepared for Lothian Valuation Joint Board
January 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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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 2011/12 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 Lothian Valuation Joint Board as at 31 March 2012 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 2011 Code of practice on local authority accounting in the United Kingdom (the Code) which applies from accounting periods on or after 1 April 2011.
- provision of the annual report on the audit addressed to Lothian Valuation Joint Board and the Controller of Audit
- 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.

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 Lothian Valuation Joint Board's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the Board and sets out the audit work that we propose to undertake in 2011/12 to address these. Our annual audit 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 and the Accounts Commission
 - 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 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 at 31 March 2012 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 2011 Code of practice on local authority accounting in the United Kingdom (the Code)
 - 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
 - proactively manages and reviews its performance in line with its strategic and operational objectives
 - 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 2011/12 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff (the Board utilises the financial systems of the City of Edinburgh Council and 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 2011/12.
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 internal audit section within City Of Edinburgh Council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.
8. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
9. At the completion of the audit we will provide the Board and the Controller of Audit 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

10. It is the responsibility of the Board and the Treasurer as Proper Officer to prepare the financial statements in accordance with the Code. 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 2012 and its expenditure and income for the year then ended

- reviewing the main components of the system of internal control, including the arrangements for internal audit
- preparing an explanatory foreword.

Format of the accounts

11. The financial statements should be prepared in accordance with the 2011 Code of practice on local authority accounting in the United Kingdom which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.

Audit issues and risks

12. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
13. **Budget pressures:** current financial constraints on the public sector will make it harder to deliver continuous improvement or to maintain performance. The board will need to monitor the impact of financial savings on performance to ensure that any adverse impact on service users is kept to a minimum.
14. **Service Level Agreements:** the Board does not have a service level agreement with City of Edinburgh Council for services provided by the Council. This could result in the Board being overcharged for these services. However, the impact on the Board's financial position would not be significant.

Summary assurance plan

15. The summary assurance plan at Appendix A outlines the actions to manage the risk recorded at paragraph 13. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake are 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.

Materiality

16. 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.
17. International Standard on Auditing 320 states that, "Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a

consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.”

18. When considering, in the context of a possible qualification to the audit opinion, 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.
19. 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

20. 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.
21. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission.
22. A copy of all final agreed reports will be sent to the Treasurer, Internal Audit and Audit Scotland’s Best Value & Scrutiny Improvement Group.
23. We will provide an independent auditor’s report to 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 Lothian Valuation Joint Board’s management of key risks.
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 in Exhibit 1.

Exhibit 1: 2011/12 Planned Outputs

Planned outputs	Target delivery date
Governance	
Review of the Adequacy of Internal Audit	31 January 2012
Annual Audit Plan	31 January 2012
Financial statements	
Report to the Board in terms of ISA 260 (Communication of audit matters to those charged with governance)	By 21 September 2012
Independent auditor's report on the financial statements	By 28 September 2012
Annual report to Members and the Controller of Audit	By 31 October 2012

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 Jim Rundell, 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. In the context of the challenges faced by Local Authorities, the impact of national spending decisions, and changes made in Audit Scotland's own overall budget we have re-examined our audit fee in 2011/12. The agreed fee for 2011/12 is summarised in Exhibit 2.

Exhibit 2: Audit Fee

Description	Audit Fee	Audit Fee	% Change
	2010/11	2011/12	
Total audit fee	7,615	7,355	-3.42

29. Our agreed fee for the 2011/12 audit of the Board is £7,355. 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.
30. 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 29 June 2012.
31. In addition the Board will receive a one off rebate equivalent to 8% of the 2010/11 indicative fees. This will be achieved by way of a credit note sent out with the first invoice for the 2011/12 audit.
32. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the draft financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee may be required if our audit cannot proceed as planned.
33. 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.
34. 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 the Board the certifying auditor is Jim Rundell (Senior Audit Manager).
35. The local audit team will be led by Laura Nelson who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience 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

36. 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.
37. 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.

Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of 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 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
The current financial constraints will impact on the Board's ability to deliver continuous improvement or maintain performance.	<ul style="list-style-type: none"> • Full discussions are conducted with finance officers and leaders of constituent authorities prior to the budget being set. • Budget reports are submitted to the Board. 	<ul style="list-style-type: none"> • Monitor reports to the Board.

Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	By 31 March 2012
Provision of closedown procedures to audit	By 31 March 2012
Meetings with officers to clarify expectations of detailed working papers and financial system reports	By 31 March 2012
Planned board approval of unaudited financial statements	29 June 2012
Latest submission of unaudited financial statements with working papers package	29 June 2012
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with Treasurer	By 21 September 2012
Agreement of unsigned financial statements for board agenda, and issue of report to the Board on the audit of financial statements (ISA 260)	28 September 2012
Independent Auditors Report signed	28 September 2012
Certified accounts and annual report presented to Council	By 31 October 2012

Appendix C - Audit team

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

Jim Rundell MA, CPFA
Senior Audit Manager

Jim has twenty seven years public sector audit experience mostly in the local government and health areas. He was seconded to Audit Scotland's Audit Strategy Group (2002 to 2004) where he was responsible for quality appraisal. Jim's most recent appointment was the day to day management of NHS Greater Glasgow and Clyde (budget of £2.6 billion).

Laura Nelson MSC, CPFA
Auditor

Laura has five years public sector audit experience mostly in the central government areas. She was seconded to Audit Scotland's Audit Strategy Group (2010 to 2011) where she worked on generating guidance for Local government pension fund audits. She has recently begun working on the City of Edinburgh Council and the Lothian Pension Fund audits.

Shaun Taylor BA
Auditor

Shaun joined Audit Scotland in 2011 as a professional trainee and has worked predominately on the City of Edinburgh Council and Lothian Pension Funds audit since joining. Shaun has recently started studying for the ICAS professional qualification.

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 Internal Audit section in City of Edinburgh Council 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 in the following areas:

- City of Edinburgh Council systems operated on behalf of the Board specifically payroll and trade payables.
- Lothian Valuation Joint Board's Corporate Governance Statement.

The reliance on internal audit work in these areas will allow us to maximise audit resources and focus on high risk audit areas.

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 with those charged with governance) requires that the appointed auditor communicates:

- A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the APB's Ethical Standards for auditors.
- All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor.
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines "those charged with governance" as "the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process." In your case, the appropriate addressees of communications from the auditor to those charged with governance are the s95 officer and 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 requires appointed auditors to 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.