

Lothian Valuation Joint Board

Report to Members and the Controller of Audit on the 2010/11 Audit



Prepared for Lothian Valuation Joint Board
October 2011

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

We have audited the 2010/11 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 2010/11 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
- financial statements 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 2011.

2010/11 was a busy year for the board preparing and managing the electoral roll process for the general election in May 2010, in addition to dealing with enquires and requests for council tax banding changes and appeals against rating valuations and council tax bandings. Appeals can result in the board attending hearings to defend their judgements, which at times can prove time consuming and costly. Although the board recorded an underspend against the 2010/11 budget in overall terms, there was an over spend against budget in relation to appeals, due to higher than anticipated activity of the Valuation Appeals Committee from the disposal of appeals from the 2005 Valuation Roll.

Outlook

Key issues for the board in the future include:

- achieving 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 2012, 2014 and 2015.

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 2010/11 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 November 2010.
2. 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 the 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.
3. This report is addressed to the members of the Lothian Valuation Joint Board and the Controller of Audit and will be published on our website after consideration by the board.
4. 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.
5. 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.
6. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. In this section we summarise the key outcomes from our audit of the board's financial statements for 2010/11. We also summarise key aspects of the board's reported financial position and performance to 31 March 2011.
8. 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.
9. 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.

Audit Opinion

10. We have given an unqualified opinion that the financial statements of the Lothian Valuation Joint Board for 2010/11 give a true and fair view, of the state of affairs of the board as at 31 March 2011 and of its income and expenditure for the year then ended; and that the statements have been properly prepared in accordance with the accounting requirements of IFRSs (as interpreted and adapted by the 2010/11 Code) and relevant legislation, (the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003).
11. We have also stated that in our 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 and Annual Governance Statement for the financial year for which the financial statements are prepared are consistent with the financial statements.

Annual Governance Statement

12. 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 board to obtain assurances on the systems of internal control.

Accounts submission

13. 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.

14. The accounts were certified by the target date of 30 September 2011 and are now available for presentation to members and publication.

Accounting issues

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
16. The 2010 Code required local authorities to prepare their 2010/11 financial statements under International Financial Reporting Standards ('IFRS') for the first time. This resulted in a number of significant changes in accounting practice which, in turn, resulted in significant changes to the presentation of the financial statements and the restatement of some prior year balances. We reviewed the board's arrangements for restating the prior year balances and found them to be satisfactory
17. A further change was introduced by the Local Authority Accounts (Scotland) Amendment Regulations 2011 which introduced the requirement for a remuneration report to be included in the financial statements from 2010/11 onwards.
18. The board has adjusted the financial statements to reflect our audit findings most of which related to presentational matters. The audit identified that although the correct payment had been made to a supplier, there had been a posting error which meant that capital expenditure was understated by £12,000. As is normal practice this immaterial error did not warrant adjustment in the financial statements.

Pension costs

19. In the UK budget statement on 22 June 2010 the Chancellor of the Exchequer announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This had the effect of reducing the Joint Board's liabilities in the Local Government Pension Scheme as at 31 March 2011 by £3.46 million. This has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48 as the change is considered to be a change in benefit entitlement and does not impact on the General Reserve balance.

Outlook

20. 2010/11 saw significant changes in the accounting requirements for local authorities. Change on such a significant level is not planned for 2011/12.

Audit appointment for 2011/12

21. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. From next year 2011/12, for a five year period, the auditor for the board will still be Audit Scotland but with a different team of staff undertaking the audit. As this is the last

year of our audit appointment, with the existing audit team, we would like to acknowledge the good working relationship that existed during this appointment term with the board and thank officers and members of the board and City of Edinburgh Council for their assistance during the last five years. We will be meeting with the incoming audit team as part of a managed changeover process.

Financial position

22. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
23. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
24. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

25. 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 2010/11, excluding the extraordinary pension credit of £3.46 million, was £6.16 million (£5.86 million in 2009/10). This was met by constituent authorities' contributions of £6.14 million (£6.18 million in 2009/10).

Financial performance

26. Within these figures, the board made savings of £228k against budget. The savings include £194k from employee costs and £73k on property costs. There were some small overspends on supplies and services of £39k and £59k on third party payments arising from higher than anticipated activity of the Valuation Appeals Committee. £71k of income was received during 2010/11- £25k more than originally budgeted. During 2010/11 the Board approved not to return the underspend to constituent councils, but instead to retain the 2010/11 underspend to fund possible future liabilities arising from the early release and retirement of staff.

Going concern

27. The board's balance sheet shows a net liability of £4.53 million (£11.28 million in 2009/10). The negative balance reflects the pension liabilities of £4.96 million (£11.74 million 2009/10) 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.

28. 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

29. 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 her 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.

Outlook

2011/12 budget

30. A revenue budget of £6.16 million was agreed for the 2011/12 financial year, compared to an approved budget of £6.37 million in 2010/11. Savings from the previous year are being achieved against employee costs, premises costs and transport costs.
31. The board, like all public sector organisations, faces a very challenging financial climate with constraints on expenditure likely to increase significantly as the Government seeks to reduce its debt burden. The board will continue to face difficult decisions in the coming years to ensure that it manages its budget in the light of increasing financial pressures.

Key risk area 1

Governance and accountability

32. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
33. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
34. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
35. In this part of the report we comment on key areas of governance. We also provide an outlook on future governance issues, including our views on potential risks.

Corporate Governance

Structures and policies

36. 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. In the future consideration could be given to reviewing periodically the Local Code of Corporate Governance to ensure its continued relevance.

Processes and committees

37. The board met 4 times in 2010/11 to consider reports and issues such as budget approval and performance. The November 2011 meeting was inquorate due to severe weather, with all recommendations made being ratified at the next meeting in February 2011. The board's membership consists of experienced councillors and meetings are generally well attended.

Roles and relationships

38. The board is comprised of elected members from four constituent authorities but is a body corporate in its own right separate from those authorities. At the June 2011 meeting the

current convenor stood down from this role. It is important that the change over and appointment of a new convenor is managed to ensure the continued effective performance of the Board. The training needs of the new Convenor should be considered and appropriate training provided if deemed necessary.

Key risk area 2

Internal audit

39. 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

40. 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.
41. 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.
42. 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.
43. In accordance with good practice, the statement was reviewed by the board in June 2011 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.
44. For several years now, we have commented in our annual audit reports on the lack of a 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.

Prevention and detection of fraud and irregularities

45. The board has arrangements in place to prevent and detect fraud, inappropriate conduct and corruption. Auditors review and report on these arrangements.
46. These arrangements include standing orders and financial regulations, a public interest disclosure policy (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 2010/11 there were no such cases reported for the board.

Best Value, use of resources and performance

47. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
48. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
49. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
50. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
51. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
52. This section includes a commentary on the Best Value / performance management arrangements within the board. We also note any headline performance outcomes / measures used by the board and any comment on any relevant national reports.

Management arrangements

Best Value

53. The board has not been subject to a specific Best Value audit, and Audit Scotland's current Best Value audit regime (BV2) does not currently include the smaller joint boards. The board's framework for achieving Best Value and delivering continuous improvement is detailed in the Corporate Plan and Service Plan 2011-2014.

Performance management

54. The main way the board measures performance is through the key performance indicators (KPIs) in the areas of alterations to the valuation roll including amendments and appeals, and

new council tax entries and alterations to bandings. Progress against these targets is reported to the board throughout the year including the year-end position.

55. The annual 2010/11 Performance Report was presented to the Board in June 2011. The reports notes for alterations to the valuation roll that the board did not manage to meet its performance target figures set for the year, which were higher than the previous year. It is noted in the report that the board had a challenging year dealing with the number of appeals with reduced staff numbers, and that perhaps the targets were a little ambitious. Although the recorded performance was less than the set targets, it was similar to the performance levels recorded in 2009/10. Council tax performance on notifying council tax payers of their banded valuations remained consistent with the previous years at around 95% being notified within 3 months.
56. As this report provides information on the key functional activities of the Board and associated performance, there are no plans to produce a separate annual public report for 2010/11, as was the case previously. In future years the intention is to add some additional material to the annual performance report concerning items such as budget, absence, future priorities, etc, to more fully cover the standard content of an annual report.
57. The current financial constraints on the public sector are likely to make it harder to deliver continuous improvement or to maintain performance. The board will need to monitor the impact of financial savings on performance to ensure that any adverse impact on service users is kept to a minimum.

Key risk area 1

National performance reports

58. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest to the Board are detailed below.

Exhibit: A selection of National performance reports 2010/11

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| <ul style="list-style-type: none"> • Scotland's public finances: responding to the challenges • Improving energy efficiency: a follow-up report | <ul style="list-style-type: none"> • An overview of local government in Scotland 2010 • The cost of public sector pensions in Scotland |
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Source: www.audit-scotland.gov.uk

59. Officers should review national performance reports as they become available and consider the impact of the findings on the board.

Final remarks

60. 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.
61. The co-operation and assistance given to us by officers of the board and the City of Edinburgh Council is gratefully acknowledged.

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	31 & 57	<p>Budgetary constraints and performance</p> <p>The current financial constraints on the public sector will make it harder to deliver continuous improvement or to maintain performance. The board will need to monitor the impact of financial savings on performance to ensure that any adverse impact on service users is kept to a minimum.</p> <p>Risk: service users may experience a diminished level of service.</p>	<p>It is acknowledged that considerable difficulties lie ahead.</p> <p>It is anticipated, through a combination of monthly financial monitoring reports and the existing range of management meetings that cover all aspects of performance and statutory service delivery, that the current level of service to our stakeholders can be maintained.</p>	Assessor	2012-2013
2	38	<p>New Convenor</p> <p>It is important that the appointment of a new convenor is managed to ensure the continued effective performance of the Board. Training needs of the new Convenor should be assessed and appropriate training provided if necessary.</p> <p>Risk: the performance of the</p>	<p>Documentation entitled "An Introduction to Lothian Valuation Joint Board and The Functions of the Assessor and Electoral Registration Officer" is available and shall be provided to the new Convenor.</p> <p>In addition a meeting can be</p>	Assessor, Convenor, Clerk to the Board	March 2012

		<p><i>Board could become less effective if the new Convenor is not appropriately supported.</i></p>	<p>called between the Convenor, Assessor and Clerk to the Board, in order to provide additional information on Standing Orders, Scheme of Delegation and Financial Regulations, and to identify any other training requirements.</p>		
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