

# Lothian Valuation Joint Board

## Annual Audit Plan 2013/14



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

---

# Contents

<b>Summary .....</b>	<b>4</b>
Introduction .....	4
Summary of planned audit activity .....	4
<b>Responsibilities .....</b>	<b>5</b>
Responsibility of the appointed auditor .....	5
Responsibility of the Treasurer .....	5
Format of the accounts.....	5
<b>Audit Approach .....</b>	<b>6</b>
Our approach .....	6
Materiality.....	7
Reporting arrangements.....	7
Quality control .....	8
Independence and objectivity .....	8
<b>Audit issues and risks .....</b>	<b>10</b>
Wider issues and risks .....	10
<b>Fees and resources .....</b>	<b>11</b>
Audit fee.....	11
Audit team.....	11
<b>Appendix A - Financial statements audit timetable .....</b>	<b>12</b>
<b>Appendix B - Audit team .....</b>	<b>13</b>

# Summary

## Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in the Lothian Valuation Joint Board's financial statements. This report summarises our assessment of the key challenges and risks facing the Lothian Valuation Joint Board ("the Board") and sets out the audit work that we propose to undertake in 2013/14. 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.

## Summary of planned audit activity

2. Our planned work in 2013/14 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 Lothian Valuation Joint Board as at 31 March 2014 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 2013 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
  - 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

---

# Responsibilities

3. The audit of the financial statements does not relieve management or the Board, as the body charged with governance, of their responsibilities.

## Responsibility of the appointed auditor

4. 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.
5. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

## Responsibility of the Treasurer

6. It is the responsibility of the Treasurer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
  - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
  - 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 2014 and its expenditure and income for the year then ended.

## Format of the accounts

7. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice.

# Audit Approach

## Our approach

8. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Board. We also consider 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 and understanding how the Board will include these in the financial statements
  - assessing and addressing the risk of material misstatement in the financial statements
  - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
9. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit 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 2013/14 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 preparation of financial statements and the provision of supporting working papers
  - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
  - completion of the internal audit programme for 2013/14.
10. Auditing standards require internal and external auditors to work closely together to make best 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 service within City of Edinburgh Council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

11. We plan to place formal reliance on aspects of the work of internal audit in the following areas to support our opinion on the financial statements:
  - 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.

## Materiality

12. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
13. 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 and experience and internal guidelines from peers. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, 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, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

## Reporting arrangements

14. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the Board and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements and planned Board meeting dates. A more detailed timetable will be agreed with the Treasurer in due course.
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 to the Board and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and

recommendations on significant matters which have arisen during the course of the audit. All annual reports produced are published on Audit Scotland's website: ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)).

17. Planned outputs for 2013/14 are summarised at Exhibit 1.

**Exhibit 1: Planned outputs**

Planned outputs	Final report issued by
<b>Governance</b>	
Annual Audit Plan	28 February 2014
<b>Financial statements</b>	
Report to the Board in terms of ISA 260 (Communication of audit matters to those charged with governance)	September 2014 (tbc)
Independent auditor's report on the financial statements	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014

**Quality control**

18. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.
19. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Stephen O'Hagan.

**Independence and objectivity**

20. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The



arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

21. 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 pertaining to the audit of the Board.

# Audit issues and risks

## Financial Statements Audit

22. Based on our discussions with staff, attendance at Board meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
23. **Capital Accounting:** The Board's Fixed Asset Register does not individually itemise assets that were owned and controlled by the board prior to 2007/08. The Board has recently carried out a corporate refresh of IT equipment and the absence of a detailed asset register covering all assets increases the risk that the Financial Statements will not reflect the actual assets held.
24. The Board has agreed to carry out work on its fixed asset register to reflect the ICT refresh programme. We will review and perform sample testing of asset register movements as part of our Financial Statements audit work.

## Wider issues and risks

25. **Cost Pressures:** The Board continues to manage the provision of services under a 2011/12 level flat cash budget, which will require to be maintained during 2014/15 following Board approval for a further year of flat cash requisitions for 2014/15. Increases in service demand could adversely affect the Board's ability to maintain a balanced financial position for the year. The Board has an established track record of managing expenditure pressures within its budgetary provision and we will continue to monitor the Board's position through the course of our audit.

# Fees and resources

## Audit fee

26. In determining the audit 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 a complete set of unaudited financial statements and comprehensive working papers package by 18 June 2014.
27. The agreed audit fee for the 2013/14 audit of the Board is £7,020 as summarised in Exhibit 2. 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 as appropriate
  - access to advice and information on relevant audit issues
  - travel and subsistence costs.

### Exhibit 2: Audit fee

Description	Audit fee	Audit fee	Audit fee	Audit fee
	2010/11	2011/12	2012/13	2013/14
Total audit fee	£7,615	£7,355	£7,020	£7,020
% cash reduction on prior year	£185	£260	£335	£0
Cumulative % real reduction, including GDP deflator	-4.6%	-9.2%	-15.2%	-16.9%

28. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Audit team

29. Stephen O'Hagan, Senior Audit Manager, Audit Services is your appointed auditor. The local audit team will be led by Carol Foster 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 B. The core audit team will call on other specialist and support staff, as necessary.

# Appendix A - Financial statements audit timetable

Key stage	Date
Submission of unaudited financial statements with working papers package	By 18 June 2014
Planned Board approval of unaudited financial statements	27 June 2014
Progress meetings with lead officers on emerging issues	As required during audit
Latest date for final clearance meeting with Treasurer	By 25 August 2014
Agreement of unsigned financial statements for Board agenda, and issue of report to the Board on the audit of financial statements (ISA 260)	By 25 August 2014 (tbc)
Board Meeting date	1 September 2014 (tbc)
Independent auditors report signed	By 30 September 2014
Annual report to Members and the Controller of Audit	By 30 September 2014

# Appendix B - Audit team

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

**Stephen O'Hagan, CPFA**

**Senior Audit Manager**

Stephen has over 17 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.

**Carol Foster, ACA**

**Senior Auditor**

Carol has over 8 years experience of public sector audit with Audit Scotland, covering local government, central government and the health sector. Previously Carol has worked in internal audit in a Scottish local authority and the private sector on a range of public and private sector audits.

**Ross McDonald**

**Auditor - Professional Trainee**

Ross joined Audit Scotland's Health and Local Government Team in October 2011 and will be embarking on his final year of the ICAS training programme in August 2013.