

# Lothian Valuation Joint Board

## Report to those charged with governance on the 2010/11 audit



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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# Key Issues

## Introduction

1. International Standard on Auditing 260 (ISA 260) "Communication of audit matters to those charged with governance" requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. ISA 260 requires us to highlight:
  - the integrity and objectivity of the audit engagement lead and audit staff;
  - the nature and scope of the audit, including any limitations, and the form of reports expected to be made;
  - expected modifications to the audit report;
  - management representations requested by us;
  - unadjusted misstatements (other than those which are clearly trifling);
  - material weaknesses in the accounting and internal control systems identified during the audit;
  - views about the qualitative aspects of accounting practices and financial reporting; and
  - matters specifically required by other auditing standards to be communicated and any other matter relevant to the audit.
3. This report sets out for the Board's consideration the relevant matters arising from the audit of the Lothian Valuation Joint Board's financial statements for 2010/11 that require reporting under ISA 260. The contents should be brought to the attention of the Treasurer, Assessor and Convenor so that they can consider them before the Financial Statements are signed. This report includes only those matters of governance interest that have come to our attention as a result of the performance of the audit. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. The report has been prepared for the use of Lothian Valuation Joint Board and no responsibility to any third party is accepted.

## Status of the audit

4. Our work on the financial statements is substantially complete. Should any further matters arise in concluding our work that require to be reported under ISA 260, we will raise them with the Treasurer and Assessor.

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## Matters to be reported to those charged with governance

### Conduct and scope of the audit

5. Information on the integrity and objectivity of the audit engagement lead and audit staff, and the nature and scope of the audit, are outlined in the Code of Audit Practice prepared by Audit Scotland in March 2007 and in the Annual Audit Plan submitted to management in November 2010.

### Audit opinion & representations

6. My anticipated auditor's report (Appendix A) is unqualified.
7. Two errors were identified during the audit, which had a minor monetary impact. As these errors are not material to the accounts as a whole, the accounts have not been adjusted. The effect of these unadjusted errors is detailed in Appendix B. Further information is provided in the matters arising section below.
8. As part of the completion of our audit, we seek written assurances from the Treasurer on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 580 has been provided to the Treasurer. This should be returned and signed by the Treasurer as soon as practicable and prior to the independent auditor's opinion being certified.

### Accounting and internal control systems

9. Changes were made to the draft accounts, none of which were significant. These changes were either merely typographical in nature or were presentational changes to comply more fully with Code requirements.

### Matters arising

10. During the course of the audit, we identified an issue with the Trent payroll information maintained by the City of Edinburgh Council on the Board's behalf. Due to the way in which the system is set up, employees starting and leaving in the same month only appear on the leavers' report, with no information appearing on the new starts' report. During 2010/11 29 people were employed by the Board for less than one month. The nature of the Board's business is such that from time to time relatively high volumes of staff will be recruited for less than one month. This presents risks around incomplete management information and it undermines the audit trail available for both management and audit purposes.
11. An audit sample of 14 transactions was selected to verify revenue and capital expenditure. The testing identified issues with two revenue samples and one capital sample as follows:
  - **revenue samples:**
    - an invoice for £43,080 was paid and posted to the ledger 3 times before being subsequently corrected. While this error was identified, it is of concern that it was possible to process the same invoice three times in the first instance.

- this sample, invoice total £2,048, included an additional charge of £46.25 which was posted twice to the ledger, resulting in revenue expenditure being overstated by this amount.
  - **capital sample:**
    - invoice totalled £59,869.78, but £47,869.78 was posted to the ledger in error when processing the capital accounting entries. The correct amount was paid to the supplier, however the capital expenditure in 2010/11 is understated by £12,000.
12. In my view, there are no other issues that require to be brought to your attention regarding the appropriateness of the Board's accounting policies or accounting estimates and judgements, the timing of transactions, the existence of any material unusual transactions or the potential effect on the financial statements of any uncertainties.

### Outstanding Information

13. Letter of Representation: The formal Letter of Representation is required prior to the auditor's certification of the financial statements.

### Acknowledgements

14. I would like to express my thanks to the staff of the Lothian Valuation Joint Board and City of Edinburgh Council for their help and assistance during the audit of this year's Accounts which has enabled me to certify the financial statements by the Controller of Audit's target date.

Mary Bowman CPFA  
Senior Audit Manager

# Appendix A

## Proposed Independent Auditor's Report

### Independent auditor's report to the members of Lothian Valuation Joint Board and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Lothian Valuation Joint Board for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash-Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities set out on page 7, the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Lothian Valuation Joint Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of Lothian Valuation Joint Board as at 31 March 2011 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

## Opinion on other prescribed matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Mary Bowman, CPFA

Senior Audit Manager

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XX August 2011



# Appendix B

## Non-Adjusted Errors within the 2010/11 Financial Statements

Below is a summary of the non-adjusted errors which has not been processed in the accounts, with an explanation.

### Non-Adjusted Errors

Narrative	Dr	Cr
		Comprehensive Income & Expenditure  Account
Revenue Expenditure - revenue invoices - overstatement		46.25
Bank	46.25	
		Balance Sheet
Fixed Assets - capital invoice - understatement		
Capital - Plant & Equipment	12,000.00	
Revenue Expenditure		12,000.00
Revenue CFCR	12,000.00	
Capital CFCR		12,000.00