

Lothian Valuation Joint Board

**Report to Members and the Controller of Audit
on the 2008/09 Audit**

October 2009



 **AUDIT SCOTLAND**

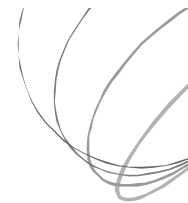


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Contents

Key Messages	1	Governance and accountability	6
Introduction	2	Final remarks	9
Financial statements	3	Appendix A: Action Plan	10



Key Messages

We have audited the 2008/09 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 2008/09 audit and the outlook for the period ahead.

Key outcomes from the 2008/09 audit

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.

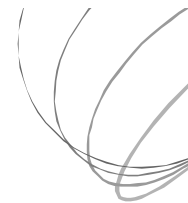
- we have given an **unqualified** opinion on the financial statements of Lothian Valuation Joint Board.
- final accounts preparation procedures and working papers were generally good
- many aspects of a sound corporate governance framework are in place. These have been strengthened by the adoption of a local code of corporate governance
- 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 2009

Outlook

Key issues for the board in the future include:

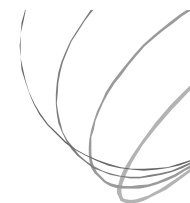
- delivering continuous improvement in service delivery and use of resources in the face of increasing financial constraints
- continuing the work done to prepare for the 2010 Non-Domestic Rating revaluation and managing this to conclusion by 31 March 2010.

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



Introduction

1. This report summarises the findings from our 2008/09 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 January 2009.
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 2008/09. We also summarise key aspects of the board's reported financial position and performance to 31 March 2009.
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 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 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 2008/09.
8. We were satisfied with disclosures made in the 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 have improved since last year, but there remains scope for further improvement. We will work closely with finance staff from the City of Edinburgh Council to support the improvement process.
10. The accounts were certified by the target date of 30 September 2009 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 2008 SORP and we were satisfied that the board prepared the accounts in accordance with the 2008 SORP.
12. The board has adjusted the financial statements to reflect our audit findings most of which related to presentational matters.

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 Generally Accepted Accounting Principles. The board's net operating expenditure in 2008/09 was £5.8 million (2007/08 - £5.6 million). This was met by constituent authorities' contributions of £6.2 million (2007/08 - £6.0 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 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 £52k arising from underspends (2007/08 - £229k). The underspend will be returned to constituent councils.

Going concern

17. The board's balance sheet shows a net liability of £1.9 million (2007/08 - £0.8 million). The negative balance reflects the pension 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.



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 starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required.

Key Risk Area, Action 1

21. The economic recession has had a major impact on the finances of local authorities and current projections are for the constraints on public sector expenditure to increase significantly as the Government seeks to reduce its debt burden. The board will face some difficult decisions in the coming years to ensure that it manages its budget in the light of increasing financial pressures.



Governance and accountability

Introduction

22. In this section we comment on key aspects of the board's governance arrangements during 2008/09. We also provide an outlook on future governance issues, including our views on potential risks.

Overview of arrangements in 2008/09

23. 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 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 has assessed its own arrangements against the CIPFA /SOLACE guidance: *Delivering Good Governance in Local Government*. The assessment has identified a number of areas for improvement, but overall, the results suggest that the board has a sound governance framework.
25. In June 2009 the board approved the adoption of a Local Code of Corporate Governance which reflects the six principles of corporate governance outlined in the CIPFA/SOLACE guidance.

Roles and relationships

26. 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.
27. In our view it would be improve openness and transparency if the board were to maintain a register of members' interests. Members should record interests of relevance to their roles on the valuation joint board, which may vary from those relevant to their parent council.

Key Risk Area, Action 2



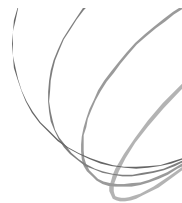
Internal audit

28. 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 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.

Systems of internal control

29. 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.
30. 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 main financial systems.
31. A Statement on the System of Internal Financial Control was included within the financial statements. Following receipt of the Assessor's certificate of assurance on financial controls, and consideration of the work of managers, and internal and external auditors, the Treasurer concluded that he was satisfied that reasonable assurance could be placed on the adequacy and effectiveness of the systems of internal control operated by the board.
32. In accordance with good practice, the statement was reviewed by the board in June 2009 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.
33. In our report on the 2007/08 audit we noted that there were no formal Service Level Agreements 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 the agreements are not yet in place.

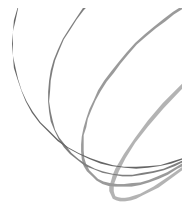
Key Risk Area, Action 3



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. Each year, Audit Scotland gathers information on such cases of fraud identified by audited bodies. In 2008/09 there were no such cases reported for the board.

Performance

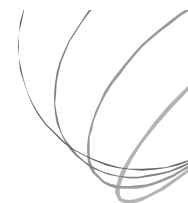
35. The board publishes an annual report each year outlining how it has performed across all of its functions and providing details of some of its major activities during the year.
36. It is important that performance information is timeously presented to users in order to maximise its value. The board's Annual Report 2008/09 was approved for publication at the board meeting on 26 June 2009 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

37. 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.
38. 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 2009**



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 starts the transition period in 2009/10 to ensure it is prepared for 2010/11.</p> <p><i>Risk: the necessary management information processes may not be in place to generate IFRS compliant financial statements.</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	March 2010
2.	27	<p>Register of interests</p> <p>The board does not maintain a register of interests for members separate from those held by the constituent councils.</p> <p><i>Risk</i> <i>Members may put themselves in a position of conflict of interests.</i></p>	The board will consider the introduction of a register of members' interests	Clerk to the Joint Board	March 2010
3.	33	<p>Service Level Agreements</p> <p>A service level agreement between the Lothian Valuation Joint Board and the City of Edinburgh Council should be formalised and presented to the board for their approval.</p> <p><i>Risk</i> <i>The board cannot monitor the performance of services provided by the City of Edinburgh Council.</i></p>	<p>To develop a Service Level Agreement with the City of Edinburgh Council.</p> <p>The total charge to LVJB in 2008/09 amounts to £85k which represents 1.4% of total expenditure.</p>	Assessor/Treasurer	April 2010

