Report to those charged with governance on the 2013/14 audit

Audited Body:	**Lothian Valuation Joint Board**
Committee:	Lothian Valuation Joint Board
Date:	01 September 2014

Background

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.

2. This report sets out for the Lothian Valuation Joint Board's consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. It should be noted that the audit opinion reflects recent discussions with management and is subject to satisfactory conclusion of any outstanding matters.

3. We also present for your consideration our draft annual report on the 2013/14 audit which identifies significant findings from the financial statements audit. This report is attached at Appendix C and will be issued in final form after the financial statements have been certified.

Status of the work

4. Our work on the financial statements is now substantially complete. The issues arising from the financial statements audit were included in a matters arising schedule issued to and discussed at a meeting with the Principal Accountant on 14 August 2014.

Fraud

5. In presenting this report to the Lothian Valuation Joint Board we seek confirmation from those charged with governance of any instances of fraud that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion and representations

6. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report in September 2014 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

7. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.

8. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. The net effect of these adjustments was to increase total comprehensive expenditure by £6,600. Net assets as recorded in the balance sheet have decreased by £6,600.

9. We therefore have no unadjusted misstatements to bring to your attention.

10. As part of the completion of our audit we seek written assurances from the Treasurer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

Significant findings

11. During the course of the audit we identified the following issues within the unaudited financial statements.

12. **Amortisation of intangible assets:** In line with normal accounting practices, the Board amortises assets over their expected useful life, with depreciation being charged in the first financial year after acquisition and then each subsequent year. In 2012/13, the Board purchased a number of software licences at a cost of £66,000. No depreciation was included within the unaudited 2013/14 accounts on the basis that these licences have no expiry date. However the software is likely to have a finite life before it or the platform it operates on becomes obsolete.

    Resolution: A maximum asset life of 10 years has been assessed as reasonable for these licences. An adjustment has been made in the accounts to record depreciation of £6,600 in 2013/14. The effect of this adjustment is to reduce assets by £6,600 and increase net expenditure by £6,600. The accounting policies narrative at note 1.9 has been updated to reflect this asset life consideration.

13. **Impairment of non current assets:** As part of an impairment review during the year, two assets with a total net book value of £7,373 were identified as being obsolete and were scrapped. The assets were written down to nil values through accelerated depreciation in the unaudited accounts. However the gross value and accumulated depreciation related to the assets are still reflected within the values disclosed in notes 7 and 8 to the unaudited financial statements.

    Resolution: Adjustments have been made to the comprehensive income and expenditure statement and notes to the accounts to reflect the disposal of the two assets. The cost of service has been reduced by £7,373 to reflect the reversal of accelerated depreciation, and other comprehensive expenditure has increased by the same amount to recognise the loss on disposal of the asset. The net impact on the total comprehensive income and expenditure for the year is nil. In addition, the property, plant and equipment gross book value and depreciation balances at 31 March 2014 in note 7 have reduced by £6,387 to reflect the de-recognition of the assets. Similarly, the intangible assets gross book value and depreciation balances at 31 March 2014 in note 8 have reduced by £8,850. These adjustments have no impact on the net assets in the balance sheet.

14. **De-recognition of non current assets:** Between 2006/07 and 2007/08, the Board purchased property, plant and equipment with a value of £208,941 and intangible assets with a value of £38,131. These assets have been fully depreciated within the unaudited financial statements, and have a net value of nil, however their gross book values and accumulated depreciation are reflected in notes 7 and 8 of the unaudited financial statements. As noted in our Annual Audit Plan for 2013/14, the level of detail recorded in the asset register for pre 2008 assets makes it difficult to separately identify and account for them. Following the recent ICT refresh in 2013, and in response to audit queries as part of the financial statements audit, officers have reviewed the equipment and software utilised in the delivery of service and concluded that the assets purchased between 2006 and 2008 are obsolete and have been replaced, and should therefore be derecognised in the financial statements.

    Resolution: Adjustments have been made in the notes to the accounts to reflect the de-recognition of the obsolete equipment and software. The property, plant and equipment gross book value and depreciation balances at 31 March 2014 in note 7 have reduced by £208,941. Similarly, the intangible assets gross book value and depreciation balances at 31 March 2014 in note 8 have reduced by £38,131. As the assets have been fully depreciated, no loss arises on their de-recognition. These adjustments have no impact on the net assets in the balance sheet, or the comprehensive income and expenditure account.

15. **Accounts payable debit balances:** Trade receivables within the unaudited balance sheet include £79,000 of debit balances on the trade payables ledger. The 2012/13 trade receivables included £43,000 of debit balances on the trade payables ledger. These relate to credit notes received from suppliers in relation to previous orders for goods and services. These credit notes would normally be applied to the next order placed with the supplier.

16. Officers have reviewed a number of the more substantive ledger postings relating to these credit notes and have identified that they were mis-coded to the Lothian Valuation Joint Board accounts payable ledger when they should have been coded to City of Edinburgh Council. This has resulted in an understatement in the holding account balance with City of Edinburgh Council.

    Resolution: Short term debtors in the financial statements have reduced by £79,000 short term creditors have increased by £17,000 and cash and cash equivalents have increased by £96,000, to reflect the increase in the holding account balance with City of Edinburgh Council. The 2012/13 short term debtors have reduced by £43,000, short term creditors have increased by £40,000 and cash and cash equivalents have increased by £83,000. The impact on both the net asset position and the comprehensive income and expenditure account is nil. A prior year adjustment note has been added to the audited accounts to explain the adjustment made. Officers will process the necessary ledger journals in 2014/15 to remove these transactions from the Board's accounts payable ledger.

Outstanding matters

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

18. **Revised financial statements:** A revised set of financial statements reflecting the agreed adjustments is required for audit review.

19. Subject to satisfactory conclusion of these outstanding matters we will issue our audit opinion along with the signed financial statements and the annual audit report. The attached draft annual report on the 2013/14 audit will be updated to reflect the impact of any unresolved outstanding matters prior to issue in final form e.g. audit opinion.

20.

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 2014 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, 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 2013/14 (the 2013/14 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 125 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, 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 the 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 accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. 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 2013/14 Code of the state of the affairs of Lothian Valuation Joint Board as at 31 March 2014 and of the income and expenditure of the group and the body 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 2013/14 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.

[Signature]

Stephen O'Hagan
Senior Audit Manager
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

September 2014

Appendix B: ISA 580 - Letter of Representation

Stephen O'Hagan
Senior Audit Manager
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Stephen

Lothian Valuation Joint Board

Annual Accounts 2013/14

1. This representation letter is provided in connection with your audit of the financial statements of Lothian Valuation Joint Board for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Lothian Valuation Joint Board as at 31 March 2014 and its income and expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Assessor and Senior Management Team, the following representations given to you in connection with your audit of Lothian Valuation Joint Board for the year ended 31 March 2014.

General

3. I acknowledge my responsibility and that of Lothian Valuation Joint Board for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Lothian Valuation Joint Board have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including the Foreword, Annual Governance Statement and Remuneration Report, presents a balanced picture of Lothian Valuation Joint Board and is consistent with the financial statements.

5. I am not aware of any uncorrected misstatements in the financial statements. All misstatements identified in the auditor's report to those charged with governance (ISA260) have been corrected.

Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 1985 including all relevant presentation and disclosure requirements.

7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Lothian Valuation Joint Board for the year ended 31 March 2014.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. The Board has assessed Lothian Valuation Joint Board's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Events Subsequent to the Balance Sheet Date

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Treasurer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2014, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2014 were owned by Lothian Valuation Joint Board, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities and Contingent Liabilities

18. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2014.

19. There are no contingent liabilities arising either under formal agreements or through informal undertakings requiring disclosure in the financial statements.

Carrying Value of Assets and Liabilities

20. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

21. Obsolete and scrapped assets have been identified and de-recognised within the financial statements.

Financial Instruments

22. The information disclosed at note 9 of the financial statements (Financial Instruments) has been based on information provided by the City of Edinburgh Council Loans Fund. I have assessed the information provided and I am satisfied that the accounting, presentation and disclosure of this note are properly stated and are in accordance with the Code requirements. I confirm that all transaction costs in respect of financial instruments were immaterial and were written off to the Comprehensive Income and Expenditure Statement as incurred.

Provisions

23. There are no provisions that require to be made in the accounts for any material liabilities which have resulted, or may be expected to result, by legal action or otherwise, from events which had occurred by the balance sheet date, and of which the Lothian Valuation Joint Board could reasonably be expected to be aware.

Commitments

24. There are no commitments under capital contracts. There are no other significant commitments or obligations which might adversely affect the board which require to be disclosed.

Yours sincerely

Hugh Dunn

Treasurer

Appendix C

Lothian Valuation Joint Board

Draft Annual report on the 2013/14 audit

AUDIT SCOTLAND

Prepared for Lothian Valuation Joint Board and the Controller of Audit
September 2014

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.

Contents

Key Messages

2013/14

We have given an unqualified opinion that the financial statements of Lothian Valuation Joint Board for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

A number of issues were identified during the course of our audit around the recognition and carrying value of assets in the financial statements presented for audit and adjustments were made to the audited financial statements.

Overall the Board's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our work performed on, and review of Internal Audit's work on, the key controls within the main financial systems, we concluded that the Board's systems of internal control are operating effectively.

Outlook

Whilst the Board continues to demonstrate its financial sustainability on the basis of its financial position and its 2 year budget report for 2014-2016, the financial position of the Board going forward remains challenging. Flat cash budget projections along with continuing cost pressures around staffing costs will require close management of other expenditure areas, at a time when the Board will be facing resource challenges around the ongoing impact of the introduction of Individual Electoral Registration, potential legislative changes arising from the Scottish Government's response to the consultation "Supporting Business-Promoting Growth" and possible future changes to the Council Tax. Close monitoring of expenditure during the year will be required to identify and address any potential budget pressures or overspends at an early stage.

Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of Lothian Valuation Joint Board. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Lothian Valuation Joint Board and no responsibility to any third party is accepted.
3. Appendix A sets out the key audit risk identified at the planning stage and details how we addressed this risk in arriving at our opinion on the financial statements.
4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Lothian Valuation Joint Board understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
5. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Lothian Valuation Joint Board.

Financial statements

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Lothian Valuation Joint Board on 17 March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of Lothian Valuation Joint Board for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on ***xx September*** 2014.

9. We received the unaudited financial statements on 18 June 2014 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 19 August 2014. Lothian Valuation Joint Board is required to follow the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings and key judgements (ISA260)

10. During the course of the audit we identified a number of issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

11. **Amortisation of intangible assets:** In line with normal accounting practices, the Board amortises assets over their expected useful life, with depreciation being charged in the first financial year after acquisition and then each subsequent year. In 2012/13, the Board purchased a number of software licences at a cost of £66,000. No depreciation was included within the unaudited 2013/14 accounts on the basis that these licences have no expiry date. However the software is likely to have a finite life before it or the platform it operates on becomes obsolete.

    Resolution: A maximum asset life of 10 years was assessed as reasonable for these licences. An adjustment was made in the accounts to record depreciation of £6,600 in

2013/14. The effect of this adjustment was to reduce assets by £6,600 and increase net expenditure by £6,600. The accounting policies narrative at note 1.9 was updated to reflect this asset life consideration.

12. **Impairment of non current assets:** As part of an impairment review during the year, two assets with a total net book value of £7,373 were identified as being obsolete and were scrapped. The assets were written down to nil values through accelerated depreciation in the unaudited accounts. However the gross value and accumulated depreciation related to the assets were still reflected within the values disclosed in notes 7 and 8 to the unaudited financial statements.

    Resolution: Adjustments were made to the comprehensive income and expenditure statement and notes to the accounts to reflect the disposal of the two assets. The cost of service was reduced by £7,373 to reflect the reversal of accelerated depreciation, and other comprehensive expenditure was increased by the same amount to recognise the loss on disposal of the asset. The net impact on the total comprehensive income and expenditure for the year was nil. In addition, the property, plant and equipment gross book value and depreciation balances at 31 March 2014 in note 7 were reduced by £6,387 to reflect the de-recognition of the assets. Similarly, the intangible assets gross book value and depreciation balances at 31 March 2014 in note 8 were reduced by £8,850. These adjustments had no impact on the net assets in the balance sheet.

13. **De-recognition of non current assets:** Between 2006/07 and 2007/08, the Board purchased property, plant and equipment with a value of £208,941 and intangible assets with a value of £38,131. These assets were fully depreciated within the unaudited financial statements, and had a net value of nil, however their gross book values and accumulated depreciation were reflected in notes 7 and 8 of the unaudited financial statements. As noted in our Annual Audit Plan for 2013/14, the level of detail recorded in the asset register for pre 2008 assets made it difficult to separately identify and account for them. Following the recent ICT refresh in 2013, and in response to audit queries as part of the financial statements audit, officers reviewed the equipment and software utilised in the delivery of service and concluded that the assets purchased between 2006 and 2008 were obsolete and should be derecognised in the financial statements.

    Resolution: Adjustments were made in the notes to the accounts to reflect the de-recognition of the obsolete equipment and software. The property, plant and equipment gross book value and depreciation balances at 31 March 2014 in note 7 were reduced by £208,941. Similarly, the intangible assets gross book value and depreciation balances at 31 March 2014 in note 8 were reduced by £38,131. As the assets had been fully depreciated, no loss arose on their de-recognition. These adjustments had no impact on the net assets in the balance sheet, or the comprehensive income and expenditure account.

14. **Accounts payable debit balances:** Trade receivables within the unaudited balance sheet included £79,000 of debit balances on the trade payables ledger. The 2012/13 trade receivables included £43,000 of debit balances on the trade payables ledger. These relate to

credit notes received from suppliers in relation to previous orders for goods and services. These credit notes would normally be applied to the next order placed with the supplier.

15. Officers reviewed a number of the more substantive ledger postings relating to these credit notes and identified that they were mis-coded to the Lothian Valuation Joint Board accounts payable ledger when they should have been coded to City of Edinburgh Council. This resulted in an understatement in the holding account balance with City of Edinburgh Council.

16. **Resolution:** Short term debtors in the financial statements were reduced by £79,000 short term creditors increased by £17,000 and cash and cash equivalents increased by £96,000, to reflect the increase in the holding account balance with City of Edinburgh Council. The 2012/13 short term debtors were reduced by £43,000, short term creditors increased by £40,000 and cash and cash equivalents increased by £83,000. The impact on both the net asset position and the comprehensive income and expenditure account is nil. A prior year adjustment note was added to the audited accounts to explain the adjustment made. Officers will process the necessary ledger journals in 2014/15 to remove these transactions from the Board's accounts payable ledger.

Financial position

2013/14 Outturn

17. The cost of services in 2013/14 was £6.116 million (£5.813 million in 2012/13). After accounting for income, mainly constituent authorities' contributions and interest on pension plan assets, of £7.49 million (£7.354 million in 2012/13), and interest costs on pension obligation of £1.778 million (£1.581 million in 2012/13) there is a deficit on the provision of services of £0.404 million (£0.04 million in 2012/13).

18. Within these figures, the Board made overall savings of £117,000 against budget. The savings include employee costs of £181,000; transport and plant costs of £13,000; support services of £17,000. Income from sales, fees and charges exceeded budget by £62,000.

19. Overspends against budget included supplies and services costs of £129,000 mainly due to an increase in postage costs as a result of additional Absent Vote Personal Identifier (AVPI) refresh forms and additional reminders being sent to maximise the canvass return rate. Further overspends were recorded of £21,000 on third party payments mainly as a result of a higher than anticipated level of activity of the Valuation Appeals Committee; and £6,000 on property costs.

2013/14 Financial position

20. The Board approved the retention of the 2013/14 underspend of £117,000 at its meeting in June 2014. This is in line with its decisions in the previous two financial years to retain the underspends (£42,000 in 2011/12 and £127,000 in 2012/13) to fund possible future liabilities arising from the early release and retirement of staff. The accumulated balance of £421,000 is included in the financial statements as a creditor balance due to constituent authorities.

Treasury management

21. Treasury management is carried out on behalf of the Board by the City of Edinburgh Council. Its Investment Strategy has been to maintain the bank account as part of the City of Edinburgh Council's group of bank accounts. Investment returns are small and the only investment/ counterparty exposure is to the City of Edinburgh Council.

Financial planning

22. The Local Government Finance settlement announced by the Cabinet Secretary for Finance, Employment and Sustainable Growth on 11 December 2013 broadly represented a "flat cash" settlement for 2014/15. Less detail was available for the period 2015/16 and beyond for future settlements, although a consensus of economic forecasts points to a continuation of recent trends and, in some cases, an absolute reduction in resources being projected.

23. In February 2014 the Board agreed a revenue budget of £6.118 million for the 2014/15 financial year. This amount was in line with the 2013/14 and 2012/13 budgets and was based on the continuation of a "flat cash" requisition of a further year. An indicative budget for 2015/16 will be developed and reported at a future Board meeting in 2014/15.

Significant Financial Risks

24. The Board is funded by four constituent councils. The continuing financial constraints on the public sector mean that the various councils are working towards making considerable savings in their budgets, at a time when the Board is facing resource challenges around the ongoing impact of the introduction of Individual Electoral Registration, potential legislative changes arising from the Scottish Government's response to the consultation "Supporting Business-Promoting Growth" and possible future changes to the Council Tax. The combination of the significance of these potential changes and the uncertainty of legislation and timetabling results in a risk that the Board's performance may not be maintained or it may be unable to fulfil all its statutory duties.

Refer Action Point no. 1

Corporate governance and systems of internal control

Overall governance arrangements

25. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Board had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.

Accounting and internal control systems

26. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

27. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

28. Internal audit is an important element of the Board's governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including trade payables and payroll controls. This not only avoided duplication of effort but also enabled us to focus on other key risk areas. We had planned to place reliance on internal audit's work in relation to access controls within key systems however due to the delayed completion of this work we were unable to place reliance on it for 2013/14, and we modified our other audit procedures accordingly.

Prevention and detection of fraud and irregularity

29. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Board's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Standards of conduct and arrangements for the prevention and detection of corruption

30. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best value

Best value and performance

31. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

32. The Board has not been subject to a specific Best Value audit, and Audit Scotland's current Best Value audit regime (BV2) does not include the smaller joint boards.

33. The Board's framework for achieving Best Value and delivering continuous improvement is detailed in the annual Corporate and Service Plan. The most recent plan, covering the period 2013-2015, was approved by the Board in February 2013.

Acknowledgements

34. We would like to express our thanks to the staff of Lothian Valuation Joint Board for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Key Audit Risks

Key Audit Risks and Associated Audit Work

Audit Risk	Overview of the scope of audit work to address the risks
Financial Statements Audit Risk: **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. The Board agreed to carry out work on its fixed asset register to reflect the ICT refresh programme.	We reviewed and performed sample testing of asset register movements as part of our Financial Statements audit work, and discussed and challenged assumptions around recognition of assets and their carrying values A number of adjustments to the accounts were made as a result of our audit testing and these are reported at paragraphs 11 to 13 of this report.

Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	21	The Board is funded by four constituent councils. The continuing financial constraints on the public sector mean that the various councils are working towards making considerable savings in their budgets, at a time when the Board is facing resource challenges around the ongoing impact of the various reforms. The combination of the significance of these potential changes and the uncertainty of legislation and timetabling results in a risk that the Board's performance may not be maintained or it may be unable to fulfil all its statutory duties.	The Board has to date proven its ability to continue to fulfil its statutory duties and maintain performance levels during periods of fiscal constraint. The Board shall work closely with its constituent councils to secure the necessary budgetary funding. Applying project and workload and risk management the Board aims to continue to provide a value for money service. One of the major legislative changes affects Electoral Registration. During 2014/15 and 2015/16 funding to support this change is provided directly by central government. An assessment of the Business as Usual position shall be undertaken shortly in order to better inform the budgetary position beyond 2015/16.	Joan Hewton	Ongoing