

REPORT TO: TAYSIDE VALUATION JOINT BOARD - 9 MAY 2011

REPORT ON: EXTERNAL AUDIT ANNUAL AUDIT PLAN 2010/11

REPORT BY: TREASURER

REPORT NO: TVJB 14-2011

1 PURPOSE OF REPORT

To present to the Board the External Audit Annual Audit Plan, attached as an Appendix to this report.

2 RECOMMENDATIONS

- 2.1 The Board is asked to note the content of the External Audit Annual Audit Plan for 2010/11.

3 FINANCIAL IMPLICATIONS

The cost of External Audit Services is provided for in the Assessor's Revenue Budget.

4 MAIN TEXT

Introduction

- 4.1 The external audit of the Board for the financial year 2010/11 will be carried out by Mr Alasdair Craik, FCCA, Senior Audit Manager, Audit Scotland. The Joint Board's External Auditors are appointed for a five year period and the financial year 2010/11 marks the final year of Audit Scotland's current appointment to the Board.

External Auditor's Annual Audit Plan

- 4.2 The External Auditor's annual audit plan summarises the key challenges and risks facing the Board and sets out the proposed audit work to be undertaken in 2010/11. The 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
 - External Audit's responsibilities under the Code of Practice as approved by the Auditor General and the Accounts Commission
 - issues brought forward from previous audit reports.

4.3 External Auditor's responsibilities

External Audit's 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.

In carrying out their audit, External Audit 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 2011 and the 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
- 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.

4.5 Reporting Arrangements

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. 30th June. The non-statutory target for audit completion is 30th September.

The External Auditor provides 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, 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. This will be presented to the Board at the meeting in November 2011.

5 **POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues identified.

6 **CONSULTATIONS**

The Assessor and the Clerk to the Board have been consulted on the content of this report.

7 **BACKGROUND PAPERS**

None

MARJORY M STEWART
TREASURER

28 APRIL 2011

Tayside Valuation Joint Board

Annual Audit Plan 2010/11

April 2011



 AUDIT SCOTLAND



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Summary Plan

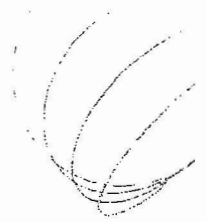
Summary of planned audit activity

Based on our analysis of the risks facing the Tayside Valuation Joint Board (the 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 2010 'Code of practice on local authority accounting in the United Kingdom' (the Code) including for the first time the full application of International Financial Reporting Standards (IFRS)
- a review of the statement on the system of internal financial control
- a review and assessment of the Board's governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, risk assessment arrangements, standing orders and financial regulations
- a review of key financial systems (covered as part of the audit of Dundee City Council)

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 plan 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 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, 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 at 31 March 2011 and the 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
 - 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.

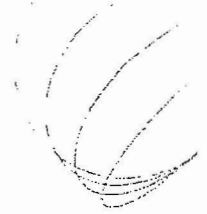
Our approach

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

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- 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 accompanied by a timetable issued to all relevant staff
 - 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. 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

8. 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 2011 and its expenditure and income for the year then ended
 - preparing an explanatory foreword.



Format of the Accounts


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

Audit issues and risks

10. 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:
 - performance management – one of the key roles of members of the board is to monitor progress in achieving the board's aims and objectives and to review progress against targets. Reductions in resources arising from the current economic climate will make delivering targets increasingly challenging in the future.
 - financial pressures – the public sector is facing a period of unprecedented financial constraint. The board will face significant challenges as inflation rises and public sector spending cuts take hold.
 - financial reporting – all local government bodies are required to produce a full set of IFRS compliant financial statements, accompanied by adequate supporting documentation, for the 2010/11 financial year.
 - remuneration report – the Local Authority Accounts (Scotland) Amendment Regulations 2011 introduced the requirement for a remuneration report to be included in financial statements from 2010/11 onwards. The report should provide information on the remuneration of relevant senior officers in each authority, senior elected members and anyone with a salary greater than £150,000 per annum. The Board will need to ensure that it has appropriate procedures in place to gather the required data.
11. 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 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

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.

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13. 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."*
 14. 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.
 15. 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

16. 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 meeting dates and audit resources.
17. 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 Treasurer to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission.
18. A copy of all final agreed reports will be sent to the Assessor, Treasurer, internal audit and Audit Scotland's Best Value and Scrutiny Improvement Group.
19. 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, 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.

20. All annual reports produced by Audit Scotland are published on our website, (www.audit-scotland.gov.uk).
21. The full range of outputs to be delivered by the audit team are summarised below:

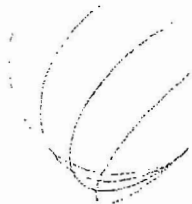
Planned outputs	Target delivery date
Governance	
Annual audit plan	31 March 2011
Corporate governance and internal control (to be covered in annual report to members)	31 October 2011
Financial statements	
Report to Treasurer and Board in terms of ISA 260 (Communication of audit matters to those charged with governance)	28 September 2011
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

22. 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.
23. 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

24. Our agreed fee for the 2010/11 audit of the Tayside Valuation Joint Board is £7,615 comprising a local audit fee of £6,655 and a fixed charge of £960. 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 key board meetings

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- access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.
25. 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.
26. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity.
27. 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 Senior Audit Manager is Alasdair Craik.
28. The local audit team will be led by Francois de Villiers 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

29. 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.
30. 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 D.

 **AUDIT SCOTLAND**

April 2011

Appendix A - Summary assurance plan

In this section we identify a range of operational risks facing the 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
Performance management		
<p>Key Performance Indicators</p> <p>The Board faces the challenge of achieving performance targets against a background of reduced resources and increased workload from 2010 revaluation appeals.</p> <p><i>There is a risk that performance against KPIs may be adversely affected in 2010/11 and beyond</i></p>	<ul style="list-style-type: none"> ▪ KPIs reported to the board annually 	<ul style="list-style-type: none"> ▪ On-going monitoring of performance information.
Financial pressures		
<p>Economic climate</p> <p>The public sector is experiencing a period of unprecedented financial challenge.</p> <p><i>There is a risk that the board will be unable to identify the necessary savings without compromising service delivery.</i></p>	<ul style="list-style-type: none"> ▪ Monthly revenue monitoring is undertaken and quarterly revenue monitoring statements presented to the board. ▪ The Assessor and Treasurer have reviewed the board's budget to bring forward cost reduction options as part of the 2011/12 revenue budget. 	<ul style="list-style-type: none"> ▪ Minute review of out-turn reports to Board ▪ Annual performance report
Financial reporting		
<p>IFRS Adoption</p> <p>The Board will be required to produce a full set of IFRS compliant accounts in the 2010/11 financial year.</p> <p><i>There is a risk that the required accounting and disclosure changes are not fully reflected in the financial statements.</i></p>	<ul style="list-style-type: none"> ▪ The Treasurer is working with Dundee City Council staff to ensure that the 2010/11 financial statements meet the new requirements. ▪ DCC staff have signed up to a specialist advice service provided by PWC/CIPFA. ▪ The TVJB accountant is a member of DCC's IFRS Working Group. 	<ul style="list-style-type: none"> ▪ The final accounts audit process will have due regard to compliance with the new requirements.

Appendix B - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	30 June 2011
Provision of closedown procedures to audit	30 June 2011
Planned Board approval of unaudited financial statements	27 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	31 August 2011
Agreement of Board agenda, and issue of report to the Board on the audit of financial statements (ISA 260)	By 28 September 2011
Independent Auditors Report signed	By 30 September 2011
Annual report and certified accounts presented to the Board	21 November 2011



Appendix C - Audit team

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

Alasdair Craik FCCA

Senior Audit Manager (engagement lead)

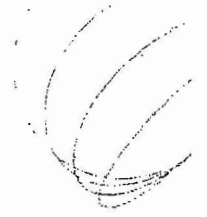
Alasdair has over 20 years experience of public sector audit with Audit Scotland, covering local government and health sectors.

Francois de Villiers ACA, CA(SA) – Senior Auditor

Francois has more than 11 years of post-qualification auditing experience. Prior to joining Audit Scotland in 2003, he worked for a "Big 4" global firm of accountants, in the UK and abroad. He has experience of a variety of private sector industries, local and central government sectors and has worked as both an accountant and auditor.

Alistair Turner - Auditor

Alistair joined Audit Scotland in 2002, having previously worked in local authority finance for 5 years. During his time with Audit Scotland, Alistair has mainly worked within the local government sector, across a number of local authorities, but also has experience within the further education sector.



Appendix D - 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.

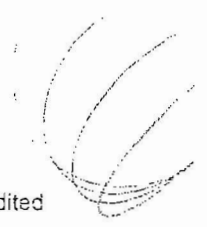
International Standards on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- 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; and
- 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 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 addressee of communications from the auditor to those charged with governance is the Tayside 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.