Lothian Valuation Joint Board

Annual report on the 2012/13 audit

AUDIT SCOTLAND

Prepared for Lothian Valuation Joint Board and the Controller of Audit

October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

2012/13

We have given an unqualified opinion that the financial statements of Lothian Valuation Joint Board for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

No significant issues were identified during the course of our audit.

Overall the Board's arrangements for the prevention and detection of fraud were satisfactory during 2012/13. From our 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

We confirm the financial sustainability of the Board on the basis of its financial position and projected three-year financial summary. The financial position going forward is however becoming even more challenging than previous years with the flat-lining of budgets alongside the requirement to deliver new electoral working practices, and the ongoing resource pressures around valuation appeal workloads. Expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

Introduction

1. This report is the summary of our findings arising from the 2012/13 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 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.

4. 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

5. 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 18 March 2013 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

6. 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 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we were not required to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of Lothian Valuation Joint Board for 2012/13 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 6 September 2013.

8. We received the unaudited financial statements on 17 June 2013 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 09 July 2013. Lothian Valuation Joint Board is required to follow the 2012/13 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 (ISA260)

9. There were no significant issues identified in our financial statements audit. A small number of errors were identified by our review and the audited financial statements have been adjusted to reflect this. There were no unadjusted errors included in the ISA 260 report to those charged with governance on the 2012/13 audit.

Financial position

2012/13 Outturn

10. The cost of service in 2012/13 was £5.813 million (£6.040 million in 2011/12). After accounting for income of £6.058 million (£6.268 million in 2011/12), mainly constituent

authorities' contributions, there is a surplus on the provision of services of £0.245 million (£0.228 million in 2011/12).

11. Within these figures, the Board made overall savings of £127,000 against budget. The savings include employee costs of £172,000, property costs of £19,000; transport & plant of £10,000 and support services of £10,000. Overspends against budget included supplies and services costs of £73,000 mainly due to a full replacement programme of desk top PC hardware, and third party payments of £16,000 as the result of higher than anticipated activity of the Valuation Appeals Committee.

2012/13 Financial position

12. In the previous two financial years, the Board agreed to retain the underspends (£228,000 in 2010/11 and £42,000 in 2011/12) to fund possible future liabilities arising from the early release and retirement of staff. A decision on how the 2012/13 underspend of £127,000 will be used will be considered by at the Board meeting in November 2013. The accumulated balance of £397,000 is included in the financial statements as a creditor balance due to constituent authorities.

Treasury management

13. 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

14. The Local Government Finance Settlement announced by the cabinet Secretary for Finance, Employment and Sustainable Growth on 27 November 2012 confirmed that the revenue funding would be maintained at 2011/12 "flat cash" levels for 2012-15.

15. In February 2013 the Board agreed a revenue budget of £6.118 million for the 2013/14 financial year and an indicative budget for 2014/15 of the same amount. These amounts are in line with the 2012/13 budget of £6.118m, and take account of the "flat cash" funding assumption contained within the Spending Review.

Significant financial risks

16. 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 preparations required for the referendum vote and the introduction of

Individual Electoral Registration. In addition, the economic climate has resulted in continuing high numbers of valuation appeals. Should the resources available to the Board be reduced much further there is a risk that, without adequate planning of services, the Board's performance may drop and it is unable to fulfil all its statutory duties.

Refer Action Point no. 1

Corporate governance and systems of internal control

Overall governance arrangements

17. 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

18. 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.

19. 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.

20. 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 trade receivables 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 payroll, however due to the earlier timing of our financial statements audit we were unable to rely fully on internal audit in 2012/13, and we modified our other audit procedures accordingly.

Prevention and detection of fraud and irregularity

21. 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

22. 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

23. 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.

24. 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.

25. 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

26. 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: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	16	The Board is funded by four constituent councils. The continuing financial constraints on the public sector means that the various councils are working towards making considerable savings in their budgets. Should the funding available to the Board be reduced much further there is a risk that, without adequate planning of services, the Board’s performance may drop and it is unable to fulfil all its statutory duties.	The Board has been providing its services within a situation of contained budget for a number of years. The ongoing restriction of budget growth places considerable strain on the Board's ability to continue to provide its services to the required level. As a result its primary services and key projects are managed using a system of implementation plans, timetables, risk and issues registers, performance assessment, and strict management reporting. This is supported by monthly budget assessment and forecasting. Regular reports are provided to the Board that allow it to make an assessment of service provision set against budget expenditure. Should budget allocation be such that the Board is unable to fulfil its statutory duties the above process shall provide the necessary early indications that allow remedial action to be taken.	Assessor/ Depute Assessor	Ongoing