

# Lothian Valuation Joint Board

## Annual Audit Plan 2012/13



Prepared for Lothian Valuation Joint Board  
February 2013

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 the Lothian Valuation Joint Board ("the Board"), our planned work in 2012/13 includes:

- 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 Board as at 31 March 2013 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 2012 Code of practice on local authority accounting in the United Kingdom (the Code)
- provision of an annual report on the audit addressed to the 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 the adequacy of internal audit and the governance statement.

## 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 2012/13.
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.

## Our approach

4. 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.

5. We have 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 2012/13 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
  - a comprehensive working papers package and supporting records
  - completion of the internal audit programme for 2012/13.
6. 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 service. Internal audit is provided by the internal audit service 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 below:
  - City of Edinburgh Council systems operated on behalf of the board, specifically payroll and accounts payable. Where internal audit test controls within the council's systems we expect the sample to include transactions relating to Lothian Valuation Joint Board.
  - Audit work carried out in support of the Annual Governance Statement for inclusion with the financial statements.
7. We note that the City of Edinburgh council internal audit service has been below planned resourcing levels during the transition to a co-sourced arrangement with PricewaterhouseCoopers (PwC), although we have been assured that this will not impact on the areas of internal audit work where we plan to place reliance.
8. 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

9. It is the responsibility of the Board and the Treasurer as the Proper Officer to prepare the financial statements in accordance with the Local Government (Scotland) Act 1973 and the 2012 Code of Practice. 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 2013 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, including management commentary and remuneration report.

## Format of the accounts

10. The financial statements should be prepared in accordance with the 2012 Code of Practice on Local Authority Accounting in the United Kingdom for the purposes of Section 12 of the Local Government Scotland Act 2003.

## Audit risks and summary assurance plan

11. Based on our discussions with key staff, attendance at Board meetings and a review of supporting information, we have identified a range of risks for your organisation. These are summarised in Table 1 below. Actions to manage these risks are either planned or already underway within the organisation. In the period prior to the submission of the unaudited financial statements, we will liaise with management on any new or emerging issues.

**Table 1: Summary assurance plan**

Risk	Source of Assurance	Planned Audit Action
<p><b>Budget reductions</b></p> <p>Funding for 2012/13 allocated to the Board by the Scottish Government, through the constituent councils, totals £6,118,396. This represents a 0.73% reduction on the available 2011/12 budget.</p> <p>There is a risk that the Board may not be able to absorb these reductions while still meeting key performance targets.</p>	<ul style="list-style-type: none"> <li>• The Board has an established track record of managing expenditure pressures within its budgetary provision. Close monitoring of the financial position of the Board will be maintained taking account of financial risks inherent in the budget process</li> </ul>	<ul style="list-style-type: none"> <li>• Review and monitor revenue budget monitoring reports</li> </ul>

## Materiality

12. 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.

13. 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).

## Reporting arrangements

14. 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 Table 2, which takes account of submission requirements, planned audit committee dates and audit resources.
15. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Depute Assessor, the Treasurer, Internal Audit and Audit Scotland's Best Value & Scrutiny Improvement Group.
16. We will provide an independent auditor's report (audit certificate) to the 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 audit report will also be produced to summarise all significant matters arising from the audit and overall conclusions about the Board's management of key risks.
17. All annual audit reports produced by Audit Scotland are published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

18. The outputs to be delivered by the audit team are summarised in the financial statements audit timetable at table 2 below.

**Table 2: 2012/13 financial statements audit timetable (including outputs)**

Key Stage	Date
Review of the Adequacy of Internal Audit letter	By 31 January 2013
Annual Audit Plan	By 28 February 2013
Latest submission of unaudited financial statements with working papers package	By 19 June 2013
Board approval of unaudited financial statements	28 June 2013
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for final clearance meeting with Treasurer	By 31 August 2013
Report to the Board in terms of ISA 260 (Communication of audit matters to those charged with governance)	tbc
Independent auditor's report on the financial statements (signed)	By 30 September 2013
Annual Audit Report to members of the Board and the Controller of Audit	By 31 October 2013

## Quality control

19. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the Lothian Valuation Joint Board and the Accounts Commission for Scotland. 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 Stephen O'Hagan, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
20. 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

21. The fee for the audit is £7,020 (2011/12: £7,355) and covers:
- all of the work and outputs described in this plan
  - attendance at Board meetings
  - access to advice and information on relevant audit issues
  - travel and subsistence costs.



22. 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 19 June 2013.
23. The Board has received a one off rebate equivalent to 6% of the 2011/12 indicative fee. This was achieved by way of a credit note sent out with the first invoice for the 2012/13 audit.
24. The local audit team will be led by Brian Battison who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided at Appendix A. The core audit team will call on other specialist and support staff, as necessary.

## **Independence and objectivity**

25. 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.
26. We comply with ethical standards issued by the Financial Reporting Council and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix B.

# Appendix A - Audit team

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

**Stephen O'Hagan, CPFA**  
**Senior Audit Manager**

Stephen has over 15 years experience of public sector audit with Audit Scotland, covering local government, central government, health and the education sector. Prior to joining Audit Scotland, Stephen worked in local government finance for 5 years.

**Brian Battison, CA**  
**Senior Auditor**

Brian has worked with Audit Scotland for over 10 years. He has audited a variety of organisations across central government and associated agencies, local government (including LGPS) and the NHS. Previously Brian worked in the National Audit Office and the private sector on a wide range of public sector audits.

**Kenny Stewart**  
**Auditor**

Kenny has been involved in public sector audit for over 20 years, working for Audit Scotland and the National Audit Office. Kenny has primarily worked in central government auditing the Scottish Government and various NDPBs including the Forestry Commission and Scottish Natural Heritage.

# Appendix B - 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 Financial Reporting Council (FRC). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standard on Auditing 260 requires that the appointed auditor communicates:

- Statement that engagement team and others in the firm as appropriate, and, when applicable, network firms have complied with the FRC'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 organisation(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 Treasurer and the Board. We reserve the right to communicate directly with members on matters which are considered to be of sufficient importance.

Our 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.

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

- auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- auditors should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- auditors are required to carry out their duties in a politically neutral way
- auditors must abide by Audit Scotland's policy on gifts and hospitality.