

Lothian Valuation Joint Board

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



 AUDIT SCOTLAND



Lothian Valuation Joint Board

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Key Messages

We have audited the 2009/10 financial statements and looked at aspects of performance management and governance, including the key financial risks faced by the board. This report sets out our main findings, summarising key outcomes from the 2009/10 audit and the outlook for the period ahead.

Overall we found the financial stewardship of the board during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- we have given an unqualified opinion on the financial statements of Lothian Valuation Joint Board
- final accounts preparation procedures and working papers were good
- many aspects of a sound corporate governance framework are in place
- Internal Audit concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the board's internal financial control systems in the year to 31 March 2010.

We are pleased to report that during 2009/10 the board completed the 2010 revaluation of all commercial and non-domestic properties in the Lothian area, to establish the new rateable values. Also during 2009/10 the board continued to deal with council tax banding enquires and staff were regularly involved in dealing with enquires and requests for council tax banding changes. Appeals against rate valuations and council tax bandings can result in the board attending appeal hearings to defend their judgements, which at times can prove time consuming and costly. Although, in overall terms the board under spent against the 2009/10 budget, there was an over spend against budget in legal fees as a consequence of the number of valuation appeals being submitted.

More recently the Board completed a substantial piece of work in relation to ensuring the Electoral Register was complete, in advance of the May 2010 election, including processing postal vote applications.

Outlook

Key issues for the board in the future include:

- delivering continuous improvement in service delivery and use of resources in the face of continuing financial constraints
- being able to respond to possible funding cuts from the constituent authorities as a consequence of financial constraints in local government

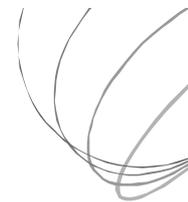


- continuing to respond to rating valuation appeals and council tax banding appeals
- preparing for major elections in 2011, 2012, 2014 and 2015.

Key issues for the attention of members are outlined in an Action Plan included at appendix A of this report.

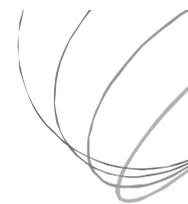


October 2010



Introduction

1. This report summarises the findings from our 2009/10 audit of the Lothian Valuation Joint Board. The scope of the audit is set out in our Annual Audit Plan which was submitted to the board in February 2010.
2. The financial statements of the board are the means by which it accounts for the stewardship of the resources made available and its financial performance in the use of those resources. It is the responsibility of the board to prepare financial statements that give a true and fair view of its financial position and of its income and expenditure for the year.
3. The members and officers of the board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the board's system of recording and processing transactions provides an adequate basis for the preparation of financial statements and the effective management of assets and interests
 - the board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
 - the board has proper arrangements for securing best value in its use of resources.



Financial statements

4. In this section we summarise the key outcomes from our audit of the board's financial statements for 2009/10. We also summarise key aspects of the board's reported financial position and performance to 31 March 2010.
5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the board and its income and expenditure for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the annual governance statement by considering the adequacy of the process put in place by the board to obtain assurances on the systems of internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the board.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of the Lothian Valuation Joint Board for 2009/10.
8. We were satisfied with disclosures made in the annual governance statement on the system of internal financial control and the adequacy of the process put in place by the authority to obtain assurances on the systems of internal control.
9. The board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Working papers provided to support the financial statements were of a good standard.
10. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members and publication. The financial statements are an essential means by which the board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



Accounting issues

11. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2009 SORP relevant to the Lothian Valuation Joint Board and we were satisfied that the board prepared the accounts in accordance with the 2009 SORP.
12. The board has adjusted the financial statements to reflect our audit findings most of which related to presentational matters and the inclusion of an additional note in relation to the lease for the board's premises. There was one minor error which did not warrant adjustment in the financial statements.

Financial position

13. The surplus or deficit on the income and expenditure account measures the board's financial result for the year, recognising the resources that have been consumed and generated in accordance with accounting principles. The board's net operating expenditure in 2009/10 was £6.1 million (2008/09 £5.8 million). This was met by constituent authorities' contributions of £6.17 million (2008/09 - £6.18 million)
14. The movement on the general fund balance is also an important aspect of the board's stewardship as the main budget reference point. The Statement of Movement on the General Fund Balance summarises the differences between the outturn on the Income and Expenditure Account and the General Fund balance, the main differences being:
 - capital investment is accounted for as it is financed rather than when fixed assets are consumed
 - retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.
15. After adjusting for these items the board broke even for the year.
16. Within these figures, the board made savings of £245k against budget. £157k from savings in employee costs and £77k from an under spend in operating costs. In addition £11k additional income was generated. The under spend will be returned to constituent councils.



Going concern

17. The board's balance sheet shows a net liability of £11.2 million (2008/09 £1.9 million). The negative balance reflects the pension liabilities of £11.8 million (2008/09 £2.5 million) falling due in future years. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
18. The board's statement of accounting policies confirms that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the constituent councils have a legal obligation to fund the net expense of the board. Future pension liabilities will therefore be met as they fall due by constituent authorities in the normal way. We are satisfied that the process the board has undertaken to consider going concern is reasonable.

Legality

19. Through our planned audit work we consider the legality of the board's financial transactions. In addition the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the board's management team, the financial transactions of the board were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial outlook

IFRS adoption

20. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Because local government has already adopted some aspects of IFRS, we expect the transition to be fairly smooth. But it is important that the board completes this transition in sufficient time to ensure that the 2010/11 accounts are compliant with IFRS. A comparative balance sheet as at 1 April 2009 has already been received but shadow accounts for 2009/10, on an IFRS compliant basis, will also be required.

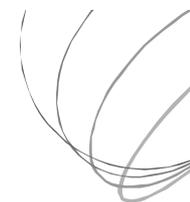
Key risk area 1

21. The economic recession continues to have a major impact on the finances of local authorities and the constraints on public sector expenditure will increase significantly as the Government seeks to reduce its debt burden. The board is likely to face some difficult decisions in the coming years to ensure that it continues to manage within its budget in light of increasing financial pressures which the constituent



local authorities are facing. It is likely that the way in which services are delivered will need to change or there is a risk that service delivery may be compromised in future.

Key risk area 2



Governance and accountability

Introduction

22. In this section we comment on key aspects of the board's governance arrangements during 2009/10. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2009/10

23. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviours in the organisation. The board has a responsibility to put in place arrangements for the conduct of the affairs of the organisation, ensure the legality of activities and transactions, and to monitor the adequacy and effectiveness of those arrangements.

Structures and policies

24. Corporate governance is about direction and control of organisations. The board assessed its own arrangements against the CIPFA /SOLACE guidance: *Delivering Good Governance in Local Government* and in June 2009 the board approved the adoption of a Local Code of Corporate Governance which reflects the six principles outlined in the CIPFA/SOLACE guidance.

Roles and relationships

25. The board is comprised of elected members from four constituent authorities but is a body corporate in its own right separate from those authorities. It is incumbent on all members to ensure that, in the context of their service to the board, all of the necessary disclosures have been made to ensure that the risk of conflicts of interest is adequately managed. Elected members are required to make a 'declaration of interest' at the beginning of any meeting where they have an interest in any item on the agenda.
26. In 2008/09 Audit Scotland recommended considering the establishment of a separate register of interests for members of Lothian Valuation Joint Board in order to improve openness and transparency. In March 2010, we agreed with the Board decision that this could be adequately addressed by inserting a link on the Board's website, for each member, to the existing Register of Members' Interests maintained by their constituent councils. This would be supplemented by an annual reminder asking members to include any interests of specific relevance to their role on the Lothian Valuation Joint Board.



Internal audit

27. Internal audit provides a key role in the board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The board's internal audit service is provided by the City of Edinburgh Council's. From our review of the service, we found that the work is conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government and that all work on which we planned to place reliance was completed and the relevant assurances obtained.

Systems of internal control

28. The board's financial transactions are processed through the City of Edinburgh Council's financial systems. It is therefore the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.

29. Our review of these systems was conducted as part of the audit of City of Edinburgh Council, supplemented by specific audit work on the board's financial statements. Overall no material issues of concern in relation to the main financial systems have come to our attention.

30. An Annual Governance Statement from the Treasurer was included within the financial statements. The Treasurer concludes that from this year's review there is evidence that the Code of Corporate Governance is operating effectively with overall compliance by the Board in all significant areas of its corporate governance arrangements.

31. In accordance with good practice, the statement was reviewed by the board in June 2010 prior to signature by the Treasurer and is supported by a high level review of the adequacy and effectiveness of internal financial controls undertaken by Internal Audit. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

32. In our report on the 2007/08 and 2008/09 audits we noted that there was no formal Service Level Agreement between the Board and the City of Edinburgh Council in respect of the support functions provided by the Council. We note that whilst some progress has been made, a formal agreement has not yet been finalised.

Key risk area 3

33. The board has arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. These arrangements include standing orders and financial regulations, a whistle blowing



policy, an anti-fraud and corruption policy and codes of conduct for elected members and staff. We are pleased to note that the board continues to have appropriate arrangements in place to minimise the risk of fraud and corruption. Each year, Audit Scotland gathers information on such cases of fraud identified by audited bodies. In 2009/10 there were no such cases reported for the board.

Performance

34. The board publishes an annual report each year outlining how it has performed across all of its functions and providing details of some of its major activities during the year.
35. It is important that performance information is timeously presented to users in order to maximise its value. The board's Annual Report 2009/10 was approved for publication at the board meeting on 6 September 2010 and has been made available to the public in hard copy from public counters and in electronic format via the board's website.

Final remarks

36. The members of the Lothian Valuation Joint Board are invited to note this report. We would be pleased to provide any additional information that members may require.
37. The co-operation and assistance given to us by officers of the board and the City of Edinburgh Council is gratefully acknowledged.

**Audit Scotland
October 2010**



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.	20	<p>IFRS adoption</p> <p>Local government will move from UK GAAP to IFRS based accounting in 2010/11. It is important that the board completes this transition, including preparing 2009/10 shadow accounts, in sufficient time to ensure that the 2010/11 accounts are IFRS compliant.</p> <p><i>There is a risk that the 2010/11 financial statements may not be IFRS compliant if preparations are not completed in time.</i></p>	<p>External advisers PWC and CIPFA have been engaged to aid in the preparation for the implementation of IFRS.</p> <p>Treasurer and Lothian Valuation Joint Board are actively progressing necessary actions.</p>	Treasurer/Assessor	<p>2009/10 Shadow Accounts December 2010</p> <p>2010/11 Accounts April 2011</p>
2.	21	<p>Budgetary Constraints</p> <p>The pressure on finances of local authorities and the constraints on public sector expenditure are increasing. The board is likely to face some difficult decisions in the coming years and it may be necessary to change the way in which services are delivered to ensure service delivery is not compromised.</p> <p><i>There is a risk that service delivery may be compromised in future years if sufficient budget savings can not be identified.</i></p>	<p>Within the Board we are considering all areas of expenditure to seek the necessary savings while at the same time trying to ensure that service delivery is maintained.</p> <p>We are currently considering changes to the way our service is delivered with a view to securing savings, for example an increased use of electronic engagement with stakeholders to save on postage, printing and stationery costs.</p>	Assessor	2011/2014
3.	33	<p>Service Level Agreements</p> <p>A service level agreement between the Lothian Valuation Joint Board and the City of Edinburgh</p>	A draft Service Level Agreement has been developed and will be finalised with the Assessor in due course.	Assessor/Treasurer	June 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>Council should be formalised and presented to the board for their approval.</p> <p><i>There is a risk that the board cannot monitor the performance of services provided by the City of Edinburgh Council.</i></p>			