

4th Floor  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

T: 0131 625 1500  
E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)



Lothian Valuation Joint Board  
17A South Gyle Crescent  
Edinburgh  
EH12 9FL

26 August 2016

## Lothian Valuation Joint Board 2015/16 Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2015/16 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified
2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 5 September 2016 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
3. In presenting this report to the Lothian Valuation Joint Board we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. An unadjusted error was identified through the financial statements audit. A credit note for £1,347, issued in May 2016 but relating to 2015/16, has been omitted from the accounts. The correction of this error would decrease income by £1,347 and decrease the general fund by a corresponding amount.
5. In addition, in our significant findings section of our annual audit report, we have highlighted a reconciliation difference of £36,000 relating to car lease balances. Officers are currently

identifying the necessary adjustments to current and prior year balances, and intend to reflect these transactions in the financial statements for 2016/17.

6. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

### **Outstanding matters**

7. There are two matters where we still require additional information and these are identified below:
  - A copy of the signed Treasurer's assurance statement.
  - A copy of an invoice as evidence to support an ICT prepayment (approximate value £8,000)

# APPENDIX A: Proposed Independent Auditor's Report

## Independent auditor's report to the members of Lothian Valuation Joint Board and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Lothian Valuation Joint Board for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash-Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the board and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the Lothian Valuation Joint Board as at 31 March 2016 and of the income and expenditure of the board for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen O'Hagan  
Senior Audit Manager  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow, G2 1BT

September 2016

## APPENDIX B: Letter of Representation (ISA 580)

Stephen O'Hagan  
Senior Audit Manager  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Building  
Glasgow, G2 1BT

Dear Stephen

### Lothian Valuation Joint Board - Annual Accounts 2015/16

1. This representation letter is provided in connection with your audit of the financial statements of Lothian Valuation Joint Board for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Lothian Valuation Joint Board, as at 31 March 2016, and its comprehensive net expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Assessor and Senior Management Team, the following representations given to you in connection with your audit of Lothian Valuation Joint Board for the year ended 31 March 2016.

### General

3. I acknowledge my responsibility and that of Lothian Valuation Joint Board for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Lothian Valuation Joint Board have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including the Management Commentary, Annual Governance Statement and Remuneration Report, presents a balanced picture of Lothian Valuation Joint Board and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

### Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014 including all relevant presentation and disclosure requirements.

7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Lothian Valuation Joint Board for the year ended 31 March 2016.

### **Accounting Policies & Estimates**

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

### **Going Concern**

10. The Board has assessed Lothian Valuation Joint Board's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

### **Related Party Transactions**

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### **Events Subsequent to the Balance Sheet Date**

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

### **Corporate Governance**

14. I acknowledge as Treasurer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2016, which require disclosure.

## **Fraud**

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

## **Assets**

17. The assets shown in the Balance Sheet at 31 March 2016 were owned by Lothian Valuation Joint Board, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

## **Liabilities and Contingent Liabilities**

18. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2016.
19. There are no contingent liabilities arising either under formal agreements or through informal undertakings requiring disclosure in the financial statements.

## **Carrying Value of Assets and Liabilities**

20. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

## **Financial Instruments**

21. The information disclosed at note 9 of the financial statements (Financial Instruments) has been based on information provided by the City of Edinburgh Council Loans Fund. I have assessed the information provided and I am satisfied that the accounting, presentation and disclosure of this note are properly stated and are in accordance the Code requirements. I confirm that all transaction costs in respect of financial instruments were immaterial and were written off to the Comprehensive Income and Expenditure Statement as incurred.

## **Provisions**

22. There are no provisions that require to be made in the accounts for any material liabilities which have resulted, or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2016, and of which Lothian Valuation Joint Board could reasonably be expected to be aware.

## **Commitments**

23. There are no commitments under capital contracts. There are no other significant commitments or obligations which might adversely affect the board which require to be disclosed.

Yours sincerely

Hugh Dunn  
Treasurer



# Lothian Valuation Joint Board

Proposed 2015/16 Annual  
audit report to Members  
and the Controller of Audit

September 2016

# Key contacts

Stephen O'Hagan, Senior Audit Manager  
[sohagan@audit-scotland.gov.uk](mailto:sohagan@audit-scotland.gov.uk)

Carol Foster, Senior Auditor  
[cfoster@audit-scotland.gov.uk](mailto:cfoster@audit-scotland.gov.uk)

Audit Scotland  
4<sup>th</sup> Floor, The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT  
Telephone: 0131 625 1500  
Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

The Accounts Commission has appointed **Stephen O'Hagan** as the external auditor of **Lothian Valuation Joint Board** for the period 2011/12 to 2015/16.

This report has been prepared for the use of **Lothian Valuation Joint Board** and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Key messages

## Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.
- Working papers were of a good standard and officers provided good support which enabled the audit team to complete fieldwork by the planned target date.

## Financial management and sustainability

- The Board operated within budget, recording an underspend of £0.153 million against an approved budget of £6.118 million.
- Following an agreed change of accounting policy, the Board established a general reserve during 2015/16 to enable unspent funds to be carried forward. A prior period adjustment has been made in the 2015/16 financial statements. The balance on the general reserve increased to £0.749 million at 31 March 2016.
- The Board is sustainable currently and in the near term future although static local authority requisition levels and cost pressures will continue to place a strain on its capacity to deliver services at the current levels.
- A longer term approach to financial planning would allow the Board to demonstrate its continuing financial sustainability on an ongoing basis.

## Governance and transparency

- Systems of internal control operated effectively.
- Overall, sound governance arrangements were in place during 2015/16.
- The Board has effective anti-fraud arrangements.
- The Board has appropriate transparency arrangements.



**Best Value**

- Well established and clear performance reporting arrangements are in place within the Board.
- Further development of performance standards will be required once IER is embedded.
- The Board faces challenges in maintaining performance levels with existing resources.



**Outlook**

- The levels of demand on the Board's services remain high during 2016/17 due to the Scottish Parliamentary elections, EU referendum and forthcoming 2017 local authority elections. The Board approved a budget increase of £0.364 million for 2016/17 to cover increased expenditure arising from Individual Electoral Registration requirements. The budget increase will be met through a draw-down from general reserve of up to £0.364 million. Good financial management and moving towards a sustainable budget position from 2017/18 onwards remain high priorities.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Lothian Valuation Joint Board (“the Board”). The report is divided into sections which reflect our public sector audit model.
2. The management of the Board is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Board, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of 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; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
6. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
7. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the Board will be Scott Moncrieff. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"> <li>We have completed our audit of the Board and issued an unqualified independent auditor's report.</li> </ul>
<b>Going concern</b>	<ul style="list-style-type: none"> <li>The financial statements of the Board have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Board's ability to continue as a going concern.</li> </ul>
<b>Other information</b>	<ul style="list-style-type: none"> <li>We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li> </ul>

## Submission of financial statements for audit

- We received the unaudited financial statements on 26 May 2016, in accordance with the agreed timetable. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

## Overview of the scope of the audit of the financial statements

- Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Board on 8 February 2016.

- 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 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#)

sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

12. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

13. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
14. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the Board we set our planning materiality for 2015/16 at £69,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £41,000, to reduce to an

acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

16. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and set materiality for 2015/16 at £72,000. We report all misstatements greater than £1,000. Performance materiality was calculated at £43,000.

## Evaluation of misstatements

17. An unadjusted error was identified through the financial statements audit. A credit note for £1,347, issued in May 2016 but relating to 2015/16, has been omitted from the accounts. The correction of this error would decrease income by £1,347 and decrease the general fund by a corresponding amount.
18. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. Correction of these adjustments had no effect on the income and expenditure or net assets of the Board.

## Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

- Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
20. The table on the following page details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

## Significant findings from the audit in accordance with ISA260

### Car lease balances

21. The Board operates a car lease scheme for employees. Payments to the lease company are made by the Board, with employee contributions towards the cost of their leases being recovered through deductions to salary. The financial statements include a car lease balance at 31<sup>st</sup> March, which should represent a debtor relating to contributions due by employees to the Board at that date. However the unaudited accounts include a creditor at 31 March 2016 of £6,000. An initial review by officers indicates that the debtor balance relating to current lease agreements is approximately £30,000, and the difference between this and the £6,000 creditor in the unaudited accounts is the cumulative effect of insurance and interest transaction mispostings over a number of years. Officers are of the opinion these transactions should have been posted to the income and expenditure account. Further work will be required by officers to fully review all relevant transactions and identify the necessary adjustments to current and prior year balances, and they have therefore proposed to reflect the necessary transactions in the 2016/17 financial statements rather than in 2015/16. As the value of the probable adjustment is below our materiality levels, we concur with this proposed approach.

*Appendix III – Action Plan No. 1*

### De-recognised non current assets

22. The Board's non current asset records show that fully depreciated assets with a gross book value of £39,000 were derecognised during the year. However, this was not reflected in the Non Current Assets note in the unaudited accounts. Officers agreed to amend the non current assets note in the audited accounts to correct the gross book value and accumulated depreciation figures disclosed. There was no impact on the net book value of assets as a result of this correction.

## Future accounting and auditing developments

### Code of Audit Practice

23. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Financial sustainability
  - Financial management
  - Governance and transparency; and
  - Value for money.
24. In addition, as well as the annual audit report, other significant outputs such as the annual audit plan will be published on Audit Scotland's website.

# Financial management and sustainability

## Financial management

25. In this section we comment on the Board's financial outcomes and assess its financial management arrangements.
26. The Board sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts on residents as the budgeted net expenditure is funded by the Board's constituent councils. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

27. The cost of services in 2015/16 was £6.360 million (£6.090 million in 2014/15). After accounting for income, mainly constituent councils' contributions and interest on pension plan assets of £7.438 million (£7.629 million in 2014/15) along with interest costs on pension plan obligations of £1.705 million (£1.868 million in 2014/15), there is a deficit on the provision of services of £0.624 million (£0.326 million in 2014/15).
28. Within these figures, the Board made overall savings of £153,000 against its budget of £6.118 million. The savings include property costs of £81,000 and third party payments of £16,000. There were overspends of £235,000 on employee costs and £496,000 on

supplies and services which were offset by additional income from the Scottish Government and Shared Services Connected Ltd.

29. During the financial year, the Board established a general reserve in order to enable any unspent funds to be carried forward and used to meet expenditure in future years, giving the Board greater flexibility over the use of its funding. A prior year adjustment was processed during 2015/16, resulting in a general reserve balance of £0.596 million at 1 April 2015. The change in accounting policy and prior year adjustment were reviewed as part of the financial statements audit work.
30. The 2015/16 underspend of £0.153 million increased the Board's general reserve balance from £0.596 million at 1 April 2015 to £0.749 million at 31 March 2016. A draw down of up to £0.364 million from the general reserve balance was approved as part of the 2016/17 budget.

## Financial management arrangements

31. As auditors, we need to consider whether the Board has established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - the proper officer has sufficient status to be able to deliver good financial management
  - financial regulations are comprehensive, current and promoted within the Board

- reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
32. The Board revised its financial regulations during 2015/16 as part of its Operational Governance Framework review and approved these new regulations in February 2016. We reviewed the revised regulations and concluded that they are comprehensive and current. The Board's financial regulations are available on its website.
33. Financial monitoring reports for the 2015/16 financial year were submitted to the Board in September 2015, November 2015 and April 2016. Reports are comprehensive and well laid out, with significant variances explained in terms of underlying service delivery.
34. Separate reports on non-financial performance are presented to the Board on an annual basis and interim progress reports are also provided by officers throughout the year.
35. As auditors we attend a number of Board meetings each year. Members provide a reasonable level of challenge and question budget holders on budget and service performance issues.

## Conclusion on financial management

36. We have concluded that the Board's financial management arrangements are broadly satisfactory.

## Financial sustainability

37. The Board has experienced high demands on its services in recent years with the introduction of IER and the Scottish Independence Referendum. Demand levels remain high in 2016/17 due to the Scottish Parliamentary election, EU Referendum and forthcoming 2017 Local Authority elections.
38. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
  - spending is being balanced with income in the short term
  - long term financial pressures are understood and planned for
  - investment in services and assets is effective.
39. The Board's general fund balance increased from £0.596 million at 1 April 2015 to £0.749 million at 31 March 2016 as a result of the underspend of £0.153 million recorded for the 2015/16 financial year. The Board approved the use of up to £0.364 million from its general reserve in order to meet the increased level of budgeted expenditure for 2016/17. The increase in expenditure relates to the ongoing costs associated with IER.
40. The Board recognises that its existing level of expenditure is not sustainable within its existing levels of funding and general reserve

balance and that there is a need to move towards a sustainable budget position for 2017/18.

41. While the annualised nature of the funding arrangements with constituent authorities makes it difficult to project beyond an annual budget, the board should move towards developing a longer term financial planning framework, which considers a range of options and scenarios around service delivery.

#### Appendix III – action plan point 2

### Conclusion on financial sustainability

42. Whilst the Board has taken measures to establish a general reserve to increase its flexibility around use of funding, and has maintained expenditure within annual budgets to date, it currently focuses on a short term annual basis, reflecting the funding arrangement time frames in place with constituent authorities.
43. Longer term financial plans will be required to demonstrate the continuing financial sustainability of the organisation on an ongoing basis.

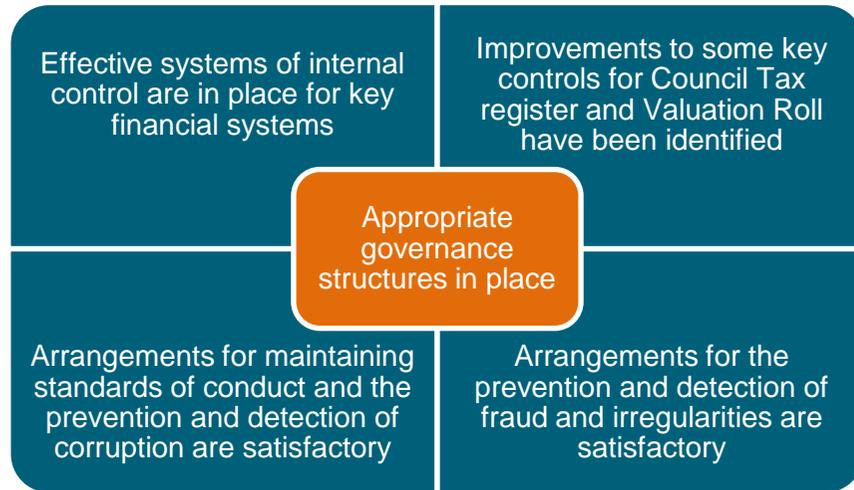
### Outlook

44. In February 2016, the Board agreed a revenue budget of £6.482 million for the 2016/17 financial year. The budget will be funded though a flat cash requisition of £6.118 million (in line with the previous four years) and a maximum draw-down from general reserve of £0.364 million. The draw-down may decrease, subject to

confirmation of Individual Electoral Registration funding from the cabinet office.

45. In common with many other public bodies, the Board recognises the need to move towards a sustainable budget position for 2017/18 onwards and is working to develop options to achieve this. With further funding reductions expected, public bodies face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

# Governance and transparency



- 46. Members and management of the Board are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that the Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
- 47. Citizens should be able to hold the Board to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources. Overall we concluded that the Board is open and transparent.

## Corporate governance

- 48. The Board comprises elected members from the four constituent authorities and is responsible for overseeing key aspects of governance. A cyclical review of policies and procedures is undertaken by the Board, with areas such as the Standing Orders and Financial Regulations being considered during 2015/16.
- 49. From our work undertaken during the year we have concluded that the Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Local code of corporate governance

- 50. The Board has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. The local code is subject to periodic review by members and officers, with the last review being undertaken in 2012/13 and the next review scheduled for 2017/18.

**Appendix III – action plan point 3**

## Internal control

51. 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.
52. A number of key financial systems of the Board are provided through City of Edinburgh Council (CEC), and our consideration of the internal control environment of the Board is informed by our CEC audit work. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the financial statements.
53. We reported our findings to CEC's Governance Risk and Best Value Committee in August 2016. No material weaknesses in the accounting and internal control systems were identified 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. Our findings included a number of recommendations to enhance the control systems operated by CEC.
54. In addition to the controls tested within key financial systems provided by CEC, we examined key controls relating to the Council Tax and Valuation Roll (non domestic rates) systems operated within the Board. We found that reconciliation of the input and

output control totals relating to the council tax register and valuation roll updates and periodic checks between the council tax register/ valuation roll and the Register of Sasines had been performed but not adequately evidenced during the period from January to March 2016. This was due to the departure of an experienced member of staff and the tasks being taken over by less experienced staff. It has been agreed that, going forward, checks will be performed on a weekly basis and evidenced appropriately.

### Appendix III - action plan point 4

## Internal Audit

55. Internal audit provides members and management of the Board with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
56. Our review established that the work of internal audit is of a good quality allowing us to place reliance on their work on the annual governance statement. We had planned to place reliance on internal audit's work in relation to accounts payable however, due to the scope of internal audit work carried out we were unable to place reliance on it for this area and we modified our procedures accordingly.

## Arrangements for the prevention and detection of fraud

57. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
58. There were no instances of fraud or corruption reported by the Board in 2015/16.
59. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. The Board's anti-fraud, bribery and corruption policy provides a framework for deterring and preventing fraud and also dealing with any frauds which may occur.
60. We concluded that there are effective arrangements for the prevention and detection of fraud, although it should be noted that no system can eliminate the risk of fraud entirely.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

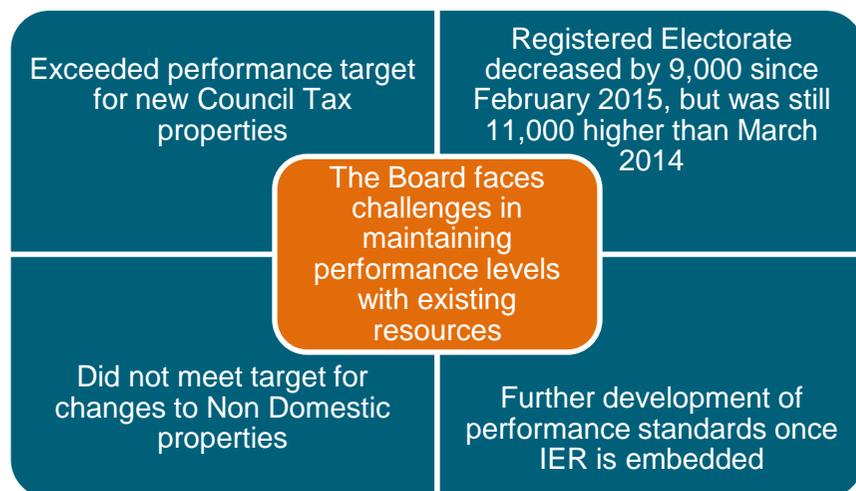
61. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.

62. The arrangements for the prevention and detection of corruption in the Board are satisfactory and we are not aware of any specific issues that we need to record in this report.

## Transparency

63. Citizens should be able to hold public bodies to account about the services they provide. Transparency means that citizens have access to understandable, relevant and timely information about how the body is taking decisions and using resources.
64. Through our audit approach we gave consideration to:
  - the clarity and presentation of the Board's committee papers, budget monitoring reports and financial statements
  - the frequency with which the Board excludes non members from agenda items under the Local Government (Scotland) Act, 1973
  - the accessibility of information via the Board's website and CEC website
65. Overall we concluded that the Board has appropriate arrangements in this area.

# Best Value



66. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Board should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Performance management

67. During 2015/16 the Board completed its transition to individual electoral registration (IER). This Board reported that the transition to IER created a period of major change, with every element of the electoral process being subject to review and revision.

68. Key Performance Indicators for the work of Assessors in Scotland are in place for Valuation Roll and Council Tax and are submitted annually to the Scottish Government. Internal performance standards are also set for staff. Performance standards for the work of Electoral Registration Offices continue to be reviewed on an ongoing basis by the Electoral Commission and it is anticipated that, once a “business as usual” position is reached in relation to IER, the Electoral Commission will re-establish appropriate performance standards.

## Overview of performance targets in 2015/16

69. The Board measures performance in council tax valuation through a number of indicators including the time taken to notify new householders of valuation banding. In 2015/16, 96.46% (2014/15 – 95.73%) of notifications were made within 3 months, exceeding the target of 95%.
70. For non-domestic properties, a similar indicator is used for notification of changes, with 72.11% (2014/15 – 75.78%) of property owners notified within 3 months against a target of 75%. The failure to meet the target has been attributed mainly to work being focussed on preparation for the 2017 non domestic properties revaluation, however the Board also acknowledges that reducing workforce and budgetary constraints could be a factor. Targets for 2016/17 have been revised downwards significantly to 50% to recognise the challenge in meeting these timescales within existing resources and pressures.

71. A key task for the Board is to encourage electoral participation. As at March 2016, the Electoral Registration Officer recorded an electorate of 650,531 (compared to 660,030 in February 2015 and 639,401 in March 2014).
72. The decrease since 2015 was attributed partly to the impact of the introduction of IER and partly to the impact of the manner in which canvass returns are now processed. The Register can now be published while legitimate applications to register remain outstanding.
73. We understand that the total electorate has increased again since the 2016/17 financial year end, following the Scottish Parliamentary election and EU Referendum.

## Outlook

74. In common with other public bodies, the Board faces the key challenges of reducing budgets, implementing legislative changes and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However, as choices on how to address budget shortfalls become increasingly difficult, the Board will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the Board achieving its key priorities and achieving best value.

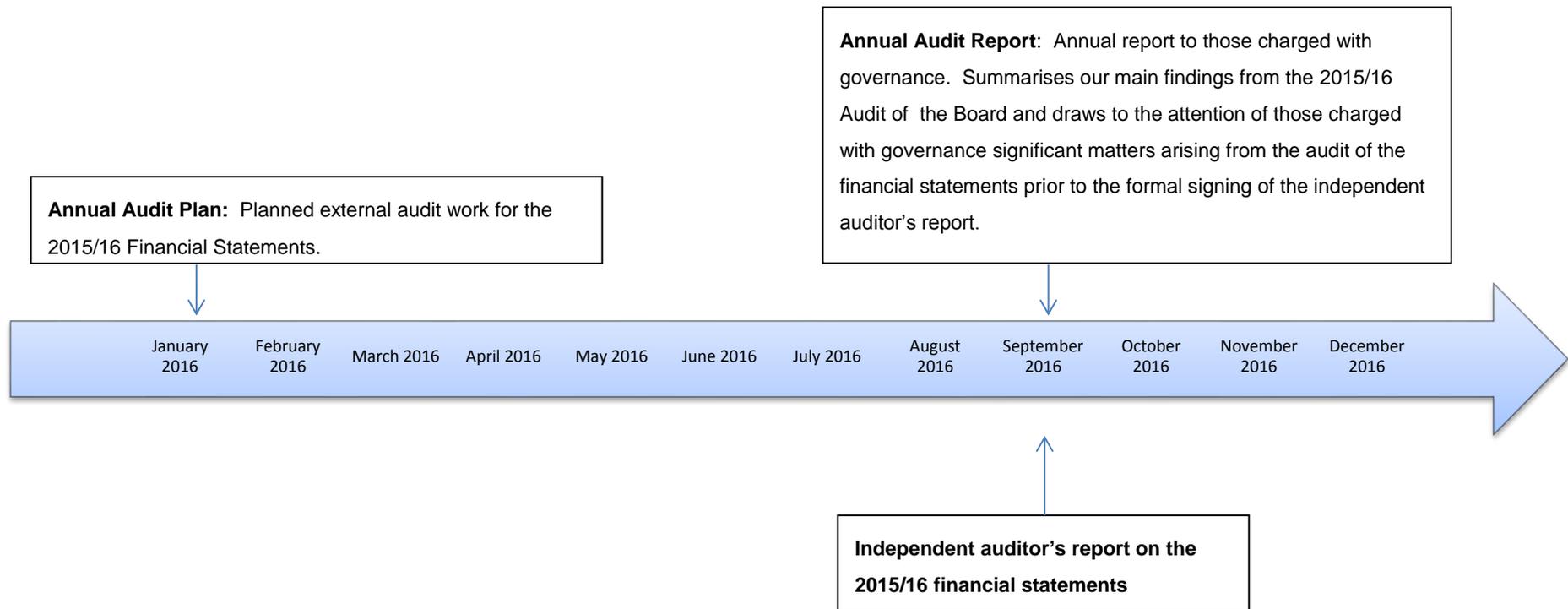
# Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Management Override of controls</b></p> <p>As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Evaluating significant transactions that are outside the normal course of business</li> </ul>	<ul style="list-style-type: none"> <li>• We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness</li> <li>• We did not identify any incidents of management override of controls</li> </ul>
<p><b>Creation of a General Reserve</b></p> <p>The Board is considering transferring its unspent requisitions creditor balance into a general reserve which can be drawn upon as required from 2016/17 onwards.</p> <p><b>Risk</b></p> <p>There is a risk that the presentation and disclosure of this change is not in accordance with the accounting framework requirements.</p>	<ul style="list-style-type: none"> <li>• Detailed review of presentation and disclosure of the Board's accounts as part of the 2015/16 financial statements audit</li> </ul>	<ul style="list-style-type: none"> <li>• We completed a detailed review of the presentation and disclosure of the change in accounting policy and prior year adjustment and did not identify any issues</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>Cost Pressures</b> Additional budget pressures are expected to arise from 2016/17 onwards as IER grant funding comes to an end whilst the Board continues to manage the provision of services under a flat cash budget.</p> <p><b>Risk</b> There is a risk that these financial pressures impact on the Board's service delivery and performance.</p>	<ul style="list-style-type: none"> <li>Review 2015/16 budget outturn information</li> <li>Review 2016/17 budget</li> <li>Consideration of the Board's progress towards developing a sustainable budget position from 2016/17</li> </ul>	<ul style="list-style-type: none"> <li>Budget report and ongoing financial performance to Board reviewed as part minute review procedures</li> <li>The Board achieved an underspend against budget of £153,000 for 2015/16</li> <li>The Board has approved a maximum draw-down from general reserve of £0.364 million to cover budgeted expenditure in 2016/17</li> <li>The Board acknowledges that further work is required to identify options to move to a sustainable budget from 2017/18</li> </ul>
<p><b>Review of Policies</b> Whilst the Board carries out periodic reviews of its key policies, it is good practice to establish an agreed review cycle in order to ensure that policies are reviewed sufficiently regularly and remain fit for purpose.</p>	<ul style="list-style-type: none"> <li>Monitor progress towards establishing a review cycle for key policies</li> </ul>	<ul style="list-style-type: none"> <li>Board papers reviewed through the year, and discussions held with senior officers</li> <li>The Board reviewed and updated its Standing Orders, Financial Regulations, Scheme of Delegation and Contract Standing Orders during 2016/17</li> <li>These key policies will be reviewed at least every five years</li> <li>The Board intends to undertake additional reviews as required to take account of EU procurement changes and further legislative changes</li> </ul>

# Appendix II: Summary of Lothian Valuation Joint Board local audit reports 2015/16



## Appendix III: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1. (76346)	21	<p><b>Car lease creditor</b></p> <p>The financial statements include a car lease creditor of £6,000 at 31 March 2016. An initial review by officers indicates that the debtor balance relating to current lease agreements is approximately £30,000, and the difference relates to the cumulative effect of insurance and interest transactions which should have been posted to the income and expenditure account over a number of years.</p> <p><b>Recommendation</b></p> <p>Further work will be required by officers to fully review all relevant transactions and identify the necessary adjustments to current and prior year balances.</p>	<p>Work is being undertaken to fully review all relevant transactions and make the necessary adjustments within the 2016/17 annual accounts, including the 2015/16 prior-year balances.</p>	<p>Treasurer, 31 December 2016</p>

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2. (77906)	41	<p><b>Financial Planning</b></p> <p>The Board recognises that it needs to move towards a sustainable budget position for 2017/18 and is working to develop options to achieve this.</p> <p><b>Recommendation</b></p> <p>The board should move towards developing a longer term financial planning framework, which considers a range of options and scenarios around service delivery.</p>	<p>The provision of funding on an annual basis coupled with meeting the requirements of new legislation, that places additional pressure on already stretched resources, makes the creation of a longer term and meaningful financial planning framework difficult. In addition ongoing uncertainties surrounding the future of key service delivery elements makes the commitment to a forward looking service delivery plan in combination with a supporting financial framework a high risk activity. The Board's constant aim is to provide a high quality service within the annual budget allocation provided and it shall endeavour to continue to achieve this in both the short and longer term.</p>	Depute Assessor, 31 December 2016
3. (77905)	50	<p><b>Local Code of Corporate Governance</b></p> <p>The most recent review of the Board's local code was undertaken in 2012/13.</p> <p><b>Recommendation</b></p> <p>The local code should be reviewed and updated as appropriate.</p>	<p>A review of the Local Code of Corporate Governance shall be undertaken and any necessary updates actioned.</p>	Depute Assessor, 31 July 2017

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4. (72438 & 72522)	54	<p><b>Council Tax and Valuation Roll (non domestic rates) systems</b></p> <p>Reconciliations of the input and output control totals relating to the council tax register and valuation roll updates and periodic checks between the council tax register/ valuation roll and the Register of Sasines were performed but not adequately evidenced during the period from January to March 2016.</p> <p><b>Recommendation</b></p> <p>The above checks should be performed on a weekly basis and evidenced appropriately.</p>	This recommendation has been actioned and the advised evidence requirement initiated.	Depute Assessor, implemented April 2016