

# The Lothian Valuation Joint Board

**Report to Members and the Controller of Audit  
on the 2006/07 Audit**



October 2007





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# Introduction

1. This report summarises the findings from our 2006/07 audit of the Lothian Valuation Joint Board. The scope of the audit was set out in our audit plan issued in March 2007.
2. The financial statements of the Lothian Valuation Joint Board are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the board to prepare financial statements that present fairly its financial position and the 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 the 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

## Introduction

4. In this section we summarise key outcomes from our audit of the board's financial statements for 2006/07. We also summarise key aspects of the board's reported financial position and performance to 31 March 2007.
5. We audit the financial statements and give an opinion on:
  - whether they present fairly the financial position of the board and its expenditure and income for the year; and
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
6. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge of the organisation.

## Overall conclusion

7. We have given an **unqualified** opinion on the financial statements of the Lothian Valuation Joint Board for 2006/07.
8. The unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. The board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). Some amendments were made to the figures included in the unaudited accounts made available for public inspection. In particular, an adjustment was required to reflect the proper accounting treatment for the lease of the assessor's new office accommodation which is detailed further below. As part of the closedown arrangements, we would suggest that the CIPFA disclosure checklist is completed to ensure that the unaudited accounts are presented in accordance with the requirements of the SORP. This will minimise the changes required in presentation on conclusion of the audit.
9. Audited accounts were finalised prior to the target date of 30 September 2007 and are now available for presentation to the board and publication.



## Financial position

10. The presentation of the 2006/07 financial statements has changed significantly from previous years. They now include an income and expenditure account and a separate statement on the movement in general fund balance, replacing the revenue account. The latter statement reflects items that require to be taken into account when determining a board's budget requirement. Overall, the board made a satisfactory attempt in preparing the accounts in accordance with the revised SORP.
11. 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 Generally Accepted Accounting Principles. The board's net operating expenditure in 2006/07 amounted to £6.214 million and was met by constituent authorities' contributions of £6.196 million, resulting in an income and expenditure deficit for the year of £0.018 million.
12. However, the movement on the general fund balance is an important aspect of the board's stewardship as the main budget reference point, the main difference being retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
13. After adjusting for retirement benefits, the board incurred a deficit of £0.161 million which was cleared by the opening general fund balance. As part of the 2005/06 audit, we drew to the board's attention that it had no specific power to retain reserves to meet future funding requirements as set out in Section 58 of the Local Government (Scotland) Act and the Valuation Joint Boards (Scotland) Order 1995. The balance carried forward to 2006/07 has therefore been fully utilised during the year.
14. Within these figures, the board made savings of £0.339 million arising from underspends on employees costs, stationery and postages. Along with the opening balance on the general fund and part of the first instalment of a cash incentive from the board's new landlord, these savings were used to fund one-off costs of £0.642 million associated with the re-location of the assessor's office. These costs are disclosed as exceptional items in the income and expenditure account on the basis they are significant, one-off costs.
15. Scotland Office Circular 02/06 made additional funds available to local authorities to enable Electoral Registration Officers to perform additional duties in conducting the annual canvass. Additional contributions of £0.117 million were therefore made available via the Scottish Government.



## Accounting practice

### Accounting for new office lease

16. One of the main amendments to the draft financial statements was required to reflect the proper accounting for the lease of the assessor's new offices at the Pentad Building, South Gyle Crescent, Edinburgh and the cash incentive which formed part of that agreement with the new landlord.
17. During 2006/07, a cash incentive of £0.400 million was provided which will be followed in 2011 by a further £0.475 million. In order to comply with the SORP, the cost of the lease net of any incentives is included as a deferred credit in the balance sheet which will be charged to revenue over the life of the lease, which in this case is 25 years. This position is now reflected in the audited accounts.
18. The element of the cash incentive utilised in 2006/07 had initially been accounted for as income in the income and expenditure account. This has been removed and the additional funding requirement shown as an apparent requisition from constituent authorities, matched by an equivalent long term debtor. There is no additional cost to the constituent authorities and the debtor will be written down over 25 years, in line with the new lease.

### Going concern

19. The board's balance sheet shows a net liability of £5.372 million. The negative balance reflects the pensions liabilities 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.
20. The board's statement of accounting policies confirm 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 expenses of the board. Future pension liabilities will therefore be met, as they fall due by contributions from constituent authorities and government grant in the normal way. We are satisfied that the process the board has undertaken to consider going concern is reasonable.



## **Pension liabilities**

21. Financial planning and accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.
22. The board's estimated pension liabilities at 31 March 2007 exceeded its share of the assets in the Lothian Pension Fund by £5.372 million, reducing from £9.195 million in the previous year. The actuary was required to make a three-year assessment of the contributions that should be paid by employing authorities from 1 April 2006 to maintain the solvency of the fund. In addition to the employers' contribution (known as the 'future service rate') of 14.3% of salaries, additional contributions of £110,000, £122,000 and £135,000 are required in the years 2006/07, 2007/08 and 2008/09 respectively.

## **Legality**

23. Each year we request written confirmation from the Treasurer that the board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Assessor and Senior Management Team, the financial transactions of the board were in accordance with the relevant legislation and regulations governing its activities.
24. There are no additional legality issues arising from our audit which require to be brought to members' attention.



# Governance

## Introduction

25. In this section we comment on key aspects of the board's governance arrangements during 2006/07.

## Overview of arrangements in 2006/07

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

27. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the board's internal financial control system.

28. In accordance with good practice, the statement was reviewed by the Board in June 2007 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.

## Audit committee and internal audit

29. Effective scrutiny is central to good governance, with a significant role for board members to scrutinise performance and hold management to account. Due to the size of the organisation, the board has not established an audit committee. That said, the board considers reports by internal and external audit. In addition, the Chief Internal Auditor provides an annual report, including a statement on the adequacy and effectiveness of the internal control system.

30. Internal audit plays 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. An internal audit service is provided to the board by the City of Edinburgh Council's Chief Internal Auditor. 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, that the audit plan was sufficient and that all work on which we planned to place reliance was completed and the relevant assurances obtained.



31. Arising from a review of the board's risk management activities, internal audit reported that the overall risk maturity assessment for the board was level 3 (of a 5 stage process) which is described as 'risk defined' i.e. that the entity has reasonable knowledge of risk management as a result of the strong corporate governance culture. It was noted that some processes required to be strengthened including the need to formally document an over-arching risk management policy. This was immediately accepted by the board and a risk management strategy was approved in December 2006.

## **Systems of internal control**

32. The board's financial transactions are processed through the City of Edinburgh'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 both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
33. 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 there are no material issues of concern in relation to the operation of the main financial systems.

## **Prevention and detection of fraud and irregularities**

34. 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.



# Final Remarks

35. 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.
36. 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 2007**