

Notice of Meeting and Agenda

Monday 3 September 2018 at 10:00am
in the City Chambers, High Street, Edinburgh

1 Order of Business

Including any notices of motion and any other items of business submitted as urgent for consideration at the meeting.

2 Declaration of Interests

Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

3 Minute of the Lothian Valuation Joint Board of 18 June 2018 (circulated)
submitted for approval as a correct record

4 Audited Annual Accounts for the Year ended 31 March 2018 – report by the Treasurer (circulated)

5 Internal Audit Annual Opinion 2017/18 – report by the Chief Internal Auditor (circulated)

6 2017/18 Annual Audit Report to Members of Lothian Valuation Joint Board and the Controller of Audit - report by the External Auditor (circulated)

7 Period 4 Financial Statement 2018/19 – report by the Treasurer (circulated)

8 Assessor's Report to the Joint Board - report by the Assessor and Electoral Registration Officer (circulated)

Andrew Kerr
Chief Executive and Clerk

Membership

The City of Edinburgh Council (9)

Councillor Gavin Corbett
Councillor Phil Daggart
Councillor Karen Doran
Councillor David Key (Convener)
Councillor George Gordon
Councillor Gillian Gloyer
Councillor Ricky Henderson
Councillor Jason Rust
Councillor Norman Work

East Lothian Council (2)

Councillor Jim Goodfellow
Councillor Jane Henderson

Midlothian Council (2)

Councillor Margot Russell
Councillor Pauline Winchester

West Lothian Council (3)

Councillor Dave King
Councillor Andrew McGuire (Vice-Convener)
Councillor Damian Timson

Notes:

- (1) If you have any questions about the agenda or meeting arrangements, please contact Lesley Birrell | Committee Services | Strategy and Insight | Chief Executive | City of Edinburgh Council | Business Centre 2:1 | Waverley Court | 4 East Market Street | Edinburgh | EH8 8BG | tel 0131 529 4240 | email lesley.birrell@edinburgh.gov.uk
- (2) A copy of the agenda and papers for this meeting will be available for inspection prior to the meeting at the Main Reception Office, City Chambers, High Street, Edinburgh.
- (3) The agenda, minutes and public reports for this meeting can be viewed online by going to www.edinburgh.gov.uk/meetings. Members and Officers of the City of Edinburgh Council can also view them by going to the Orb home page and clicking on Committee Business.



Please recycle this paper

Item 3

Lothian Valuation Joint Board

Edinburgh, 18 June 2018

Present:

City of Edinburgh Council – Councillors Key (Convener), Doggart, Gordon, Gloyer and Work.

East Lothian Council – Councillor Goodfellow.

Midlothian Council – Councillor Russell (from Item 5).

West Lothian Council – Councillor McGuire (Vice-Convener).

1 Minute

Decision

To approve the minute of the Lothian Valuation Joint Board of 16 April 2018 as a correct record.

2 Unaudited Annual Accounts for the Year Ended 31st March 2018

The unaudited annual accounts were presented to the Board in accordance with the Local Authority Accounts (Scotland) Regulations 2014, which required that the Annual Accounts for the year 2017/18 be presented to the Board no later than 31 August 2018. The Annual Accounts were required to be presented to external audit by 30 June 2018.

Decision

- 1) To note the report.
- 2) To note that the Annual Accounts for 2017/18 would be represented to the Board on completion of the external audit.

(Reference – report by the Treasurer, submitted).

3 Performance Report 2017/18

The Assessor and ERO provided a report that accompanied the unaudited accounts report to allow consideration of the organisational performance and budgetary outcome.

Lothian Valuation Joint Board
18 June 2018

The statistical performance information provided reflected upon the statutorily defined elements of the key service delivery areas. Comment was also provided on other aspects of organisational delivery.

Decision

- 1) To note the report.
- 2) To agree that any issues elected members had in relation to online electoral registration and Council Tax bands should be fed back to the Assessor and ERO.

(Reference – report by the Assessor and Electoral Registration Officer, submitted)

4 Update Report on Arrangements for Corporate Governance

The Board considered a report providing an update on the progress made in respect of the arrangements for the introduction of a Governance Group within the Assessor and ERO organisation.

Decision

- 1) To note the report.
- 2) To agree to the escalation procedure indicated at paragraph 13 of the Governance, Risk and Best Value Group Terms of Reference.

(Reference – report by the Assessor and Electoral Registration Officer, submitted).

5 Treasury Management Annual Report 2017-18

The Annual Treasury Management report for 2017-18 was submitted.

Decision

To note the Treasury Management Annual Report for 2017-18.

(Reference – report by the Treasurer, submitted)

Audited Annual Accounts for the Year Ended 31st March 2018

3rd September 2018

1 Purpose of report

The purpose of this report is to present to the Board the audited Annual Accounts for the year ended 31st March, 2018 and to recommend they are approved for signature.

2 Main Report

2.1 The unaudited Annual Accounts were noted by the Lothian Valuation Joint Board at its meeting in June 2018.

2.2 The Board's appointed Auditor will present the 2017/18 Annual Audit Report to Members separately on this agenda. This report highlights to the Board that there were no significant issues identified during the course of the audit. One material adjustment was made to the annual accounts in relation to the net pension liability.

The Auditor's report provides an opinion on whether the Annual Accounts;

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the Lothian Valuation Joint Board as at 31 March 2018 and of its income and expenditure 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 2017/18 Code;
- 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;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

3 Reserves

- 3.1 The Board can hold a general reserve with a minimum value of 3% of annual requisition. The balance currently stands at £0.798m (13%). Balances held in excess of 3% require to be reviewed annually in-line with risk/identified commitments. A report will therefore be prepared on this to the November Board.

4 Conclusions

- 4.1 The Board's expenditure for 2017/18 was over requisition income by £0.213m.
- 4.2 The general reserve balance available to the Board at 31st March 2018 is £0.798m.
- 4.3 A recommendation on the reserve will be presented to the November Board.

5 Recommendations

- 5.1 That the Board note the Audited Annual Accounts for the year ended 31st March, 2018.
- 5.2 That the Board authorise the Annual Accounts 2017/18 for signature.

**Hugh Dunn,
Treasurer.**

Annual Accounts for the year to 31st March 2018

Audited



LOTHIAN VALUATION JOINT BOARD

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LOTHIAN VALUATION JOINT BOARD

MEMBERS AND OFFICIALS

Members

Convener: Councillor David Key, City of Edinburgh Council

Vice-Convener: Councillor Andrew McGuire, West Lothian

Appointed by The City of Edinburgh Council (9) :

Councillor Chas Booth
Councillor Phil Daggart
Councillor Karen Doran
Councillor David Key
Councillor George Gordon
Councillor Gillian Gloyer
Councillor Ricky Henderson
Councillor Jason Rust
Councillor Norman Work

Appointed by East Lothian Council (2) :

Councillor Jim Goodfellow
Councillor Jane Henderson

Appointed by Midlothian Council (2) :

Councillor Margot Russell
Councillor Pauline Winchester

Appointed by West Lothian Council (3) :

Councillor Dave King
Councillor Andrew McGuire
Councillor Damian Timson

Officials

Assessor and Electoral Registration Officer : Graeme Strachan

Chief Executive and Clerk : Andrew Kerr

Treasurer : Hugh Dunn, CPFA

Solicitor : Nick Smith

LOTHIAN VALUATION JOINT BOARD

MANAGEMENT COMMENTARY

Strategic Report

1. Basis of the Accounts

The Annual Accounts present the financial position and performance of the Board, for the year to 31st March 2018. The Annual Accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This is to ensure that the Annual Accounts "present a true and fair view" of the financial position and transactions of the Board. The Annual Accounts have been prepared in accordance with the following fundamental accounting principles: relevance, reliability, comparability, understandability and materiality.

The accounting concepts of accruals, going-concern, and primacy of legislation requirements also apply. All figures in the Annual Accounts are rounded to thousand pounds (£'000) unless stated otherwise.

To show the net position of the Board, adjustments are made to the Comprehensive Income and Expenditure Statement (CIES) to reflect differences in the accounting basis and funding basis under regulations. These adjustments ensure that the actual resources available to the Board are correctly accounted for in the Movement in Reserves Statement. These adjustments are shown in Note 7.

2. Statutory Background

The Lothian Valuation Joint Board was established under the Valuation Joint Boards (Scotland) Order 1995 and provides Valuation Appeals, Lands Valuation, Electoral Registration and Council Tax Valuation services. The Board comprises 16 members appointed from the constituency authorities of whom nine are elected from the City of Edinburgh Council, three from West Lothian and two each from East and Midlothian Councils.

Costs incurred by the Lothian Valuation Joint Board are apportioned in accordance with the non-domestic rateable subjects and dwellings valued for council tax within the area of each constituent authority. Expenditure is allocated 61.15% to The City of Edinburgh Council, 9.19% to Midlothian Council, 10.90% to East Lothian Council, and 18.76% to West Lothian Council.

3. The Lothian Valuation Joint Board's strategy and business model

The Lothian Valuation Joint Board is a local authority organisation providing a range of services to and on behalf of City of Edinburgh, West Lothian, Midlothian, and East Lothian Councils. The services provided represent duties embedded in statute and associated case law. Specifically they relate to the creation and maintenance of the Valuation Roll, Council Tax List and Electoral Register. The Board's strategy is to ensure best value while providing equitable, customer focused, high quality, professional valuation and electoral registration services for all its stakeholders. To support this aim annual Corporate and Service Plans are created that indicate a detailed range of activities and objectives necessary to deliver services. These plans are supported where required with detailed project management plans, specific service delivery timetables, and associated risk analysis.

4. Principal risks and uncertainties facing the Board.

The principal risks and uncertainties faced by the Board fall into two categories. Firstly, in common with the wider local authority community, there are uncertainties created by the ongoing environment of fiscal constraint within which services must be delivered. Set against this the Board has a range of statutory duties to enact and services to deliver. Failure to secure adequate funding places the delivery of these statutory services at considerable risk. In an attempt to meet this challenge a Transformation and Cultural Change Programme commenced during 2017/18. The focus was to identify and secure any immediate potential financial savings while at the same time reviewing the existing business model and the processes adopted in order to identify efficiencies and opportunities for modernisation. Moving forward this change process has identified eight major project workstreams through which the Transformation Programme shall be maintained.

The second category relates to changes in legislation that impact on the services to be delivered. This can create pressures from both a financial and organisational perspective. In recent years there have been government led investigations and consultations into aspects of all three of the statutory functions carried out by the Board. In December 2017 the Scottish Government indicated it's intention to take forward the majority of recommendations outlined in the Barclay Review of NDR. While a number of these have an impact on the Boards services the most significant is the move from a five yearly revaluation to a three yearly cycle. The first of the three yearly revaluations is to take place in 2022, the next in 2025 and so on. This change shall place considerable pressure on the Board as the current revaluation model reflects a two year period for the processes of information gathering, analysis, and valuation, followed by a three year period for disposal of resultant appeals arising from the revaluation. This process now requires to be condensed into a three year period. A complete overhaul of the revaluation process and the mechanisms that drive it, coupled with a review of available and required resources is paramount. This is the biggest change to the NDR requirement for many years and while investigations are commencing as to how best to secure delivery there can be no doubt that the challenge and associated risk is considerable. Within the function of Electoral Registration the cost legacy inflicted by the introduction of Individual Electoral Registration remains an ongoing risk. While Cabinet Office continue to provide annual funding to cover the additional expenditure, and investigation is underway to seek process improvement in order to reduce costs, the Board is faced with an ongoing risk as and when the external funding ceases. In terms of Council Tax the system faces continual criticism and it is likely that further consultative processes shall emerge in the coming years concerning changes to the system. This uncertainty moving forward is a risk to the Board.

LOTHIAN VALUATION JOINT BOARD

MANAGEMENT COMMENTARY

5. Review of the Lothian Valuation Joint Board performance 2017/18

5.1 Financial Performance

The Board's expenditure was over requisition income by £0.213m for 2017/18. A drawdown from the General Reserve was planned in relation to two items; one-off Voluntary Redundancy costs arising from the Transformational and Cultural Change Programme and a refund to constituent councils approved by the Board in February 2017. These drawdowns were partially off-set by savings on non-domestic rates, ICT and postage. There were also savings made on vacant posts held due to the Transformational and Cultural Change Programme. Detailed variance explanations are provided below and on page 4.

This review of financial performance is based on management accounting information, rather than the Annual Accounts, which are stated after adjustments to reflect IFRS based Code of Practice.

The outturn position, split between core Board duties and IER duties is summarised below:

	Core Revenue Budget			Individual Electoral Registration (IER)			Total		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
	2017/18 £'000	2017/18 £'000	2017/18 £'000	2017/18 £'000	2017/18 £'000	2017/18 £'000	2017/18 £'000	2017/18 £'000	2017/18 £'000
• Employees	4,570	4,786	216	211	66	(145)	4,781	4,852	71
• Property	599	522	(77)	0	0	0	599	522	(77)
• Transport and Plant	96	79	(17)	0	5	5	96	84	(12)
• Supplies and Services	750	658	(92)	216	198	(18)	966	856	(110)
• Third Party Payments	82	261	179	0	0	0	82	261	179
• Support services	67	66	(1)	0	0	0	67	66	(1)
Total gross expenditure	6,164	6,372	208	427	269	(158)	6,591	6,641	50
• Sales, fees & charges	(43)	(38)	5			0	(43)	(38)	5
• IER Grant	0	0	0	(427)	(269)	158	(427)	(269)	158
• IORB	(3)	(3)	0			0	(3)	(3)	0
Total income	(46)	(41)	5	(427)	(269)	158	(473)	(310)	163
Total net expenditure	6,118	6,331	213	0	0	0	6,118	6,331	213

For the year ended 31st March 2018, the Board had an over spend against budget on its Comprehensive Income and Expenditure account of £0.213m which reduced the general reserve.

The Board recorded income totalling £0.619m for 2017/18 in relation to IER grant provided by the Cabinet Office. Expenditure against this grant was £0.269m and therefore £0.350m was carried forward in to financial year 2018/19 to leave a balanced IER position for 2017/18. The carry-forward in to 18/19 mitigates the risk of sudden removal of Cabinet Office funding.

The principal reasons for the deficit against the **core budget** are variances in the following budgets:

• <u>Employees</u>	£'000 216
The board incurred one-off unbudgeted VR exit costs totalling £0.471m. A saving of £0.255m was made on vacant posts held during the period of Transformational and Cultural change.	
• <u>Property</u>	(77)
Mainly due to reduced non-domestic rates. Following the 2017 Revaluation, the rateable value of the Board's premises was reduced downwards in common with many other office properties throughout the Lothians.	
• <u>Transport costs</u>	(17)
The variance is mainly a result of the ongoing review of and change to processes surrounding external survey activity. In addition, a commitment to revaluation appeal disposal shall have influenced the resource availability to undertake external activities.	
• <u>Supplies and Services</u>	(92)
Mainly due to budget under spends against computer equipment (£0.052m) and postages (£0.040m). The computer costs variance relates mainly to prepaid invoices moved to 18/19. In terms of postages, and in particular canvass activity, unpredictable form return rates impact on postage costs on an annual basis. In addition on-going process changes seeking alternative methods of communication can reduce postage requirements.	

LOTHIAN VALUATION JOINT BOARD

MANAGEMENT COMMENTARY

5. Review of the Lothian Valuation Joint Board performance 2017/18 (Contd.)

5.1 Financial Performance (Contd.)

The principal reasons for the deficit against the core budget are variances in the following budgets:

	£'000
• <u>Third Party Payments</u> Mainly due to the refund of £0.184m to constituent councils approved in Feb 2017.	179
• <u>Income</u> General income less than budget.	5

In accordance with paragraph 8 of the Valuation Joint Boards (Scotland) Order 1995, all under spending pertaining to the Board is retained in the form of a usable reserve. The audited usable reserve balance at 31st March 2017 was £1.011m. The £0.213m planned drawdown for financial year 2017/18 has been transferred to the usable reserve. The reserve balance therefore stands at £0.798m.

5.2 Overview of performance targets in 2017/18

During 2017/18 the Board reached a good level of performance as defined by its Key Performance Indicators. The principal of these show that 97.33% of all new houses were entered onto the Council Tax List within three months following occupation and that 63.10% of all Valuation Roll amendments were made within three months following completion. During 2017/18 5,715 new houses were added to the Council Tax list while 4,127 amendments were made to the Valuation Roll. Following the 2017 Revaluation 13,000 appeals were lodged against rateable values appearing in the new Roll. As it was during 2017/18, it shall be a challenge in subsequent years to balance available resources against competing workloads. As regards Electoral Registration 2017/18 was a challenging year with both a local government election and snap General Election being held within months of each other. The Board performed well in both these events with all target dates and deliverables being met. In addition the 2017 household canvass produced a 4 % uplift in terms of returned forms in comparison to previous years.

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 2017/18, 97.33% (2016/17 – 93.86%) of notifications were made within three months set against a target of 95%.

For non-domestic properties, a similar indicator is used for notification of changes, with 63.10% of property owners notified within three months against a target of 70% (2016/17 : 47.15%, 2015/16 : 72.11%). The impact of the 2017 Revaluation is felt both in the year preceding its delivery and the years immediately following when considerable time and resource is spent on disposal of lodged appeals. Following the 2017 Revaluation 13,000 appeals were lodged, the highest number ever received following a revaluation. Available resources require to be balanced between appeal disposal and ongoing maintenance of the Roll at this time.

The new process of registration under IER means that following the annual canvass many applications to register are still awaiting return and are not reflected in the electorate figures provided. The following electorate statistics therefore should be viewed as a snap shot, as at April 2018 659,519; March 2017 657,858; April 2016 650,531; February 2015 660,030; March 2014 639,401. In addition the annual household canvass showed improvement when measured by numbers of forms returned; 2017/18 : 74%, 2016/17 : 70%, 2015/16 : 72%, and the standing list for those electors with permanent absent votes has increased during 2017/18 from 123,430 to 127,725.

6. The main trends and factors likely to affect the future development and performance

The main trends and factors likely to affect the development and performance of the Board are those that influence the future direction of service provision. This direction is driven by legislative changes enacted, new case law and following formal reviews. When future direction is subject to external scrutiny and review, inevitably uncertainties and risks arise that may inhibit the development of forward thinking strategies aimed at improving efficiency and performance. This uncertainty is amplified when placed within the current environment of fiscal constraint that all local authority bodies are currently facing. Such recent examples as the introduction of IER, the Barclay Review of NDR, and the Council Tax Commission investigation into alternatives to Council Tax are all examples of uncertainty, risk, challenge and change. During 2017/18 the Board initiated a Transformation and Cultural Change Programme aimed at positioning the Board in a positive forward looking environment where these challenges of change set against fiscal constraint could be properly met. An immediate fiscal gain has been secured for 2018/19 and future years following a reduction in funding requisition of 4.4%. In addition a programme of change seeking improvements, efficiencies and modernisation has commenced that may provide for further savings opportunities to be identified. Any fiscal saving and drive for modernisation must be set against the requirement for the Board to deliver its statutory duties and services to a high standard and to be properly positioned to undertake any legislative changes that shape and form future service. In general the picture is one of competing priorities; fiscal constraint and the need for savings; a change and modernisation strategy, changing legislative requirement within which services are delivered; and, the statutory nature of the services delivered by the Board.

LOTHIAN VALUATION JOINT BOARD

MANAGEMENT COMMENTARY

6. The main trends and factors likely to affect the future development and performance (Contd.)

The Board faces a number of challenges looking ahead. Potential financial pressures include:

- The Scottish Government has adopted the main recommendations contained within the Barclay Review of NDR. These have far reaching consequences for the Board. In particular the long standing five yearly process of revaluation shall require to be condensed into a three yearly cycle. This and other proposals shall require the NDR business model currently in operation within the Board to be reviewed and overhauled in order to meet this new statutory requirement. While the first revaluation under this three yearly cycle shall take place in 2022 planning, timetabling and investigations have already commenced. At this stage it appears unavoidable that significant costs shall arise as a result of these intended changes. In respect of the Council Tax function, considerable uncertainty remains surrounding its ongoing viability as a taxation system without major overhaul. Until further consultation on possible changes or alternative approaches takes place, the future of Council Tax and the implications that arise remain a risk to the Board.
- Volatility within Government means that the risk of snap elections and referendums cannot be discounted. Many major national and international issues could give rise to electoral events. During 2017 both a Scottish Local Government Election and a snap General Election took place within weeks of each other. This places considerable pressure on all resources, in particular staffing and finances. The ability of the Board to cope with these demands while other pressures to create savings and modernise are to the fore represents a risk.
- IER (Individual Electoral Registration) was introduced during 2014. While aimed at improving completeness and accuracy within the Register, and tackling perceived opportunities for fraud, it has left a legacy of increased costs associated with the registration process. Additional funding provided direct to the Board by the Cabinet Office reflects these ongoing costs. However the target date for this funding to cease is 2020 at which time either the costs must have been reduced to negligible levels or the Board shall face the requirement to seek additional funding from the constituent councils. Mitigating action is being taken both at a national level, where changes to registration process are being considered, and at Board level where opportunities to consume IER costs within core budget allocation are being explored and taken. However this financial risk arising from the introduction of IER remains significant to the Board moving forward.
- During March 2017 the 2017 Revaluation went live with revised rateable values effective from 1st April 2017 being notified to ratepayers. Ratepayers had until 30th September 2017 to lodge appeals against these revised assessments. 13,000 appeals were received, the highest ever following a revaluation exercise. Considerable pressure is being placed upon existing levels of resource required to dispose of these appeals within the statutory timetable, and at the same time undertake the annual maintenance activities that support the Valuation Roll (NDR) function. In addition, while the level of recourse that may be made to higher courts such as the Lands Tribunal and the Lands Valuation Appeal Court to dispose of more complex appeals is at this stage unknown, should this occur in considerable volume additional pressure on both staff and financial resource shall be experienced. This position shall continue to be monitored however a risk remains in terms of insufficient resource to meet a statutory requirement.

The Board acknowledges the financial pressures, challenges and uncertainties it faces. There exists a need to meet these challenges and provide the required services within a framework of financial sustainability while also ensuring sufficient flexibility to react to changes brought about by legislative intervention. Through the Transformation Programme and associated Change Strategy the Board shall continue to balance these competing priorities, pressures and risks against a backdrop of statutory service delivery.

Assessor and Electoral Registration Officer:

Graeme Strachan

Date: 3rd September 2018

Treasurer:

Hugh Dunn, CPFA

Date: 3rd September 2018

Convener:

David Key

Date: 3rd September 2018

LOTHIAN VALUATION JOINT BOARD

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The Board's Responsibilities

The Board is required:

- to make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the Board has the responsibility for the administration of those affairs. In this Board, that officer is the Treasurer;
- to manage its affairs to secure economic, efficient and effective use of those resources and safeguard its assets;
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Lothian Valuation Joint Board at its meeting on the 3rd September 2018.

Convener:
David Key

Date: 3rd September 2018

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Board's Annual Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice).

In preparing the Annual Accounts, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the Code of Practice, except where stated in the Policies and Notes to the Financial Statements.

The Treasurer has also:

- kept adequate accounting records which are up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Accounts

The Annual Accounts present a true and fair view of the financial position of the Board as at 31st March 2018, and its income and expenditure for the year ended 31st March 2018.

Treasurer:
Hugh Dunn, CPFA

Date: 3rd September 2018

LOTHIAN VALUATION JOINT BOARD

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on different reserves held by the Board, analysed into Usable Reserves (that is, those that can be applied to fund expenditure) and Unusable Reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Board's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance before any discretionary transfers to or from other statutory reserves undertaken by the Board.

	Usable Reserves	Unusable Reserves	Total Board Reserves
2016/17 - Previous Year Comparative	General Fund Balance		
	£'000	£'000	£'000
Opening Balances at 1 April 2016	(749)	5,757	5,008
Total Comprehensive Income and Expenditure	145	5,787	5,932
Adjustments between accounting basis & funding basis under regulations (Note 7.1)	(407)	407	0
Net (increase)/decrease before transfers to Other Statutory Reserves	(262)	6,194	5,932
(Increase)/Decrease in 2016/17	(262)	6,194	5,932
Balance at 31 March 2017 carried forward	(1,011)	11,951	10,940

	Usable Reserves	Unusable Reserves	Total Board Reserves
2017/18 - Current Financial Year	General Fund Balance		
	£'000	£'000	£'000
Opening Balances at 1 April 2017	(1,011)	11,951	10,940
Total Comprehensive Income and Expenditure	1,121	(7,292)	(6,171)
Adjustments between accounting basis & funding basis under regulations (Note 7.1)	(908)	908	0
Net (increase)/decrease before transfers to Other Statutory Reserves	213	(6,384)	(6,171)
(Increase)/Decrease in 2017/18	213	(6,384)	(6,171)
Balance at 31 March 2018 carried forward	(798)	5,567	4,769

General Fund analysed over:	£'000
Amounts earmarked	0
Amounts uncommitted	(798)
Total General Fund Balance at 31 March 2018	(798)

LOTHIAN VALUATION JOINT BOARD

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with the generally accepted accounting practices, rather than the amount to be funded from requisitions. The Board receives requisitions to cover expenditure in accordance with regulations; this may be different from the accounting cost.

2016/17				2017/18		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
6,196	(172)	6,024	Core budget	6,924	(38)	6,886
496	(475)	21	Individual electoral registration	296	(269)	27
6,692	(647)	6,045	Cost Of Services	7,220	(307)	6,913
			Financing and Investment Income:			
0	(3)	(3)	Interest & Investment income (Note 10.2)	0	(3)	(3)
1,729	0	1,729	Interest Cost on Defined Benefit Obligation (Note 21.5)	1,699	0	1,699
0	(1,508)	(1,508)	Interest Income on Plan Assets (Note 21.4)	0	(1,370)	(1,370)
1,729	(1,511)	218	Total Financing and Investment Income	1,699	(1,373)	326
			Non-Specific Grant Income:			
0	(6,118)	(6,118)	Constituent council requisitions (Note 25)	0	(6,118)	(6,118)
0	(6,118)	(6,118)	Total Non-Specific Grant Income	0	(6,118)	(6,118)
8,421	(8,276)	145	(Surplus) or Deficit on Provision of Services (Note 2)	8,919	(7,798)	1,121
			Other Comprehensive Income and Expenditure:			
13,969	0	13,969	Change in Financial Assumptions (Note 21.5)	0	(1,935)	(1,935)
0	0	0	Change in Demographic Assumptions (Note 21.5)	53	0	53
55	0	55	Other Experience (Note 21.5)	0	(6,690)	(6,690)
0	(8,237)	(8,237)	Return on pension assets excl. amounts included in net int. (Note 21.4)	1,280	0	1,280
		0	Actuarial gains / losses on pension assets / liabilities			0
22,445	(16,513)	5,932	Total Comprehensive Income and Expenditure	10,252	(16,423)	(6,171)

LOTHIAN VALUATION JOINT BOARD

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Board. The net assets of the Board (assets less liabilities) are matched by the reserves held by the Board. Reserves are reported in two categories. The first category of reserves are usable reserves, that is, those reserves that the Board may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Board is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31 March 2017 £'000		Notes	31 March 2018 £'000
453	Property, plant and equipment	8.1	363
86	Intangible assets	9	67
85	Long-term debtors	23	79
624	Long term assets		509
272	Short-term debtors	11	135
1,513	Cash and cash equivalents	12	1,748
1,785	Current assets		1,883
(429)	Short-term creditors	13	(738)
(429)	Current liabilities		(738)
(525)	Other long-term liabilities	24	(490)
(12,395)	Other long-term liabilities (Pensions)	21.3	(5,933)
(12,920)	Long-term liabilities		(6,423)
(10,940)	Net liabilities		(4,769)
(1,011)	Usable reserves	14	(798)
11,951	Unusable reserves	14	5,567
10,940	Total reserves		4,769

The unaudited Annual Accounts were authorised for issue by the Treasurer on the 12th June 2018. The audited Annual Accounts were authorised for issue by the Treasurer on the 3rd September 2018.

Treasurer: _____
Hugh Dunn, CPFA

Date: _____
3rd September 2018

LOTHIAN VALUATION JOINT BOARD

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Board during the reporting period. The statement shows how the Board generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Board are funded by way of requisitions and recipients of services provided by the Board. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Board's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows.

31 March 2017 £'000	31 March 2017 £'000		31 March 2018 £'000	31 March 2018 £'000
OPERATING ACTIVITIES				
(692)		Cash received for goods and services	(441)	
(6)		Other local authorities	(5)	
(3)		Interest received	(3)	
(6,118)		Other operating cash receipts	(6,118)	
	(6,819)	Cash inflows generated from operating activities		(6,567)
4,658		Cash paid to and on behalf of employees	4,579	
1,887		Cash paid to suppliers of goods and services	1,749	
	6,545	Cash outflows generated from operating activities		6,328
	(274)	Net cash flows from operating activities (Note 15.1)		(239)
INVESTING ACTIVITIES				
63		Purchase of property, plant and equipment and intangible assets.	4	
	63	Net cash flows from investing activities		4
	(211)	Net (increase)/decrease in cash and cash equivalents (Note 15.2)		(235)
1st April £'000	1st April £'000		1st April £'000	1st April £'000
1,302		Cash and cash equivalents	1,513	
	1,302			1,513
31st March			31st March	
1,513		Cash and cash equivalents	1,748	
	1,513			1,748
	(211)	Net (increase)/decrease in cash and cash equivalents (Note 15.2)		(235)

LOTHIAN VALUATION JOINT BOARD

1. STATEMENT OF ACCOUNTING POLICIES

1.1 General

The Annual Accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice in the United Kingdom (the Code). This is to ensure that the Annual Accounts "present a true and fair view" of the financial position and transactions of the Board.

The Annual Accounts have been prepared on an historic cost basis, modified by the valuation of pension assets and liabilities where appropriate.

1.2 Accruals of Expenditure and Income

Activity is accounted for in the year that it takes place and not simply when cash payment is made or received. This means that expenses are recorded when goods or services have been received and income is recorded when goods or services have been provided. This recording is irrespective of whether cash has actually been paid or received in the year.

1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions, repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments maturing in three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value.

1.4 Changes in Accounting Policies, Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, or other events or conditions on the Board's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Changes in accounting estimates are accounted for prospectively, that is, in the current and future years affected by the change. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5 Revenue Expenditure

Revenue expenditure is that which does not yield benefit beyond the year of account. In broad terms the revenue expenditure of the Board can be divided into two categories:

- employees;
- day-to-day operating expenses, includes costs incurred in respect of Transport, Premises, ICT, postage and general administration.

All revenue expenditure is accounted for on an accruals basis.

Each year net revenue expenditure is met by way of requisitions on the City of Edinburgh, Midlothian, East Lothian and West Lothian Councils.

1.6 Capital Expenditure

Capital expenditure is presented as a fixed asset in the Balance Sheet. Capital expenditure is the expenditure on the acquisition of tangible or intangible assets which adds to and not merely maintains the value of an existing asset provided that it yields benefits to the Board and the services it provides for a period of more than one year. Capital expenditure is subject to a de-minimis level of £6,000.

LOTHIAN VALUATION JOINT BOARD

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.7 Short Term Debtors and Short Term Creditors

The revenue and capital transactions of the Board are recorded on an accruals basis which means that amounts due to or from the Board, but still outstanding at the year end, are included in the accounts. Where there was insufficient information to provide actual figures, estimates have been included.

1.8 Value Added Tax

Value Added Tax is excluded from the Annual Accounts unless it is not recoverable from HM Revenues and Customs.

1.9 Non-Current Assets

a) *Intangible Assets*

Recognition:

- Intangible assets are non-current assets that have no physical substance but are identifiable and controlled by the Board and it can be established that there is an economic benefit or service potential associated with the item which will flow to the Board. This expenditure is mainly in relation to software licenses purchased by the Board. Expenditure on the acquisition, creation or enhancement of intangible assets has been capitalised on an accruals basis.

Amortisation:

- Software licences classified as intangible assets. In most cases intangible assets are depreciated over the period of the licence, however, where the period of the licence is deemed 'infinite' the software has been depreciated based on an assessment of expected useful life.
- The amortisation policy at 31st March 2017 was not to provide for amortisation in the year of an asset's purchase. This has been amended from 1st April 2017 when amortisation has been provided for in the year of acquisition.
- Amortisation is calculated using the straight-line basis on the opening book value over the remaining useful life of the asset;

Measurement:

- Intangible assets are initially measured at cost and included in the Balance Sheet at net historical cost.

b) *Property, Plant and Equipment*

Property, plant and equipment are tangible items held for use by the Board in its provision of service and are expected to be used for more than one financial year. Property, plant and equipment are included in the Balance sheet in the following classes:

- Leasehold improvements;
- Vehicles, plant, furniture and equipment

Recognition:

- Expenditure on the acquisition, creation or enhancement of these non-current assets has been capitalised on an accruals basis, provided that future economic benefits or service potential associated with the item will flow to the Board and the cost of the item can be measured reliably. This expenditure is subject to the application of a de-minimis level of £6,000.

Amortisation:

Amortisation is provided on all property, plant and equipment with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- No amortisation is charged on freehold land;
- The amortisation policy at 31st March 2017 was not to provide for amortisation in the year of an asset's purchase. This has been amended from 1st April 2017 when amortisation has been provided for in the year of acquisition.
- Amortisation is calculated using the straight-line basis on the opening book value over the remaining useful life of the asset;

LOTHIAN VALUATION JOINT BOARD

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.9 Non-Current Assets (Contd.)

b) Property, Plant and Equipment (Contd.)

Depreciation (Contd.):

- Non-current assets are depreciated as follows:

Asset	Years
Property (Leasehold improvements) - 25 years (currently 14 years remaining) Depreciated over remaining life of asset	14
Vehicles, plant and equipment	5

Measurement:

Property, plant and equipment, and leasehold improvements are measured at depreciated historic cost, this been a proxy for fair value in line with the Code.

De-recognition:

An asset is de-recognised either on its disposal or where no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from de-recognition of an asset is included in "Surplus or Deficit on the Provision of Service" within the Comprehensive Income and Expenditure Statement when the asset is de-recognised. The gain or loss on de-recognition of property, plant and equipment assets is a reconciling item in the "Movement in Reserves Statement for the General Fund".

Impairment:

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired, that is, that the carrying value of an asset on the Balance sheet exceeds its recoverable amount. Where indications exist and any possible differences are material, the recoverable amount is estimated and an impairment loss is recognised for the shortfall.

1.10 Overheads and Support Services

The costs of support services are allocated on a basis appropriate to the service provided in order to match costs to service usage. Certain support service costs are provided under a Service Level Agreement between the Board and service provider.

1.11 Charges to Comprehensive Income and Expenditure Statement for use of non-current assets

The Comprehensive Income and Expenditure Statement is charged with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the Board;
- Impairment losses, if any, attributable to the clear consumption of economic benefits on property, plant and equipment used by the Board.

The Board is not required to raise requisitions on the constituent councils to cover depreciation or impairment losses. Depreciation and impairment losses are not proper charges under statutory accounting requirements and are therefore a reconciling item in the Movement in Reserves Statement for the General Fund by way of an adjusting transaction with the Capital Adjustment Account.

LOTHIAN VALUATION JOINT BOARD

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.12 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

a) Finance Leases

Leased-in assets

The Board has not identified any leased-in assets that fall under the definition of finance leases.

Leased-out assets

The Board has not identified any leased-out assets that fall under the definition of finance leases.

b) Operating Leases

Leased-in assets

Rental payments, net of benefits received, under operating leases are charged to the Comprehensive Income and Expenditure statement on a straight line basis over the life of the lease.

Leased-out assets

The Board has not identified any leased-out assets that fall under the definition of operating leases.

1.13 Provisions

Provision is made within the Annual Accounts when the board has a present legal or constructive obligation as a result of a past event, there is a probability of a transfer of economic benefit and a reliable estimate can be made of the obligation. Provisions are charged to the Comprehensive Income and Expenditure Statement in the year in which the Board becomes aware of the obligation.

1.14 Contingent Liability

A contingent liability is defined as either a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one of more uncertain future events, which are not wholly within the control of the Board or a present obligation that arises from past events, but it is not possible that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. If such obligation exist, they are not recognised in the Balance Sheet but are disclosed as a note to the Annual Accounts.

1.15 Contingent Assets

A contingent asset arises where an event has taken place that gives the Board a possible asset whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events, which are not wholly within the control of the Board. If such assets exist, they are disclosed as a note to the Annual Accounts.

1.16 Employee Benefits

Cost of service includes a charge for annual leave to which employees are entitled, but have not taken as at the Balance Sheet date. The Board is not required to raise requisitions on constituent councils to cover the cost of accrued annual leave. These costs are therefore replaced by revenue provision in the Movement in Reserves Statement for the General Fund balance by way of an adjusting transaction with the Accumulated Absences Account.

LOTHIAN VALUATION JOINT BOARD

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.17 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Board to terminate employees' employment before the normal retirement date or an employee's decision to accept voluntary redundancy. These amounts are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Board is demonstrably committed to either terminating the employment of an employee or making an offer to encourage voluntary redundancy.

1.18 Pensions

The Joint Board is an admitted body to the Local Government Pension Scheme (LGPS) which is administered by the Lothian Pension Fund. The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended.

The Annual Accounts have been prepared including pension costs, as determined under International Accounting standard 19 - Employee Benefits (IAS 19). The cost of service in the Comprehensive Income and Expenditure Statement includes expenditure equivalent to the amounts of retirement benefits the Board has committed to pay during the year. Interest Cost on Defined Pension Obligation and Interest Income on Plan Assets have been included in the "Surplus or Deficit on the Provision of Services" within the Comprehensive Income and Expenditure Statement. Other comprehensive income and expenditure within the Comprehensive Income and Expenditure Statement also now shows the financial effect of changes in financial assumptions, other experience and return on pension assets excluding amounts included in net interest.

The pension costs charged to the Comprehensive Income and Expenditure Statement in respect of employees are not equal to contributions paid to the funded scheme for employees. The amount by which pension costs under IAS19 are different from the contributions due under the pension scheme regulations are disclosed in the Movement in Reserves Statement for the General Fund Balance.

Pension assets have been valued at bid value (purchase price), as required under IAS19.

Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund.

1.19 Revenue Contributions

Revenue contributions from constituent councils have been included in the Annual Accounts on an accruals basis.

1.20 Reserves

Reserves held on the Balance Sheet are classified as either usable or unusable. Usable reserves hold monies that can be applied to fund expenditure. Unusable reserves cannot be applied to fund expenditure.

The Board operates the following usable reserves:

a) *General Fund*

This represents the balance of the surpluses or deficits arising from the Comprehensive Income and Expenditure Statement. The Board changed its accounting policy in relation to unspent requisitions during 2015/16. In February 2018 the Board approved a formal reserves policy based on holding a general reserve with a minimum value of 3% of annual requisition. Balances held in excess of 3% require to be reviewed annually in-line with risk/identified commitments.

The Board operates the following unusable reserves:

b) *Capital Adjustment Account*

This provides a balancing mechanism between the different rates at which assets are depreciated and financed.

c) *Pension Reserve*

This represents the difference between the monies which the Board requires to meet its pension liability as calculated under International Accounting Standards 19, Employee Benefits (IAS 19) and the amount required to be charged to the General Fund in accordance with statutory requirement governing Local Government Pension Scheme.

d) *Accumulated Absences Account*

This represents the net monies which the Board requires to meet its short-term compensated absences for employees under IAS19.

LOTHIAN VALUATION JOINT BOARD

1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

1.21 Financial Instruments

a) *Financial Liabilities*

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. As at 31st March, 2018, the Board had no borrowings.

b) *Financial Assets*

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The Board holds its surplus funds with the City of Edinburgh Council in a pooled investment arrangement and does not place external deposits in its own name. These sums are presented in the Balance Sheet as the balance due from the City of Edinburgh Council and interest receivable from this investment is credited to the Comprehensive Income and Expenditure Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

1.22 Events After the Balance Sheet Date

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts is authorised for issue. Two types of event can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Annual Accounts is adjusted to reflect such items;
- those that are indicative of conditions that arose after the reporting period - the Annual Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

1.23 Exceptional Items

When items of income and expenditure are material, their nature and amount are disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Board's financial performance.

1.24 Going Concern

It is appropriate to adopt a going concern basis for the preparation of the Annual Accounts as the constituent authorities have a legal obligation under the 1995 Combined Area Amalgamation Scheme Order to provide the Joint Board with funding to meet all liabilities as they fall due.

LOTHIAN VALUATION JOINT BOARD

2. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (requisitions from local authorities) by the Lothian Valuation Joint Board in comparison with those resources consumed or earned by the Lothian Valuation Joint Board in accordance with general accounting practice. It also shows how this expenditure is allocated for decision making purposes between service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES) (see page 8).

EXPENDITURE AND FUNDING ANALYSIS						
Net Expend. Chargeable to the General Fund £000	2016/17 Adjustments £000	Net Expenditure in the CIES £000		Net Expend. Chargeable to the General Fund £000	2017/18 Adjustments £000	Net Expenditure in the CIES £000
5,856	168	6,024	Core Budget	6,331	555	6,886
0	21	21	Individual Electoral Registration	0	27	27
5,856	189	6,045	Net Cost of Services	6,331	582	6,913
			Other Income and Expenditure			
(6,118)	0	(6,118)	Constituent council requisitions	(6,118)	0	(6,118)
0	(3)	(3)	Interest and investment income	0	(3)	(3)
0	221	221	Net pension interest cost	0	329	329
(262)	407	145	(Surplus) or deficit on the provision of services	213	908	1,121
(749)			Opening General Fund Balance	(1,011)		
(262)			(Surplus) / Deficit on the provision of services	213		
(1,011)			Closing General Fund Balance at 31 March	(798)		

Notes to the Expenditure and Funding Analysis:

2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts 2017/18:

	Adjusts. For Capital Purposes £000	Net Change for Pensions Adjusts. £000	Other Differences £000	Total Statutory Adjusts. £000	Presentatio n Adjusts. £000	Total Adjusts. £000
Core budget	109	477	(34)	552	3	555
Individual electoral registration	0	24	3	27	0	27
Net Cost of Services	109	501	(31)	579	3	582
Other Income and Expenditure						
Constituent council requisitions	0	0	0	0	0	0
Interest and investment income	0	0	0	0	(3)	(3)
Net pension interest cost	0	329	0	329	0	329
(Surplus) or deficit on the provision of services	109	830	(31)	908	0	908

LOTHIAN VALUATION JOINT BOARD

2. EXPENDITURE AND FUNDING ANALYSIS (Contd.)

Notes to the Expenditure and Funding Analysis:

2.1 Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

- Adjustments for capital purposes include the removal of depreciation and impairment costs, and the inclusion of capital funded from current revenue.
- Net changes for pensions adjustment relates to the adjustment made for the removal of IAS19 Employee Benefits pension related expenditure and income with the pension contributions.
- Other differences relate to the reversal of the value of entitlement to accrued leave.
- Presentational adjustments relate primarily to the presentation of interest on revenue balances.

2.2 Segmental Analysis of Expenditure and Income included in Expenditure and Funding Analysis

Expenditure and Income received on a segmental basis is analysed below:

	Core Budget	Individual Electoral Registration	Total
Expenditure	£000	£000	£000
Employee expenses	4,786	66	4,852
Other service expenses	1,520	203	1,723
Support service recharges	66	0	66
Total Expenditure	6,372	269	6,641
Income			
Revenues from external customers	(38)	(269)	(307)
Interest and investment income	(3)	0	(3)
Total Income	(41)	(269)	(310)
Net Cost of Services per EFA	6,331	0	6,331

2.3 Expenditure and Income Analysed by Nature

The Board's expenditure and income, as set out within the Comprehensive Income and Expenditure Statement is analysed as follows:

	2016/17	2017/18
Expenditure	£000	£000
Employee expenses	4,812	5,321
Other service expenses	1,712	1,720
Support service recharges	68	66
Depreciation and impairment	100	113
Interest payments	1,729	1,699
Total Expenditure	8,421	8,919
Income		
Fees, charges and other service income	(647)	(307)
Interest and investment income	(1,511)	(1,373)
Income from constituent Councils	(6,118)	(6,118)
Government grants and other contributions	0	0
Total Income	(8,276)	(7,798)
(Surplus) or Deficit on the Provision of Services	145	1,121

LOTHIAN VALUATION JOINT BOARD

3. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code. For 2017/18 the following accounting policy changes that need to be reported relate to:

- IFRS 9 Financial Instruments,
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers,
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses, and
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

The Code does not anticipate that the above amendments will have a material impact on the information provided in the Board's Annual Accounts.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Board has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Annual Accounts are:

- There is high degree of uncertainty about future levels of funding for local government, however, the Board has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Board might be impaired as a result of a need to reduce levels of service provision.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contains estimated figures that are based on assumptions made by the Board about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors.

5.1 Property, Plant and Equipment

Uncertainties

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relations to individual assets. The current economic climate may mean that the Board restricts spending on repairs and maintenance which, in turn, may have an effect on the useful lives of the assets.

Effect if Actual Result Differs from Assumptions

If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £0.001m for every year that useful lives had to be reduced.

LOTHIAN VALUATION JOINT BOARD

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY (Contd.)

5.2 Pension Liabilities

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Board with expert advice about the assumptions to be applied.

Effect if Actual Result Differs from Assumptions

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The formal valuations for Scottish LGPS Funds were concluded by 31 March 2018. The accounting balance sheet position as at 31 March 2018, and the projected charge to the P&L for 2018/19, are therefore based on this new roll forward from the 2017 formal valuation. This differs to the balance sheet position as at 31 March 2017 and the charge to the P&L for 2017/18, which were based on a roll forward from the 2014 formal valuation. This 'step change' can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2017 to 31 March 2018.

The following table shows the sensitivity of the results to the changes in the assumptions used to measure the scheme liabilities. Approximate percentage changes and monetary values are shown:

	Approximate % increase to Employer Obligations %	Approximate monetary value £000
0.5% decrease in Real Discount Rate	10%	5,929
0.5% increase in the Salary Increase Rate	2%	1,299
0.5% increase in the Pension Increase Rate	8%	4,500

6. EVENTS AFTER THE REPORTING PERIOD

LOTHIAN VALUATION JOINT BOARD

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

- 7.1** This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Board in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Board to meet future capital and revenue expenditure.

2017/18 - Current Financial Year	Usable Reserves	Unusable Reserves			
	General Fund Balance	Capital Adjustment Account	Pension Reserve	Accumulated Absence Account	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Charges for depreciation and impairment of non-current assets	(94)	94	0	0	94
Depreciation of intangible assets	(20)	20	0	0	20
Insertion of items not debited or credited to the CIES					
Capital expenditure charged against General Fund Balance	4	(4)	0	0	(4)
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	(1,589)	0	1,589	0	1,589
Employer's pension contributions and direct payments to pensioners payable in the year	759	0	(759)	0	(759)
Adjustments primarily involving the Employee Statutory Adjustment Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	32	0	0	(32)	(32)
Total Adjustments	(908)	110	830	(32)	908

LOTHIAN VALUATION JOINT BOARD

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS (Contd.)

- 7.2** This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Board in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Board to meet future capital and revenue expenditure.

2016/17 - Previous Year Comparative	Usable Reserves	Unusable Reserves			
	General Fund Balance	Capital Adjustment Account	Pension Reserve	Accumulated Absence Account	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Charges for depreciation and impairment of non-current assets	(82)	82	0	0	82
Depreciation of intangible assets	(18)	18	0	0	18
Insertion of items not debited or credited to the CIES					
Capital expenditure charged against General Fund Balance	63	(63)	0	0	(63)
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	(1,131)	0	1,131	0	1,131
Employer's pension contributions and direct payments to pensioners payable in the year	762	0	(762)	0	(762)
Adjustments primarily involving the Employee Statutory Adjustment Account					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(1)	0	0	1	1
Total Adjustments	(407)	37	369	1	407

LOTHIAN VALUATION JOINT BOARD

8. PROPERTY PLANT AND EQUIPMENT

Movements on balances:

8.1	Current Year Movements in 2017/18	Leasehold Improvements £000's	Vehicles Plant and Equipment £000's	Total Property Plant and Equipment £000's
	Cost or Valuation			
	At 1st April 2017	432	446	878
	Derecognised assets GBV reversal	0	(110)	(110)
	Additions	0	4	4
	At 31st March 2018	432	340	772
	Accumulated Depreciation			
	At 1st April 2017	(167)	(258)	(425)
	Derecognised assets depreciation reversal	0	110	110
	Depreciation charge	(18)	(76)	(94)
	At 31st March 2018	(185)	(224)	(409)
	Net Book Value at 31st March 2018	247	116	363

8.2	Previous Year Movements in 2016/17	Leasehold Improvements £000's	Vehicles Plant and Equipment £000's	Total Property Plant and Equipment £000's
	Cost or Valuation			
	At 1st April 2016	432	388	820
	Derecognised assets GBV reversal	0	0	0
	Additions	0	58	58
	At 31st March 2017	432	446	878
	Accumulated Depreciation			
	At 1st April 2016	(149)	(194)	(343)
	Derecognised assets depreciation reversal	0	0	0
	Depreciation charge	(18)	(64)	(82)
	At 31st March 2017	(167)	(258)	(425)
	Net Book Value at 31st March 2017	265	188	453

8.3 Depreciation

The following useful lives have been used in the calculation of depreciation:

- Leasehold improvements (buildings) - 25 years (currently 14 years remaining)
- Vehicles, plant and equipment - 5 years

LOTHIAN VALUATION JOINT BOARD

8. PROPERTY PLANT AND EQUIPMENT (Contd.)

8.4 Capital Commitments

At 31st March 2018, there were no capital commitments entered into by the Board.

8.5 Revaluations

Property, plant and equipment are shown in the balance sheet at depreciated historic cost. This does not comply with the Code, however, the difference is not considered material.

The significant assumptions applied in estimating the fair values are:

- the property was not inspected - this was neither practical nor considered by the valuer to be necessary for the purpose of the valuation;
- unless stated otherwise, all properties with greater than de-minimus value were assumed to be in reasonable state of repair and have a life expectancy of more than 50 years;
- the valuations were prepared using information from the City of Edinburgh Council's internal records as well as the Valuation Roll produced by the Lothian Valuation Joint Board.

LOTHIAN VALUATION JOINT BOARD

9. INTANGIBLE ASSETS

The Board accounts for its software as intangible assets, to the extent that software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences and internally generated software.

All software is given a useful life, based on assessments of the period that the software is expected to be of use to the Board. The useful lives assigned to the major software suites used by the Board are:

- 3 years:
 - Dacoll Limited - Back-up software
 - Phoenix Software - GFI langard software
- 5 years:
 - Civica UK Ltd - Software to increase robustness
 - Trustmarque Solutions Ltd - Sharepoint software
 - Zerion - Canvass operation software
 - Trustmarque Solutions Ltd - Visual Studio and SQL server licences
- 10 years :
 - Dacoll virtual environment - software/licences
 - Microsoft Office licences
 - Document & Data Disposal Module software

The carrying amount of intangible assets is depreciated on a straight-line basis. Amortisation of £0.019m was charged to the Comprehensive Income and Expenditure during 2017/18.

The movement on Intangible Assets during the year is as follows:

	2016/17 £'000	2017/18 £'000
Balance at start of year:		
• Gross carrying amounts	131	136
• Accumulated amortisation	(32)	(50)
Net carrying amount at start of year	99	86
Additions	5	0
Amortisation for the period	(18)	(19)
Net carrying amount at end of year	86	67
Comprising:		
• Gross carrying amounts	136	136
• Accumulated amortisation	(50)	(69)
	86	67

LOTHIAN VALUATION JOINT BOARD

10. FINANCIAL INSTRUMENTS

- 10.1 In accordance with IAS 32 Financial Instruments: Presentation; IAS 39 Financial Instruments: Recognition and Measurement; and FRS 7 Financial Instruments : Disclosures; this note details the make up of financial instruments, both assets and liabilities, the key risks the Board is exposed to in its management of its financial instruments, and how these are managed. From 1st April 2012, the Board changed its Accounting Policy in respect of the transfer of assets to comply with amendments to IFRS 7 issued in October 2010. The standard does not have a material impact on the Annual Accounts of the Board.

		Current	
		31st March 2017 £'000	31st March 2018 £'000
Investments			
Loans and receivables		1,513	1,748
Creditors			
Trade creditors		(12)	(2)
Debtors			
Trade debtors		134	0

10.2 Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	Financial Assets measured at amortised cost 31st March 2017 £'000	Financial Assets measured at amortised cost 31st March 2018 £'000
Total expense and income in Surplus or Deficit on the Provision of services :		
Interest income	3	3

10.3 Fair Values of Assets and Liabilities

The Fair Value of Financial Instruments have been calculated in accordance with IFRS 13.

- loans to and from the City of Edinburgh Council are variable rate and repayable on demand. The fair value of these loans has therefore been taken to be their carry value.
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2017		31 March 2018	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Trade creditors	(12)	(12)	(2)	(2)
Trade debtors	134	134	0	0
Loans and receivables	1,513	1,513	1,748	1,748

LOTHIAN VALUATION JOINT BOARD

11. SHORT TERM DEBTORS

	2016/17 £'000	2017/18 £'000
Debtors:		
• HM Revenues and Customs - VAT	10	14
• Rent	57	57
• Car leasing	4	1
• Annual licenses, support or maintenance	51	46
• Insurances	16	17
• Other entities and individuals	134	0
	<u>272</u>	<u>135</u>

12. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	2016/17 £'000	2017/18 £'000
Cash held by the Board	1	1
Other local authorities	1,512	1,747
	<u>1,513</u>	<u>1,748</u>

13. SHORT TERM CREDITORS

	2016/17 £'000	2017/18 £'000
Employee costs	(105)	(346)
Valuation Appeals Panel - Secretary's fees	(10)	(12)
IER Grant	(265)	(350)
Other entities and individuals	(49)	(30)
HM Revenues and Customs	0	0
Total	<u>(429)</u>	<u>(738)</u>

LOTHIAN VALUATION JOINT BOARD

14. USABLE AND UNUSABLE RESERVES

<u>USABLE</u>		2016/17	2017/18
		£'000	£'000
14.1	General Fund Balance	(1,011)	(798)
		<u>(1,011)</u>	<u>(798)</u>

<u>UNUSABLE</u>		2016/17	2017/18
		£'000	£'000
14.2	Capital Adjustment Account	(538)	(429)
14.3	Pension Reserve	12,395	5,933
14.4	Accumulated Absence Account	94	63
		<u>11,951</u>	<u>5,567</u>

14.1 General Fund Balance

Movements in the Authority's usable reserve are detailed in the Movement in Reserves Statement. The General Fund balance represents the balance of the surpluses or deficits arising from the Comprehensive Income and Expenditure Statement.

The table below details the surplus or deficits arising annually since 2010/11. Prior to 2010/11 all surplus balances were refunded to constituent councils.

In February 2018 the Board approved a formal reserves policy based on holding a general reserve with a minimum value of 3% of annual requisition. Balances held in excess of 3% require to be reviewed annually in-line with risk/identified commitments.

<u>Year</u>	2016/17	2017/18
	£'000	£'000
2010/11	(228)	(228)
2011/12	(42)	(42)
2012/13	(127)	(127)
2013/14	(24)	(24)
2014/15	(175)	(175)
2015/16	(153)	(153)
2016/17	(262)	(262)
2017/18	-	213
	<u>(1,011)</u>	<u>(798)</u>

14.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and Depreciations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Board as finance for the costs of acquisition, construction and enhancement.

LOTHIAN VALUATION JOINT BOARD

14. USABLE AND UNUSABLE RESERVES (Contd.)

14.2 Capital Adjustment Account (Contd.)

	2016/17 £'000	2017/18 £'000
Balance at 1st April	(575)	(538)
Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation and impairment of non-current assets	82	94
• Depreciation of intangible assets	18	19
	<hr/>	<hr/>
Net written out amount of the cost of non-current assets consumed in year	(475)	(425)
Capital financing for the year:		
• Statutory provision for the financing of capital expenditure	(63)	(4)
	<hr/>	<hr/>
Balance at 31st March	(538)	(429)

14.3 Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Board accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Board makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Board has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2016/17 £'000	2017/18 £'000
Balance at 1st April	6,239	12,395
Remeasurements of the net defined benefit liability / (asset)	5,787	(7,292)
Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.	1,131	1,589
Employer's pension contributions and direct payments to pensioners payable in the year.	(762)	(759)
	<hr/>	<hr/>
Balance at 31st March	12,395	5,933

LOTHIAN VALUATION JOINT BOARD

14. USABLE AND UNUSABLE RESERVES (Contd.)

14.4 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example, annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the Account.

	2016/17 £'000	2016/17 £'000	2017/18 £'000	2017/18 £'000
Balance at 1st April		93		94
Settlement or cancellation of accrual made at the end of the preceding year	(93)		(94)	
Amounts accrued at the end of the current year	94		63	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		1		(31)
Balance at 31st March		94		63

15 CASH FLOW STATEMENT

15.1 Reconciliation between the General Fund Balance and the revenue activities net cash flow.

	2016/17 £'000	2017/18 £'000
Net (increase)/decrease in the General Fund Balance	(262)	213
Exclude accumulated absences	1	(31)
Exclude revenue contribution to capital	(63)	(4)
	(324)	178
(Decrease)/increase in revenue debtors	(14)	(137)
(Decrease)/increase in long term debtors	(5)	(6)
Decrease/(increase) in deferred credit	35	35
Decrease/(increase) in revenue creditors	34	(309)
Revenue activities net cash flow	(274)	(239)

15.2 Reconciliation of the movement in cash with the related items in the opening and closing balance sheets for the period.

	2016/17 £'000	2017/18 £'000
Due by/(to) the City of Edinburgh Council at 31st March	1,302	1,513
Due by/(to) the City of Edinburgh Council at 1st April	1,513	1,748
(Increase)/decrease in cash	(211)	(235)

LOTHIAN VALUATION JOINT BOARD

16. MEMBERS ALLOWANCES

The Board paid the following amounts to members during the year. These figures include NI and Pensions.

	2016/17 £000's	2017/18 £000's
Salaries (incl. NI and Pensions)	9	7
Expenses	0	0
Total	9	7

17. EXTERNAL AUDIT COSTS

The Board has incurred the following costs in relation to the audit of the Annual Accounts:

	2016/17 £000's	2017/18 £000's
External audit services carried out for the year	7	7

18. RELATED PARTIES

The Board is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Board or to be controlled or influenced by the Board. Disclosure of these transactions allows readers to assess the extent to which the Board might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Board.

18.1 Scottish Government

The Scottish Government is responsible for providing the statutory framework within which the Board operates. It provides the majority of the Board's funding in the form of grants to the constituent councils, and prescribes the terms of many of the transactions that the Board has with other parties. Constituent councils provide funding to the Board at the start of each financial year.

18.2 Members

Members of the Board have direct control over the Board's financial and operating policies. The total of members' allowances paid in 2017/18 shown in Note 16 and the Remuneration Report.

18.3 Other Parties

During the year, the Board entered into the following transactions with related parties:

	2016/17 £000's	2017/18 £000's
• The City of Edinburgh Council:		
Rates	195	111
Rent	305	305
Central support costs	68	66
Interest on revenue balances	(3)	(3)
Constituent council contribution	(3,744)	(3,741)
Constituent council requisition refund	0	112
Council Tax hearings	0	2
Vehicle hires	3	2
Printing	3	0
Trade Waste/maintenance	11	17
Refund of EU Referendum costs	21	0
Due from City of Edinburgh Council	1,513	1,747
Long term debtor - lease of office	85	79
Convener remuneration	6	5

LOTHIAN VALUATION JOINT BOARD

18. RELATED PARTIES (Contd.)

18.3 Other Parties (Contd.)

• The Cabinet Office		
IER grant received	(740)	(619)
• Midlothian Council		
Constituent council contribution	(560)	(562)
Constituent council requisition refund	0	17
• East Lothian Council		
Constituent council contribution	(669)	(667)
Constituent council requisition refund	0	20
• West Lothian Council		
Constituent council contribution	(1,145)	(1,148)
Constituent council requisition refund	0	34
Vice Convener remuneration	3	2
• Clackmannanshire Council	15	16
• Fife Council	1	2
• Glasgow City Council	11	3
• Renfrewshire Council	1	1
• HM Revenue and Customs	0	5
• Convention of Scottish Local Authorities	0	1
• Lothian Buses PLC	0	2
• Registers of Scotland	0	2
• Scottish Court Service	0	(3)

19. TERMINATION BENEFITS

There were a number of employees who left throughout 2017/18. Details are provided in the Remuneration Report - Exit Packages (page 44).

20. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Board, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Board that has yet to be financed.

	2016/17 £000's	2017/18 £000's
Opening Capital Financing Requirement	0	0
Capital investment		
• Property, Plant and Equipment	58	4
• Intangible assets	5	0
Sources of finance		
• Direct revenue contributions	(63)	(4)
Closing Capital Financing Requirement	0	0

LOTHIAN VALUATION JOINT BOARD

21. DEFINED BENEFIT PENSION SCHEMES

21.1 Participation in Pension Schemes

As part of the terms and conditions of employment of its staff, the Board makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until the employees retire, the Board has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Board participates in the following post employment scheme:

- Local Government Pension Scheme (LGPS) - a funded defined benefit statutory scheme as administered by the City of Edinburgh Council's Lothian Pension Fund. The LGPS is administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended.

The Local Government Pension Scheme (LGPS) changed from a final salary scheme to a career average scheme on the 1 April 2015. All benefits built up in the LGPS for membership after 31 March 2015 are worked out under the rules of the new career average scheme. Before 1 April 2015 benefits were built up based on a final salary scheme. A funded defined benefit scheme, requires the Board and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

21.2 Transactions Relating to Post-employment Benefits

The Board recognises the cost of retirement benefits in the reported cost of service when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2016/17 £000	2016/17 £000	2017/18 £000	2017/18 £000
Comprehensive Income and Expenditure Statement				
Cost of services, comprising:				
Current service costs	910		1,247	
Past service costs	<u>0</u>		<u>13</u>	
		910		1,260
Financing and investment income:				
Net interest expense		<u>221</u>		<u>329</u>
Total post employee benefit charged to the surplus on the provision of services		1,131		1,589
Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement				
Remeasurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	(8,237)		1,280	
Actuarial gains and (losses) arising on changes in financial and demographic assumptions	13,969		(1,882)	
Other experience	<u>55</u>		<u>(6,690)</u>	
		5,787		(7,292)
Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement		<u>6,918</u>		<u>(5,703)</u>
Movement in Reserves Statement				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		<u>(6,156)</u>		<u>6,462</u>
Actual amount charged against the General Fund				
Balance for pensions in the year:				
Employer's contributions payable to the scheme		682		679
Contributions in respect of unfunded benefits		<u>80</u>		<u>80</u>
		762		759

LOTHIAN VALUATION JOINT BOARD

21. DEFINED BENEFIT PENSION SCHEMES (Contd.)

21.3 Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Board's obligations in respect of its defined benefit plan is as follows:

	2016/17	2017/18
	£000	£000
Fair value of employer assets	52,793	52,764
Present value of funded liabilities	(63,253)	(56,872)
Present value of unfunded liabilities	(1,935)	(1,825)
Net liability arising from defined benefit obligation	<u>(12,395)</u>	<u>(5,933)</u>

21.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	2016/17	2017/18
	£000	£000
Opening fair value of scheme assets	43,186	52,793
Interest income	1,508	1,370
Remeasurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	8,237	(1,280)
Contributions from employer	682	679
Contributions from employees into the scheme	242	207
Contributions in respect of unfunded benefits	80	80
Benefits paid	(1,062)	(1,005)
Unfunded benefits paid	(80)	(80)
Closing fair value of scheme assets	<u>52,793</u>	<u>52,764</u>

21.5 Reconciliation of Present Value of the Scheme Liabilities

	2016/17	2017/18
	£000	£000
Present value of funded liabilities	(47,721)	(63,253)
Present value of unfunded liabilities	(1,704)	(1,935)
Opening balance at 1 April	<u>(49,425)</u>	<u>(65,188)</u>
Current service cost	(910)	(1,247)
Interest cost	(1,729)	(1,699)
Contributions from employees into the scheme	(242)	(207)
Remeasurement gain / (loss):		
Change in financial assumptions	(13,969)	1,935
Change in demographic assumptions	0	(53)
Other experience	(55)	6,690
Past service cost	0	(13)
Benefits paid	1,062	1,005
Unfunded benefits paid	80	80
Closing balance at 31 March	<u>(65,188)</u>	<u>(58,697)</u>

LOTHIAN VALUATION JOINT BOARD

21. DEFINED BENEFIT PENSION SCHEMES (Contd.)

21.6 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

The IAS19 asset split is based on the Plan's benchmark investment split.

	2016/17 £000	2016/17 %	2017/18 £000	2017/18 %
<u>Equity Securities</u>				
Consumer *	7,925.8	15	7,229.4	14
Manufacturing *	8,003.1	16	7,855.3	15
Energy and Utilities *	3,917.4	7	3,300.8	6
Financial Institutions *	3,686.4	7	4,687.6	9
Health and Care *	3,094.6	6	2,586.8	5
Information Technology *	2,612.8	5	3,216.8	6
Other *	3,637.9	7	3,311.1	6
Sub-total Equity Securities	32,878.0		32,187.8	
<u>Debt Securities:</u>				
Corporate Bonds (non-investment grade)	0.0	0	1,028.0	2
UK Government *	109.7	0	5,115.4	10
Other	5,301.1	10	0.0	0
Sub-total Debt Securities	5,410.8		6,143.4	
<u>Private Equity</u>				
All *	0.0	0	168.2	0
All	1,705.3	3	795.2	2
Sub-total Private Equity	1,705.3		963.4	
<u>Real Estate:</u>				
UK Property	3,562.0	7	3,391.3	6
Overseas Property	0.0	0	55.2	0
Sub-total Real Estate	3,562.0		3,446.5	
<u>Investment Funds and Unit Trusts:</u>				
Equities *	0.0	0	507.1	1
Bonds *	783.0	1	0.0	0
Infrastructure	4,724.2	9	6,253.4	12
Commodities *	154.8	0	0.0	0
Other	1,126.2	2	120.5	0
Sub-total Investment Funds and Unit Trusts	6,788.2		6,881.0	
<u>Derivatives:</u>				
Foreign Exchange *	0.0	0	24.3	0
Sub-total Derivatives	0.0		24.3	
<u>Cash and Cash Equivalents</u>				
All *	2,448.7	5	3,117.6	6
Sub-total Cash and Cash Equivalents	2,448.7		3,117.6	
Total Fair Value of Employer Assets	52,793.0	100	52,764.0	100

Scheme assets marked with an asterisk (*) have quoted prices in current active markets or were in active markets 2017/18.

LOTHIAN VALUATION JOINT BOARD

21. DEFINED BENEFIT PENSION SCHEMES (Contd.)

21.7 Basis for Estimating Assets and Liabilities

Hymans Robertson, the independent actuaries to Lothian Pension Fund, have advised that the financial assumptions used to calculate the components of the pension expense for the year ended 31 March 2018 were those from the beginning of the year (i.e. 31 March 2017) and have not been changed during the year. The main assumptions in the calculations are:

<u>Average future life expectancies at age 65:</u>		2016/17	2017/18
Current pensioners	male	22.1 years	21.7 years
Current pensioners	female	23.7 years	24.3 years
Future pensioners	male	24.2 years	24.7 years
Future pensioners	female	26.3 years	27.5 years
<u>Financial assumptions:</u>		2016/17	2017/18
Pension increase rate		2.4%	2.4%
Salary increase rate		4.4%	4.1%
Discount rate		2.6%	2.7%

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilities as at 31 March 2018 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

To quantify the uncertainty around life expectancy, the Actuary have calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3-5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominately apply at younger or older ages).

<u>Change in assumptions at 31 March 2018</u>	Approximate % increase to Employer	Approximate Monetary Amount
0.5% decrease in Real Discount Rate	10.0%	5,929
0.5% increase in the Salary Increase Rate	2.0%	1,299
0.5% increase in the Pension Increase Rate	8.0%	4,500

21.8 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2019

	Assets £000	Obligations £000	Net (liability) / asset	
			£000	% of pay
Current service cost	0	(1,221)	(1,221)	-39.10%
Total Service Cost	0	(1,221)	(1,221)	-39.10%
Interest income on plan assets	1,423	0	1,423	45.50%
Interest cost on defined benefit obligation	0	(1,589)	(1,589)	-50.80%
Total Net Interest Cost	1,423	(1,589)	(166)	-5.30%
Total included in Profit or Loss	1,423	(2,810)	(1,387)	-44.40%

The Board's estimated contribution to Lothian Pension Fund for 2018/19 is £0.672m.

21.9 Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Board has agreed a contribution stability mechanism with the schemes actuary until 31st March 2021.

LOTHIAN VALUATION JOINT BOARD

22. LEASES

Operating Leases

The Board currently occupies land and buildings listed below by entering into the following operating lease:

17a South Gyle Crescent - offices		
	2016/17	2017/18
The future minimum lease payments due in future years are:	£000's	£000's
• Not later than 1 year	305	305
• Later than 1 year not later than 5 years	1,526	1,526
• Later than 5 years	2,747	2,442
	<u>4,578</u>	<u>4,273</u>

Car Leases

The Board operates an employee car leasing scheme. There were twelve active leases in operation at 31st March 2018 and employees contributed £0.027m during 2017/18 towards the cost of car leasing. The Board is committed to paying the following sums in future years:

	2016/17	2017/18
The future minimum lease payments due in future years are:	£000's	£000's
• Not later than 1 year	22	30
• Later than 1 year not later than 5 years	12	25
	<u>34</u>	<u>55</u>

The Board has two operational leases. These relate to mobile phones/tablet devices and a Xerox photocopying agreement. The costs incurred under both for financial year 2017/18 were £6,587 and £5,793 respectively.

The Board has no finance lease obligations.

23. LONG TERM DEBTORS

The long term debtor is in respect of a cash incentive received by the Board on its relocation of offices to its new premises at 17a South Gyle Crescent. The cash incentive is amortised on a straight line basis over the term of the lease. A 25 year lease was entered into in December 2006, the remaining life amounts to 15 years, consequently £5,642 will be written to the Comprehensive Income and Expenditure Statement each year.

	2016/17	2017/18
	£000's	£000's
• Cash incentive:		
Balance at 1st April	90	85
Amortised to Comprehensive Income and Expenditure Statement	(5)	(6)
Balance at 31st March	<u>85</u>	<u>79</u>

24. OTHER LONG TERM LIABILITIES

The Board relocated to its new offices in December 2006. As part of the agreement, the landlord agreed to pay a cash incentive of £0.400m on date of entry and £0.475m in 2011. This will be amortised on a straight line basis totalling £0.035m per annum over 25 years, the term of the lease.

	2016/17	2017/18
	£000's	£000's
Balance at 1st April	(560)	(525)
Amortised to Comprehensive Income and Expenditure Statement	35	35
Balance at 31st March	<u>(525)</u>	<u>(490)</u>

LOTHIAN VALUATION JOINT BOARD

25. CONSTITUENT COUNCIL REQUISITIONS

The net expenditure of the Board is a charge upon the City of Edinburgh Council, West, East and Midlothian Councils. The division of net expenditure borne by the constituent councils is made in accordance with the Valuations Joint Boards (Scotland) Order 1995.

	Amount due for 2017/18 £000's	Amount received 2017/18 £000's	Amount due (to)/from Constituent Councils 2017/18 £000's
City of Edinburgh Council	3,741	3,741	0
Midlothian Council	562	562	0
East Lothian Council	667	667	0
West Lothian Council	1,148	1,148	0
	<u>6,118</u>	<u>6,118</u>	<u>0</u>

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

All Treasury Management is carried out on the Board's behalf by the City of Edinburgh Council. The Council complies with the CIPFA Prudential Code, and has adopted the CIPFA Treasury Management in the Public Services Code of Practice. The City of Edinburgh Council, on behalf of the Board, has overall risk management procedures that focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks.

The Board's activities expose it to a variety of financial risks which have been assessed in order to determine whether or not such risks have, in order to comply with financial instrument accounting requirements, an impact on these Annual Accounts. For all of the financial risks, the impact on Annual Accounts was found to be immaterial. Each risk is detailed below along with an explanation as to why there is no financial effect arising:

- Re-financing risk - the possibility that the Board might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms is considered immaterial because although the Board has powers to obtain loan finance, no such loans were held during the year;
- Market risk - the possibility that financial loss might arise for the Board as a result of changes in such measures as interest rate movements is considered immaterial because the finances of the Board are such that during the year there was no interest payable and interest receivable was immaterial;
- Credit risk - the possibility that other parties might fail to pay amounts due to the Board is considered immaterial on the basis of past experience and the fact that most debt payable to the Board is due from other public bodies;
- Liquidity risk - the possibility that the Board might not have funds available to meet its commitments to make payments is considered immaterial given the statutory responsibility that the Board has to have a balanced budget and that constituent authorities have to fund the activities of the Board.
- Price risk - the possibility that fluctuations in equity prices has a significant impact on the value of financial instruments held by the Board is considered immaterial because the Board does not generally invest in equity shares.
- Foreign exchange risk - the possibility that fluctuations in exchange rates could result in loss to the Board is considered immaterial because there are no financial assets or liabilities held at the year end denominated in foreign currencies.

The Board holds its surplus funds with the City of Edinburgh Council and does not place external deposits in its own name. The balance held by and due from the City of Edinburgh Council at 31st March 2018 amounted to £1.748m (2016/17 £1.513m). No breaches of the Board's counterparty criteria occurred during the reporting period and the Board does not expect any losses from non-performance by any of its counterparties in relation to deposits. During the reporting period, the Board held no collateral as security.

LOTHIAN VALUATION JOINT BOARD

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

Lothian Valuation Joint Board aims to ensure best value and provide equitable, customer focussed, high quality, professional valuation and electoral services for all its stakeholders.

The Board is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for, and used economically, efficiently, effectively and ethically. The Board also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities Elected Members and Senior Officers are responsible for implementing proper arrangements for the governance of the Board's affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Board has approved and adopted a Local Code of Corporate Governance that is consistent with the principles, and reflects the requirements, of the CIPFA/SOLACE framework Delivering Good Governance in Local Government and is supported by detailed evidence of compliance, which is regularly reviewed. A copy of the code is on our website www.lothian-vjb.gov.uk or can be obtained from the Assessor.

This statement explains how Lothian Valuation Joint Board delivers good governance and reviews the effectiveness of those arrangements. It also includes a statement on internal financial control in accordance with proper practice.

The Board's Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Board is directed and controlled, and its activities through which it accounts to, engages with, and influences the community. It enables the Board to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The framework reflects the arrangements in place to meet the six supporting principles of effective corporate governance.

- Focusing on the purpose of the Board and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Board and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

A significant part of the governance framework is the system of internal control which is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Board's policies, aims and objectives. These are outlined in the Board's annual Corporate & Service Plan. This enables the Board to manage its key risks efficiently, effectively, economically and ethically.

Within the overall control arrangements, the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision.

While the system of internal control is designed to manage risk at a reasonable level it cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness.

In May 2018, the Board introduced a Governance, Risk and Best Value Group which will meet key external stakeholders twice a year. The Governance Group provides formal, transparent arrangements for monitoring corporate reporting, risk management and internal financial and core system controls within Lothian Valuation Joint Board. These arrangements support an appropriate relationship with the Board's external auditors and satisfy internal quality assurance and Joint Board requirements.

Determining the Board's purpose, its vision for the local area and intended outcomes for the Community

The Board has communicated its vision in the Corporate and Service Plan. Delivery of the vision is the responsibility of the Board, the Assessor and Heads of Service. The Board has developed a partnership approach when working with other Authorities.

LOTHIAN VALUATION JOINT BOARD

ANNUAL GOVERNANCE STATEMENT (Contd.)

Review of Effectiveness

The Board has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. A Principal Officer within Lothian Valuation Joint Board has been nominated to review the effectiveness of the Local Code and will report annually to the LVJB Board.

The review of the effectiveness of its governance framework including the system of internal financial control is informed by:

- the work of Internal Auditors and their annual opinion which is based on one audit per year; follow-up on the outcomes of audit work performed; the status of any open internal audit findings; and review of the LVJB draft annual governance statement.
- the Assessor's Certificate of Assurance on internal control;
- the operation and monitoring of controls by Board Managers; and
- the External Auditors in their Annual Audit Letter and other reports;

Throughout the year Elected Members and Officers have responsibility for the development and maintenance of the governance environment. These review mechanisms include:

- **The Lothian Valuation Joint Board** provides strategic leadership, determines policy aims and objectives and takes executive decisions not delegated to officers. It provides political accountability for the Board's performance.
- **Internal Audit** provides an independent and objective assurance service to the Board by providing one Internal Audit review each year, providing an opinion on the design and operating effectiveness of the key internal controls established to manage LVJB's most significant risks.
- **Scott-Moncrieff's Annual Audit Report** is also considered by the Board.
- **The Strategic, Operational and Project Risk Registers** are reviewed as part of the Board's Corporate and Service Plan (the Corporate and Service Plan is approved by the Board). Key risks are reported quarterly to the Board, financial risks through budget reports and service risks through the Assessors Progress report. This ensures that actions can be considered to effectively manage the Board's highest risks.
- **The Monitoring Officer** is responsible to the Board for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

Certification

In compliance with accounting practice, the Treasurer has provided the Assessor and Electoral Registration Officer with a statement on the adequacy and effectiveness of the Board's internal financial control system for the year ended 31st March 2018. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system.

Internal Audit reviewed the schedule prepared by management supporting the annual governance statement and did not identify any instances of non compliance highlighted in the management responses that would adversely impact on our internal audit opinion. Additionally, no significant Internal Audit findings were raised in relation to governance and scrutiny performed by the Board.

From this year's review there is evidence that the Code is operating effectively with overall compliance by the Board in all significant areas of its corporate governance arrangements.

Assessor and Electoral Registration Officer:

Date: 3rd September 2018

Graeme Strachan

Convener of Lothian Valuation Joint Board:

Date: 3rd September 2018

David Key

LOTHIAN VALUATION JOINT BOARD

REMUNERATION REPORT

The Remuneration Report provides details of the Board's remuneration policy for its senior employees and states how remuneration arrangements are managed. Senior employees within the Board are defined as those having the responsibility for the management of the Board to the extent that they can direct or control the major activities of the Board. This includes activities involving the expenditure of money, during the year to which the report relates, whether solely or collectively with other persons.

As well as providing details of the Board's remuneration policy, the Remuneration Report will also show:

- Details of the number of employees whose remuneration was £50,000 or more, which will be disclosed in pay bands of £5,000;
- Details of remuneration paid to senior employees of the Board for 2017/18;
- Details of the Board's senior employees who participate in the Local Government Pension Scheme, administered by the Lothian Pension Fund, and the benefits provided under the scheme.

1. Audit of Remuneration Report

Auditors are required by ISA 720A to read the remuneration report to identify any;

- material inconsistencies with the financial statements;
- information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by auditors in the course of performing the audit, or that is otherwise misleading.

Scott-Moncrieff have reported in their annual report that the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

2. Remuneration policy

The Lothian Valuation Joint Board is responsible for approving the remuneration level of the Assessor and Electoral Registration Officer, and the Depute Assessor, these being the only Chief Official posts within the Board at 31st March 2018. The Scottish Joint Negotiating Committee (SJNC) for Local authority Services sets the salaries for the Chief Officials of Scottish local authorities and is responsible for agreeing annual inflationary increases. The post of Assessor and Electoral Registration Officer was reviewed at the creation of the Joint Board in 1996. The post of Depute Assessor will be removed from 1st April 2018 as part of the Transformation and Cultural Change Programme approved during 2017/18. Advice on such matters is received from the Human Resources division of the City of Edinburgh Council and from the Executive Director of Resources, City of Edinburgh Council.

The salaries of all other employees is set by reference to the Scottish Joint Council for Local Government Employees for all other categories of staff. The Board's Scheme of Delegation provides the Assessor and Electoral Registration Officer with delegated authority to appoint employees within agreed staffing and expenditure levels. The City of Edinburgh Council provides remuneration advice and assistance to the Board on request.

The Convener and Vice-Convener of the Board are remunerated by the Council of which they are a council member. The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183) as amended by the Local Governance (Scotland) Act 2004 (Remuneration and Severance Payments) Amendment Regulations 2015.

The Board has an arrangement with each council that remunerates the Convener and Vice-Convener to reimburse the Council for the additional costs of that councillor arising from them being a Convener or Vice-Convener of the Board. The disclosures made in this report are limited to the amounts paid to the council by the Board for remuneration and does not reflect the full value of the remuneration that may be paid to the councillor.

All other members of the Board are remunerated by the Council of which they are a council member.

The position of Chief Executive is provided and remunerated by the City of Edinburgh Council.

3. Pension Entitlement of Senior Employees

The Board's senior employees participate in the Local Government Pension Scheme administered by the Lothian Pension Fund. This is a final salary pension scheme which means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme. The scheme's normal retirement age for employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls in to each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non manual employees.

The tiers and members contributions rates for 2017/18 are as follows:

On earnings up to and including £20,700 (5.5%), on earnings above £20,700 and up to £25,300 (7.25%), on earnings above £25,300 and up to £34,700 (8.5%), on earnings above £34,700 and up to £46,300 (9.5%) and on earnings above £46,300 (12%).

LOTHIAN VALUATION JOINT BOARD

REMUNERATION REPORT (Contd.)

3. Pension Entitlement of Senior Employees (Contd.)

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for a lump sum payment up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80ths of final pensionable salary and years of pensionable service.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

4. Remuneration by Pay Band

Details of the Board's employees receiving more than £50,000 remuneration for the year, excluding employer's NI and pension contributions are:

Remuneration Band	Number of Employees	
	2016/17	2017/18
£50,000 - £54,999	4	3
£55,000 - £59,999	-	1
£60,000 - £64,999	3	2
£65,000 - £69,999	-	1
£70,000 - £74,999	-	-
£75,000 - £79,999	1	1
£80,000 - £84,999	-	1
£85,000 - £89,999	1	1
£90,000 - £94,999	-	-
£95,000 - £99,999	-	2
£100,000 - £104,999	1	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	1
£125,000 - £129,999	-	-
£130,000 - £134,999	-	1
Totals	10	14

5. Remuneration paid to Senior Employees

The table below details remuneration paid to senior employees within the Board. Senior Employees are defined as having the responsibility for management of the Board to the extent that they can direct or control the major activities of the Board. This includes activities involving the expenditure of money, during the year to which the report relates, whether solely or collectively with other persons.

Name and Post Title	Salary, Fees and Allowances 31 March 2017	Salary, Fees and Allowances 31 March 2018
	£	£
J. Hewton - Assessor and Electoral Reg Officer *	89,672	0
G. Strachan - Assessor and Electoral Reg Officer (Interim) **	102,046	120,747
N. Chapman - Depute Assessor (Interim) ***	76,993	97,158
Total	268,711	217,905

* retired 01.01.17.
 ** interim Assessor and ERO from 01.01.17 until 31.03.18. Thereafter appointed Assessor and ERO.
 *** appointed interim Depute Assessor from 01.01.17 until 31.03.18.

LOTHIAN VALUATION JOINT BOARD

REMUNERATION REPORT (Contd.)

6. Pension Entitlement of Senior Employees

<u>In-year pension contributions</u>		For year to 31 March 2017	For year to 31 March 2018
<u>Name and Post Title</u>		£	£
J. Hewton - Assessor and Electoral Reg Officer (Retired)		18,653	0
G. Strachan - Assessor and Electoral Reg Officer (Interim)		21,193	25,120
N. Chapman - Depute Assessor (Interim)		15,931	20,166
<u>Accrued Pension Benefits</u>		As at 31 March 2018	Difference from 31 March 2017
<u>Name and Post Title</u>		£'000	£'000
J. Hewton - Assessor and Electoral Reg Officer (Retired)	Pension	0	0
	Lump sum	0	0
G. Strachan - Assessor and Electoral Reg Officer (Interim)	Pension	61	11
	Lump sum	128	20
N. Chapman - Depute Assessor (Interim)	Pension	41	10
	Lump sum	78	17

All senior employees shown in the tables above are members of the Local Government Pension Scheme.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, not solely their current appointment.

7. Remuneration of Convener and Vice Conveners

The following table provides details of the remuneration paid to the Board's Convener and Vice-Convener by the Board, excluding NI and Pensions.

	Salary, fees and allowances	Taxable Expenses	Total Remun. 2017/18	Total Remun. 2016/17
<u>Name and Post Title</u>	£	£	£	£
N.Work - Convener *	965	0	965	4,225
D.Key - Convener *	2,595	0	2,595	0
B.Robertson - Vice-Convener **	0	0	0	2,237
M. Russell - Vice Convener ***	286	0	286	469
A. McGuire - Vice Convener ***	1,956	0	1,956	0
	5,802	0	5,802	6,931

* N. Work Convener until 21.08.17. Thereafter D.Key appointed Convener
 ** B.Robertson resigned 13.12.16.
 *** M.Russell Vice Convener until 21.08.17. Thereafter A.McGuire appointed Vice Convener.

LOTHIAN VALUATION JOINT BOARD

REMUNERATION REPORT (Contd.)

8. Pension Entitlement of Convener and Vice Convener

In-year pension contributions		For year to 31 March 2017	For year to 31 March 2018	
Name and Post Title		£	£	
N.Work - Convener (former)		4,498	5,503	*
D.Key - Convener		0	4,304	*
B.Robertson - Vice-Convener (former)		3,947	0	*
M. Russell - Vice Convener (former - not in LPF)		0	0	*
A.McGuire - Vice Convener (not in LPF)		0	0	*
Accrued Pension Benefits		As at 31 March 2018	Difference from 31 March 2017	
Name and Post Title				
N.Work - Convener (former)	Pension	4	0	
	Lump sum	2	0	
D.Key - Convener	Pension	2	0	
	Lump sum	0	0	
B.Robertson - Vice-Convener (former)	Pension	0	0	
	Lump sum	0	0	

* includes full pension entitlement as a Councillor, not just that in respect of Convener/Vice Convener of the Lothian Valuation Joint Board.

9. Exit Packages

The following information details the number, and total cost, of exit packages agreed and approved by 31st March 2018, grouped in rising bands of £20,000 up to £100,000.

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

Exit Packages Band	Number of Employees		Total Cost	
	2016/17	2017/18	2016/17	2017/18
£0 - £20,000	1	4	£10,800	£57,059
£20,001 - £40,000	0	4	0	120,236
£40,001 - £60,000	0	3	0	144,386
£60,001 - £80,000	0	1	0	63,422
£80,001 - £100,000	0	1	0	85,404
Totals	1	13	10,800	470,507

Costs are in respect of voluntary retirements which were approved on the basis of Regulation 30 (Rule of 85) of the Pension Fund Regulations.

10. Trade Union (Facility Time Publication Requirements) Regulations 2017

The Lothian Valuation Joint Board is required to report from 1st April 2017 a range of information on facility time made available to its employees who are trade union representatives. For the reporting year 2017/18, the equivalent of 0.02 FTE (across 3 individuals) of paid facility time was made available, with an associated cost of £2,288. This sum equates to 0.06% of Lothian Valuation Joint Board's overall paybill. Of the total time made available, no individuals spent 100% of time during the year on trade union-related activities, the three between 0% and 50%.

Assessor and Electoral Registration Officer:
Graeme Strachan

Date: 3rd September 2018

Convener:
David Key

Date: 3rd September 2018

LOTHIAN VALUATION JOINT BOARD

INDEPENDENT AUDITOR'S REPORT

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

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 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Lothian Valuation Joint Board for the year ended 31 March 2018 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 notes to the financial statements, including a summary of significant accounting policies. 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 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the Lothian Valuation Joint Board as at 31 March 2018 and of its income and expenditure 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 2017/18 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.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Lothian Valuation Joint Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Lothian Valuation Joint Board's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Treasurer and Board for the financial statements

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Lothian Valuation Joint Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Board is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

LOTHIAN VALUATION JOINT BOARD

INDEPENDENT AUDITOR'S REPORT (Contd.)

Other information in the annual accounts

The Treasurer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Nick Bennett

For and on behalf of Scott-Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date: _____

Lothian Valuation Joint Board Internal Audit – Annual Opinion 2017/2018

3rd September 2018

1 Purpose of report

- 1.1 This report details Internal Audit's annual opinion for the Lothian Valuation Joint Board (LVJB) for the year ended 31 March 2018. Our opinion is based on the outcomes of the audits included in the 2017/18 Internal Audit annual plan; the status of any open Internal Audit findings; and review of the LVJB draft annual governance statement.

2 Main Report

Background

- 2.1 The objective of Internal Audit is to provide a high quality independent audit service to LVJB in accordance with Public Sector Internal Audit Standards (PSIAS) requirements, that provides assurance over the control environment established to manage LVJB's key risks and their overall governance and risk management arrangements.
- 2.2 PSIAS provide a coherent and consistent internal audit framework for public sector organisations. Adoption of the PSIAS is mandatory for internal audit teams within UK public sector organisations, and PSIAS require annual reporting on conformance.
- 2.3 It is the responsibility of the Council's Chief Internal Auditor to provide an independent and objective annual opinion on the adequacy and effectiveness of the LVJB control environment and governance and risk management frameworks in line with PSIAS requirements. The opinion is provided to the LVJB Board, and should be used to inform the LVJB annual governance statement.
- 2.4 The City of Edinburgh Internal Audit team currently performs one annual audit that focuses on the key controls established to manage LVJB's most significant risks.
- 2.5 The annual opinion provides an independent view of the adequacy and effectiveness of the LVJB control environment and governance and risk management frameworks, and is based on the outcomes of the audit(s) performed; the status of any open Internal Audit findings; and review of the LVJB draft annual governance statement.
- 2.6 Where control weaknesses are identified, Internal Audit findings are raised, and management agree actions to address the gaps identified. However, it is the responsibility of management to address and rectify the weaknesses identified via timely implementation of these agreed management actions.
- 2.7 The IA definition of an overdue finding is any finding where all agreed management actions have not been implemented by the final date agreed by management and recorded in Internal Audit reports.

Basis of opinion

- 2.8 Internal Audit days allocated to LVJB in the year to 31 March 2018 were split into two separate reviews. Our opinion is based on the outcome of these two audits; the status of

any open internal audit findings; and review of the LVJB draft annual governance statement.

Audit outcomes – Review of Data and Records Management Framework

- 2.9 This audit assessed the design adequacy of the established LVJB data and records management framework across the three lines of defence, by considering whether a total of 54 expected controls had been established and were adequately designed.
- 2.10 Our review confirmed that the LVJB data and records management framework is generally adequate, with enhancements required. This assessment is based on the outcomes of our review; the fact that LVJB has not suffered any recent significant data breaches or losses; and management's awareness of the control gaps identified.
- 2.11 There were 3 expected controls (5%) that had not been implemented or were partially implemented, where LVJB could be exposed to significant levels of risk.
- 2.12 These reflected the need to implement testing to assess levels of employee cyber security awareness as per the requirements of the Scottish Government Public Sector Action Plan for Cyber Resiliency; address use of generic usernames and password sharing for system administrator accounts; and implement appropriate data sharing arrangements with all key third parties.
- 2.13 A further 19 expected controls (35%) were not implemented or had been partially implemented, that could expose LVJB to moderate risk; with 32 expected controls (60%) established and adequately designed.

Audit outcomes – Review of Business Rates Internal Assurance Framework

- 2.14 This audit focused on the adequacy of design of LVJB's internal business rates valuation internal assurance framework.
- 2.15 Our review confirmed that the business rates internal assurance framework is generally adequate, with enhancements required. This assessment is based on the outcomes of our review; the fact that there have been no significant issues identified with the completeness and accuracy of source business rates valuation data; and no significant valuations errors.
- 2.16 We raised a total of 10 findings (8 medium and 2 low) highlighting the need to improve the internal business rates valuation assurance framework to mitigate exposure to moderate levels of risk. Addressing these findings will ensure that first and second line assurance over the operational and system controls supporting maintenance of the valuation roll and valuations calculations is strengthened.

Status of Internal Audit Findings

- 2.17 All Internal Audit findings raised in 2015/16 and 2016/17 have been addressed and agreed management actions effectively implemented and sustained.

Review of LVJB draft annual governance statement schedule

- 2.18 Review of the schedule prepared by management supporting the LVJB annual governance statement did not identify any instances of non-compliance highlighted in the management responses that would adversely impact on our internal audit opinion.

Internal Audit Independence

- 2.19 PSIAS require that Internal Audit must be independent and internal auditors must be objective in performing their work. To ensure conformance with these requirements, Internal Audit has established processes to ensure that both team and personal independence is consistently maintained and that any potential conflicts of interest are effectively managed.

- 2.20 We do not consider that we have faced any significant threats to our independence during 2017/18, nor do we consider that we have faced any inappropriate scope or resource limitations when completing our work.

Conformance with Public Sector Internal Audit Standards

- 2.21 Internal Audit has not conformed with PSIAS requirements during 2017/18 for the following reasons:
- 2.21.1 There has been insufficient follow-up of Internal Audit findings between April 2015 and October 2017 to monitor and ensure that management actions have been effectively implemented (PSIAS 2500); and
 - 2.21.2 Resourcing challenges within the Internal Audit team has impacted completion of the two internal quality assurance reviews included in the 2017/18 Internal Audit annual plan to ensure consistency of audit quality (PSIAS 1300).
- 2.22 It should be noted that these instances of non-conformance have had no direct impact on the quality of internal audit reviews completed for LVJB in 2017/18.

3 Conclusions

Internal Audit Annual Opinion

- 3.1 Internal Audit considers that the LVJB control environment and governance and risk management frameworks are generally adequate, but with enhancements required, and is therefore reporting an 'amber' rated opinion (see Appendix 1), with our assessment towards the low end of this category.
- 3.2 This opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance provided over controls) as set out in Appendix 2.
- 3.3 This report is a component part of the overall annual assurance provided to LVJB, and the Board should consider the opinion of other assurance sources (such as external audit) when forming their own view on the design and effectiveness of the control environment and governance and risk management frameworks at LVJB.

4 Recommendations

- 4.1 The Board is recommended to note the internal audit opinion for the year ended 31 March 2018.

Lesley Newdall,
Chief Internal Auditor
City of Edinburgh Council

Appendices:	Appendix 1	Internal Audit Annual Opinion Definitions
	Appendix 2	Limitations and responsibilities of internal audit and management responsibilities
	Appendix 3	Final Internal Audit report – Review of Data and Records Management Framework
	Appendix 4	Final Internal Audit report – Review of Business Rates Internal Assurance Framework

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Background Papers: [Public Sector Internal Audit Standards](#)

Appendix 1 – Internal Audit Annual Opinion Definitions

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined. We have adopted the approach set out below to form an opinion for Lothian Pension Fund.

We consider that there are 4 possible opinion types that could apply to LVJB. These are detailed below:

1 Adequate <i>An adequate and appropriate control environment and governance and risk management framework is in place enabling the risks to achieving organisation objectives to be managed</i>	2 Generally adequate but with enhancements required <i>Areas of weakness and non-compliance in the control environment and governance and risk management framework that that may put the achievement of organisational objectives at risk</i>
3 Significant enhancements required <i>Significant areas of weakness and non-compliance in the control environment and governance and risk management framework that puts the achievement of organisational objectives at risk</i>	Inadequate <i>The framework of control and governance and risk management framework is inadequate with a substantial risk of system failure resulting in the likely failure to achieve organisational objectives.</i>

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute.

Appendix 2 - Limitations and responsibilities of internal audit and management responsibilities

Limitations and responsibilities of internal audit

The opinion is based solely on the internal audit work performed for the financial year 1 April 2017 to 31 March 2018. Work completed was based on the terms of reference agreed with management. However, where other matters have come to our attention that are considered relevant, they have been considered when finalising our reports and the annual opinion.

There may be additional weaknesses in the LVJB control environment and governance and risk management frameworks that were not identified as they were not included in the 2017/18 audit review; were excluded from the scope of the review; or were not brought to Internal Audit's attention. Consequently, management and the Board should be aware that the opinion may have differed if these areas had been included, or brought to Internal Audit's attention.

Control environments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the impact of unplanned events.

Future periods

The assessment of controls relating to LVJB is for the year ended 31 March 2017. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

It is Management's responsibility to develop and effective control environments and governance and risk management frameworks that are designed to prevent and detect irregularities and fraud. Internal audit work should not be regarded as a substitute for Management's responsibilities for the design and operation of these controls.

Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, performs additional work directed towards identification of potential fraud or other irregularities. However, internal audit procedures alone, even when performed with due professional care, do not guarantee that fraud will be detected.

Consequently, internal audit reviews should not be relied upon to detect and disclose all fraud, defalcations or other irregularities that may exist.

Lothian Valuation Joint Board

Internal Audit Report

Review of Data and Records Management Framework

27 August 2018

LVJB1701

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This Internal Audit review is undertaken as part of the established service level agreement with the Lothian Valuation Joint Board that covers provision of Internal Audit services by the City of Edinburgh Council.

The review is designed to help the Lothian Valuation Joint Board assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose or by any other party.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Whilst a number of specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud.

This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

1. Background and Scope

Background

The Lothian Valuation Joint Board (LVJB) is a statutory entity established under the 1995 Valuation Joint Boards Order. LVJB provides a range of specialist valuation and electoral registration services for the Edinburgh; East Lothian; West Lothian; and Mid Lothian local authorities, and is responsible for the management and ongoing administration of their Business Rates Valuation Rolls; Council Tax Valuation Lists; and Electoral Registers.

Given the financial, fiscal, and democratic importance of these rolls and registers to the local authorities, it is essential that LVJB has an established data and records management framework which is appropriately designed and operates effectively to ensure that data and records are completely and accurately processed; and managed in line with current Data Protection Act requirements.

On 25 May 2018, the new European Union (EU) General Data Protection Regulations (GDPR) will become effective in the UK. Achieving full compliance with the new regulations is an evolving process as the legislation and supporting GDPR guidance has not been fully finalised. As a minimum, organisations are expected to have performed a gap analysis against the new legislative requirements; identified any specific control gaps; and developed an implementation plan to address the gaps identified by 25th May 2018.

Adequate and effective cyber security controls are also key to ensuring that data and records are effectively protected. LVJB will also need to ensure that their cyber security controls meet the requirements of the [Scottish Government Public Sector Action Plan for Cyber Resilience](#) published in November 2017.

In 2014/15 LVJB obtained accreditation to use the Public Services Network (PSN), the UK Government's secure high-performance network which helps public sector organisations work together, reduce duplication and share resources safely and securely. Ongoing accreditation requires LVJB to demonstrate compliance with a range of technology security requirements prescribed by the Cabinet Office. These include completion of an annual Network Penetration Test and an IT Security Health check performed by an independent accredited third-party provider; and submission of an annual compliance confirmation to the Cabinet Office. PSN accreditation provides additional assurance that data and records are managed securely.

Records management frameworks can also be considered in the context of the three lines of defence model where the first line is those employees responsible for applying controls when processing and managing data; the second line is those responsible for defining records management frameworks and policies, and assessing ongoing compliance with them; with the independent third line responsible for providing assurance that the framework is appropriately designed and operating effectively.

Scope

Our review was performed as at **31 March 2018**, and focused on the adequacy of design of the LVJB data and records management framework across the three lines of defence.

We assessed whether a total of 54 expected data and records management controls had been established and were adequately designed across the following areas:

1. Data and records management governance framework
2. Training and awareness
3. Data assets and flows
4. Data retention and destruction
5. Data access and security
6. Subject access and freedom of information requests

7. Third party data sharing arrangements
8. Data breaches
9. GDPR readiness
10. Business change projects

Scope Limitations

The following areas were specifically excluded from the scope of our review:

- Assessment of the effectiveness of the controls supporting the data and records management framework; and
- Ongoing Public Sector Network compliance requirements.

2. Executive Summary

Overall Assessment




Our review confirmed that the LVJB data and records management framework is generally adequate, with enhancements required. This assessment is based on the outcomes of our review; the fact that LVJB has not suffered any recent significant data breaches or losses; and management's awareness of the control gaps identified.

The outcomes of our review are summarised in the table below, and confirm that some control gaps exist in the data and records management framework. Notably, there were 3 expected controls (5%) that had not been implemented, or had been partially implemented, where LVJB could be exposed to significant levels of risk; with a further 19 (35%) that could result in moderate exposure to risk.

A total of 32 expected controls (60%) had been established and were adequately designed, with low exposure to risk.




It is important that these significant and moderate control gaps are addressed by management in a timely manner to ensure that the LVJB data and records management framework is appropriately designed to protect the data that they obtain; process; retain; and share with others, and meets the new GDPR and Public Sector Action Plan for Cyber Resiliency requirements.

Summary of findings

#	Area covered	Low Risk 	Moderate Risk 	High Risk 	Total
1	Data and records management governance framework	3	5	-	8
2	Training and awareness	4	2	1	7
3	Data assets and flows	2	2	-	4
4	Data retention and destruction	2	2	-	4
5	Data access and security	11	6	1	18
6	Subject access and freedom of information requests	5	-	-	5
7	Third party data sharing arrangements	-	-	1	1
8	Data breaches	-	2	-	2

9	GDPR readiness	3	-	-	3
10	Business change projects	2	-	-	2
Totals		32	19	3	54

Key

-  Controls established and well designed with Low exposure to risk;
-  Some control design gaps evident with Moderate risk exposure if not addressed; and
-  Significant control gaps evident with High Risk exposure if not addressed.

High Risk Control Gaps

The control gaps we identified that could potentially result in exposure to high levels of risk are:

- Cyber Security Training and Awareness (finding 2.6 - partially implemented)** – currently, very limited testing is performed to assess levels of employee cyber security knowledge (for example, simulated phishing exercises). If employees lack knowledge, there is a risk that they click on attachments or spoof or hoax web page links included in phishing e mails, resulting in installation of malware or ransomware across the LVJB network.

Additionally, per the requirements of the Public Sector Action Plan for Cyber Resiliency, the Scottish Government will seek assurances from Scottish public bodies that they have established appropriate staff training, awareness-raising and disciplinary processes with regard to cyber resilience for staff at all organisational levels (key action 6); and that they have obtained appropriate independent assurance on their critical cyber security controls by October 2018 (key action 4);
- Data Access and Security (finding 5.5 - not implemented)** - management has advised that there are some system administrator accounts where generic user names and complex passwords are shared by more than one senior officer; and
- Third party data sharing arrangements (finding 7.1 - partially implemented)** - data sharing arrangements have not been established with all key third parties to ensure that data is consistently transferred; shared; and stored securely.

The detailed outcomes of our review, including agreed management actions and implementation timeframes are included at section 3 [Detailed Findings](#) below.




Finally, it is recommended that progress with implementation of the High and Moderated rated actions are monitored via the new Governance Committee, with regular updates provided to the Board.



Internal audit will also review the full population of the High and a sample of the moderate rated actions as part of the 2019/20 LVJB review to confirm that they have been effectively implemented and sustained.

3. Detailed Findings

Key

Control Established: Y- Yes; P – Partially; and N – No

-  Controls established and well designed with Low exposure to risk;
-  Some control design gaps evident with Moderate risk exposure if not addressed; and
-  Significant control gaps evident with High Risk exposure if not addressed.

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
1. Data and Records Management Governance Framework							
1.1	Responsibility for data and records management framework has been allocated at an appropriate level (Second Line)				The Governance Manager has responsibility for the data and records management framework, and reports to the Principal Assessor as Chief Accountable Officer and ultimately to the LVJB Board.	N/A	N/A
1.2	An appropriate governance committee is responsible for oversight of the data and records management framework. (Second Line)				<p>The LVJB Board has ultimate responsibility for oversight, but has had only limited coverage of data and records management in recent years.</p> <p>A new governance committee is being established (May 2018) that will include data and records management as part of its remit.</p> <p>The responsibilities and composition of the new committee is still being decided, but consideration should be given to ensuring Board member inclusion as well as input from specialists (Internal Audit / IT Risk Auditors etc.) as and when required.</p>	<p>1.2.1 Establish remit, scope, membership, and structure of new ‘Governance’ Committee.</p> <p>1.2.2 Incorporate Board members and (where appropriate) external specialist input into the structure / membership of the new ‘Governance’ Committee. (1.2)</p>	<p>Creation of the new “internal facing” Governance group will be established by the end of May 2018.</p> <p>The incorporation of Board members and other external parties shall be discussed and consulted upon with a view to adoption by the end of 2018.</p> <p>Owner: Bernie Callaghan, Governance Manager</p> <p>Date: 29 June 2018</p>

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
1.3	Policy and procedure documents are in place covering all aspects of data and records management; data processing; and data protection. (Second Line)		⊙		LVJB has an established and comprehensive Information and Technology Management Security Policy (ITMS Policy). This includes data and records management; data protection; and data security. However, some gaps in the content of the ITMS policy have been identified in relation to inclusion of the processes to be applied when working at home via the virtual private network (VPN) and the process to be applied in the event of a significant data breach or loss. These are covered in more detail at 5.15 and 8.1 below.	N/A	N/A
1.4	Policy and procedure documents are reviewed and updated on a regular basis. (Second Line)	⊙			The ITMS Policy is reviewed and revised annually. The last update was June 2017.	N/A	N/A
1.5	Data and records management, data processing and data protection risks are appropriately considered in the organisational risk register. (Second Line)		⊙		Data and records management and associated IT security risks are reflected in the corporate risk register. However, there is an opportunity to revise the risk register to reflect current and emerging risks as some of the content is of date. Given the significance of cyber, data and IT security risks, many organisations now maintain a supplementary 'technology and data risk' register to ensure appropriate focus on new and emerging risks and appropriate controls.	1.5.1 Update and refresh the technology and data risk aspects of the current corporate risk register. 1.5.2 Establish a more detailed and comprehensive 'technology and data risk register' to record new and emerging risks and the controls in place to manage them.	1.5.1 A review and update of the corporate risk register will be complete by June 2018. Owner: Bernie Callaghan, Governance Manager Date: 29 June 2018 1.5.2 Consideration of the creation of a "technology and data risk" register will also be completed by Autumn 2018.

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
							Owner: Bernie Callaghan, Governance Manager Date: 1 October 2018
1.6	There is regular management and Board / Committee reporting on data and records management. (Second Line)		⊙		<p>Data and records management is reported throughout the organisation (for example, to Senior Management; the IT Group; and Records Management Group).</p> <p>However, there is no formal reporting on data and records management at Board level although key messages would be communicated as required.</p> <p>The new governance committee referred to at 1.2 above will ensure more detailed and specific focus and reporting on data and records management going forward.</p>	<p>1.6.1 Establish more regular (for example quarterly or six monthly) and structured reporting (based on key performance indicators) on data and records management at Board / Committee.</p> <p>Also refer section 6 below in relation to reporting on volumes of subject access and freedom of information requests received and processed.</p>	<p>1.6.1 Summary reporting of technology/data risks will be incorporated into existing reporting procedures at Board level by the end of 2018.</p> <p>Owner: Bernie Callaghan, Governance Manager Date: 1 December 2018</p>
1.7	Relevant measurable key performance indicators have been established to support reporting on data management, data processing and data / information security. (Second Line)		⊙		<p>As noted at 1.6 above, there is an opportunity for more formal reporting in these areas.</p> <p>Management has advised the data required to prepare information for Board and governance committee reporting is available, but not consolidated into formal governance reports, and that no key performance indicators have been established.</p>	<p>1.7.1 Ensure reporting includes relevant statistics and KPIs, such as:</p> <ul style="list-style-type: none"> • Volumes of, and trends in data processed; • Data protection and security incidents and near misses; • Subject Access and Freedom of Information Requests; • Attacks filtered / stopped by firewall; Phishing incidents intercepted; and 	<p>1.7.1 Subject Access and FOI Requests are already presented at Corporate Leadership Meetings and Governance Committee. As mentioned above technology/data risk reporting will be reported on later in the year.</p> <p>Owner: Bernie Callaghan, Governance Manager Date: 1 December 2018</p>

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
						<ul style="list-style-type: none"> Unusual or exceptional network traffic. 	
1.8	Independent assurance is provided on the design and effectiveness of the data and records management framework. (Third Line)	⊙			<p>Could be covered by the scope of the annual audit performed by City of Edinburgh Council.</p> <p>An annual network penetration test and an IT security health check is performed by an accredited third-party provider to support submission of an annual public sector network compliance confirmation to the Cabinet Office.</p>	N/A	N/A
2. Training and Awareness							
2.1	Data and records management is included in the new employee induction process. (First Line)	⊙			New employee induction training includes an overview of LVJB policies and procedures and completion of a short online e-learning module, which both cover data and records management.	N/A	N/A
2.2	Annual data and records management training is provided to and completed by all employees and Board members. (First Line)			⊙	<p>All new employees and administrative employees have data and records management training via completion of an e-learning module.</p> <p>No specific training has been provided for technical staff.</p> <p>No specific training has been provided for Board members.</p>	<p>2.2.1 Ensure LVJB technical staff complete the relevant data and record management training;</p> <p>2.2.2 Consider whether data and records management training should be provided for Board members; and</p> <p>2.2.3 If provided, training should focus on General Data Protection Regulation requirements; the risks associated with data and</p>	<p>Complete: GDPR training has been rolled out to all staff. Annual refresher training will be introduced as we move forward.</p> <p>2.2.2 Data and records management training should be provided to Board members by their parent authority.</p>

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
						records management; and the controls applied by LVJB.	
2.3	Policy and procedure documents are appropriately communicated to and acknowledged by all employees, and evidence retained. (Second Line)	⊙			New employees receive an overview of LVJB policies and procedures as part of their induction training, and sign a confirmation slip. The Head of Governance is keen to establish a more specific sign off from all employees confirming their understanding of requirements of the ITMS policy. Evidence of employee completion of the e-learning module is retained by the Secretariat team.	2.3.1 Establish a specific annual sign-off from all employees to confirm their understanding of the ITMS policy.	2.3.1 All new and reviewed policies must be "signed off" via email response from staff. The emails are retained by the Governance team as evidence of this. Owner: Bernie Callaghan, Governance Manager Date: 1 May 2018
2.4	Specific data and records management and data protection training has been provided (where appropriate) to employees in higher risk roles. (First Line)		⊙		IT team members have been supported through an additional technical qualification. The Governance Manager has attended several specific events and training sessions in relation to GDPR. Senior Managers and above have also received an internal GDPR briefing. Whilst a general training plan is in place, management recognise that a more structured and strategic training plan is required in relation to data processing; records management and information security risks.	2.4.1 A structured training plan / awareness strategy should be developed and implemented, with training delivered to all relevant employees.	2.4.1 This will be introduced by the end of 2018, consideration will also be given to risk management training/awareness for Board members of the Governance committee by this date. Owner: Bernie Callaghan, Governance Manager Date: 1 December 2018

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
2.5	There is an ongoing programme of general data risk awareness within the organisation. (First Line)	⊙			Ongoing awareness is maintained via intranet content and awareness posters on noticeboards etc.	N/A	N/A
2.6	Simulated 'phishing' exercises are undertaken to assess the organisation's awareness and sensitivity to data risk. (Second Line)		⊙		<p>No simulated email phishing exercises have yet been performed, however, internal testing was performed where USB devices were left in the canteen area to observe reactions and responses.</p> <p>The Public Sector Action Plan for Cyber Resiliency (key action 6) The Scottish Government will seek assurances from Scottish public bodies that they have in place appropriate staff training, awareness-raising and disciplinary processes with regard to cyber resilience for staff at all organisational levels</p> <p>Key action 4 also requires the public sector organisations to obtain appropriate independent assurance of critical cyber security controls by end October 2018</p> <p>A network penetration test is also by an accredited third-party provider to support ongoing public sector network accreditation.</p>	<p>2.6.1 Consider performing a simulated 'phishing' exercise to assess levels of employee risk awareness and effectiveness cyber security controls by October 2018.</p> <p>2.6.2 Once completed, action plans should be established to address any weaknesses identified.</p>	<p>2.6.1 A simulated 'phishing' exercise will be undertaken by July 2018.</p> <p>2.6.2 Action Plans shall be developed following the exercise.</p> <p>Owner: Bernie Callaghan, Governance Manager Date: 1 September 2018</p>
2.7	Weaknesses identified from phishing simulation exercises	⊙			Management has advised that no significant weaknesses have been	N/A	N/A

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
	or network penetration testing have been addressed. (Second Line)				identified from penetration testing performed.		
3 Data Assets and Flows							
3.1	There is a clear, detailed, and comprehensive record of the data assets, databases and data records held by the organisation (in both soft and hard copy) which includes identifies personal, sensitive data. (First Line)	⊙			There is a detailed Data Retention and Disposal Register which specifies all key data assets; data records; and transaction record types. Roles and responsibilities for ownership; retention; and deletion of data are also clearly defined. A detailed Personal Data Audit Template has also been completed (in preparation for GDPR compliance) that outlines the data assets, applications and databases held by LVJB. This includes information on the data held, what it is used for and who it is shared with (where relevant).	N/A	N/A
3.2	There is a clearly identified individual with ownership for individual data assets, databases and records held (soft and hard copy). (First Line)	⊙			This is included as part of the Data Retention and Disposal Register described at 3.1 above.	N/A	N/A
3.3	The flow of data within and outside the organisation has been recorded, mapped, and documented – with specific focus on personal sensitive data.		⊙		The Personal Data Audit Template (spreadsheet) provides an overview of personal data sets and outlines which third parties personal data is shared with (where relevant).	3.3.1 Management should assess whether further and more detailed data mapping is required or whether the current higher level 'data structure	3.3.1 Due to the nature of this task it will be considered by the Project Management Board by the end of 2018 before a

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
	(First Line)				Some elements of data and records management processes have been mapped in detail, however these process maps do not cover the full population of organisational data flows.	mapping' already in place is sufficient to ensure GDPR compliance and highlight key data and records management risks.	decision is taken to undertake further work.
3.4	Data flow documentation is regularly reviewed and refreshed to ensure it remains accurate. (First Line)		⦿		The Personal Data Audit Template (spreadsheet) is subject to regular review, however, the Governance Manager has highlighted that further work is required to extend and refine the document.	3.4.1 Undertake further work to extend and refine the Personal Data Audit template that will be used to demonstrate GDPR compliance.	3.4.1 Complete. Further work has now taken place and the template is complete for GDPR purposes.
4 Data Retention and Destruction							
4.1	Data retention and disposal schedules are in place for all applicable data sets across the organisation. (First Line)	⦿			There is a detailed Data Retention and Disposal Register which outlines all key data record sets and transaction record types and specifies responsibilities for ownership, retention and deletion of data.	N/A	N/A
4.2	Data is archived and destroyed in line with established retention schedules. (First Line)			⦿	Management has advised that further work is required to confirm whether data is archived and destroyed in line with retention schedules.	4.2.1 A review should be performed to confirm whether data is archived and destroyed in line with retention schedules.	4.2.1 Work continues on bringing the existing LVJB Retention Management disposal schedule into force. Introduction of the GDPR should assist in this process by identifying designated Information Asset Owners and assigning implementation responsibility to the Chief

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
							<p>Assessor as Senior Information Risk Owner. July 2018</p> <p>Owner: Bernie Callaghan</p> <p>Date: 1 September 2018</p>
4.3	<p>Destruction of paper files is managed securely using secure confidential waste bins, with the contents subsequently destroyed by a certified supplier, minimising the risk of data leakage or breach.</p> <p>(First Line)</p>			⦿	<p>Paper files for destruction are disposed of into confidential waste paper sacks which are situated around the LVJB office. The paper is then shredded on site and uplifted by a certified supplier for final destruction.</p>	<p>4.3.1 Use of open sacks and on-site handling is not in line with good practice. Current arrangements should be replaced with secure confidential waste bins.</p>	<p>4.3.1 Revised arrangements will be implemented by June 2018.</p> <p>Owner: Bernie Callaghan</p> <p>Date: 29 June 2018</p>
4.4	<p>Disposal or destruction of IT equipment is performed securely using an accredited supplier to minimise the risk of data leakage or breach.</p> <p>(First Line)</p>	⦿			<p>LVJB aims to ensure that all data is held on the network and not is on mobile or peripheral devices.</p> <p>Any IT equipment to be disposed of is cleared of data internally by the IT team before being uplifted by a certified supplier.</p> <p>IT equipment awaiting uplift is stored in a separate meeting room (Salisbury Room) – management consider the risk of inappropriate access to this room to be low.</p>	N/A	N/A

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
5 Data Access and Security							
5.1	Access to LVJB premises is appropriately controlled and restricted. (First Line)	⊙			Access to LVJB premises is secured through security fob access with visitors reporting to reception. Security fobs are issued by the Secretariat team and a log is maintained of all fobs issued and returned.	N/A	N/A
5.2	Access to LVJB hard copy data and records is appropriately controlled and restricted. (First Line)	⊙			Hard copy data and records are held in lockable file stores and cupboards. The Support Services team ensure that National Insurance and Date of Birth information is not left on desks or open access areas.	N/A	N/A
5.3	A clean desk policy is in place and consistently applied at LVJB premises. (First Line)		⦿		A clean desk policy is in place but is not always observed or enforced. Clean desk sweeps and checks are not regularly performed.	5.3.1 Regular clean desk checks should be performed on an ongoing basis, with any personal data identified during the exercise appropriately secured, and feedback provided to the relevant team / employees.	5.3.1 The process of enforcement will commence from July 2018. Owner: Bernie Callaghan Date: 31 July 2018
5.4	Access to electronic data (IT systems, applications, data sets etc.) is appropriately restricted to relevant authorised employees. (First Line)	⊙			Access to the LVJB network and key applications is subject to username and password authentication controls. Access and permission rights within key applications (such as CVS) is tiered based on user roles and seniority.	N/A	N/A

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
5.5	High privilege / administrator accounts are appropriately restricted to relevant employees and do not use generic usernames / passwords. (First Line)			⊙	Management has advised that administrator accounts are appropriately restricted, however, there are some administrator accounts where generic user names and complex passwords are shared by more than one senior officer.	5.5.1 All high privilege administrator accounts should be reviewed and refreshed to ensure that all generic user names and passwords are removed, and new unique administrator accounts allocated to all senior officers.	5.5.1 This account will be disabled by June 2018. Owner: Bernie Callaghan Date: 29 June 2018
5.6	Appropriate joiners, movers and leavers procedures have been established to ensure access remains appropriate to role. (First Line)	⊙			Processes are in place for authorisation and approval of new joiners and movers to obtain access to relevant systems. A 'leavers process' is in place to remove and delete access to relevant systems.	N/A	N/A
5.7	There is a regular (at least quarterly) review of all user access rights and privileges to ensure these remain appropriate. (Second Line)			⊙	Management has advised that regular reviews are not performed due to the relatively low levels of staff turnover.	5.7.1 A structured review process should be established an implemented at an appropriate – at least every six months. This review should be performed by the IT team.	5.7.2 A new review framework will be introduced by Sept 2018. Owner: Bernie Callaghan Date: 28 September 2018
5.8	Data loss prevention software is used to highlight and restrict any inappropriate or unusual transfers of data within or outwith the organisation. (First Line)			⊙	Data Loss Prevention (DLP) software is not used by LVJB at present although this is currently being researched by the LVJB IT Manager with a view to future implementation.	5.8.1 Implement appropriate Data Loss Prevention (DLP) software covering the LVJB core network and associated applications.	5.8.1 DLP software will be introduced by the end of 2018. Owner: Bernie Callaghan Date: 21 December 2018

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
5.9	Firewall and related protection arrangements are in place to restrict inappropriate external access to IT systems and applications. (First Line)	⊙			An established firewall product is in place (Sophos Intercept X). This is tested at least annually via independent third-party penetration testing to support ongoing public sector network accreditation.	N/A	N/A
5.10	Structured system monitoring arrangements (such as review of system access logs, unsuccessful log in attempts, unusual network activity, events, or transactions etc) are in place to identify inappropriate access to IT systems and applications. (Second Line)		⊙		Several monitoring processes have been established, however, these have not been consolidated into a structured framework / oversight process	5.10.1 Establish and implement a structured system monitoring framework that specifies the nature and frequency of monitoring to be performed, and the process for escalating; reporting; and resolving any weaknesses identified.	5.10.1 The tool being evaluated at 5.8 also incorporates security and threat detection and will be supported by monitoring and review arrangements undertaken by the Information Security Officer. Owner: Bernie Callaghan Date: 21 December 2018
5.11	Any data with specific government classifications (Official - Sensitive, Secret, Top Secret) is subject to additional security restrictions and measures. (First Line)	⊙			Management has advised that no data is stored by LVJB that falls within these categories.	N/A	N/A
5.12	Email filtering arrangements are in place to reduce the risk of viruses and malware corrupting LVJB systems and networks. (First Line)	⊙			LVJB use Sophos Web Appliance software to monitor and filter incoming email and network traffic for viruses, malware, and other similar threats.	N/A	N/A

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
5.13	Employees can encrypt outgoing and incoming email messages as required.	⊙			Email encryption is not available to LVJB employees. Management has advised that there is limited need to encrypt e mails. Employees do have the ability to password protect individual attachments or ZIP files and send passwords separately. For larger data sharing requirements, LVJB has recently commenced using 'Objective Connect' software which provides a secure data sharing workspace for larger data sets.	N/A	N/A
5.14	Use of USBs and other mobile storage devices is appropriately restricted and controlled. (First Line)	⊙			All USB ports on LVJB desktops and laptops have been disabled and specific permission is required (request via the IT Manager) for any exceptions to this.	N/A	N/A
5.15	Access to LVJB networks, systems and applications from external locations (i.e. working from home / working remotely) is appropriately restricted and controlled. (First Line)		⊙		LVJB employees can access the LVJB corporate network and applications from home or other remote locations using a secure VPN (Virtual Private Network) connection. This facility is restricted to c.10-12 of LVJB's senior personnel and requires specific configuration from the IT Manager via the Windows Active Directory to establish this permission. However, details of the risks and supporting controls associated with home working and virtual private	5.15.1 The ITMS Policy should be updated to reflect the risks associated with storing or retaining electronic or hard-copy documentation at home or at other locations.	5.15.1 The ITMS Policy will be updated by July 2018 Owner: Bernie Callghan Date: 31 July 2018

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
					network (VPN access) access are not recorded in the ITMS policy.		
5.16	LVJB has an established home and mobile working policy that covers control of data on home and personal devices as well as retention of hard copy information at home or other locations. (Second Line)	⊙			Generally, employees are not permitted to access emails or the network from personal mobile devices.	N/A	N/A
5.17	LVJB's home and mobile working policy includes specific focus on the use of personal email accounts. (Second Line)		⊙		The LVJB ITMS policy (Sub Policy 2) prohibits staff from using web-based email accounts or from using personal external email accounts for work-related purposes. However, there are no established processes to ensure that sensitive papers are not sent to Board member Hotmail accounts.	5.17.1 All Board papers being set to Board member Hotmail accounts should be appropriately password protected or encrypted.	5.17.1 Only public documents i.e. Board papers are distributed via the clerk to Board members. As such, management do not consider that there is significant risk in this regard. Risk Accepted
5.18	LVJB systems, networks and applications are subject to regular updates, configuration review and patching (where required). (First Line)	⊙			The WSUS service (Windows Server Update Services) is used to update and configure all Windows software and ensure that required patches and fixes are available for application. LVJB has a 'Vulnerability Management Policy' which outlines the timing and priority of when patches and fixes are applied based on their significance. An additional network scanning and patch management tool (GFI Languard) is also used to support identify and	N/A	N/A

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
					address network patch and vulnerabilities. Other network and VMWare patches are applied manually by the LVJB IT Manager.		
6 Subject access and freedom of information requests							
6.1	Appropriate processes have been established for processing Subject Access (SARs) and Freedom of Information (FOI) requests. (Second Line)	⊙			An established process is in place which is managed by the Secretariat team and subject to overview by the Assessor and Depute Assessor.	N/A	N/A
6.2	SARs and FOI requests are dealt with and managed by an appropriately qualified individual. (First Line)	⊙			Requests are handled by Secretariat and routed to the relevant member of the management team for response.	N/A	N/A
6.3	SARs and FOI requests are responded to within the appropriate time periods. (First Line)	⊙			Management did not indicate any issues with respect to compliance with applicable SAR or FOI response timelines.	N/A	N/A
6.4	SARs and FOI requests are subject to appropriate review and redaction (where required) prior to issue. (First Line)	⊙			All responses to external parties are subject to review by the Assessor and/or the Depute Assessor. Any redactions required would be highlighted at this stage of the process.	N/A	N/A
6.5	KPIs and information on SARs and FOI performance (including failure to reply within required timeframes) are recorded and reported to the	⊙			SAR and FOI information is reported at internal management meetings but not formally covered at Board meetings –	The relevant management action is covered at section 1.6 above.	N/A

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
	Board / Governance Committee (Second Line)				any significant or notable issues would be highlighted where appropriate.		
7 Third Party Data Sharing Arrangements							
7.1	Appropriate arrangements have been established to ensure that data sharing with third parties is compliant and secure. (Second Line)		⊙		<p>Significant volumes of data are shared with relevant local authorities (Edinburgh, East Lothian, Midlothian, and West Lothian); the Scottish Assessors Association; external printers; and a wide range of stakeholders and interested parties.</p> <p>A summary Memorandum of Understanding (MoU) is in place with the main external printer used but formal data sharing agreements are not in place with other key third parties.</p>	<p>7.1.1 Establish formal data sharing agreements with key third parties to ensure that the process applied is compliant with applicable regulations and secure.</p> <p>These should include (but not be restricted to):</p> <ul style="list-style-type: none"> Clearly defined roles and responsibilities for the data sharing process; A clearly defined escalation and resolution process to be applied in the event of any issues or breaches. The Board should be made aware of all significant data sharing arrangements with third parties. 	<p>7.1.1 Management have commenced the creation of Data Sharing Agreements and key contract reviews are currently underway to align with impending GDPR requirements.</p> <p>Owner: Bernie Callaghan Date: 1 December 2018</p>
8 Data Breaches							
8.1	Response plans are in place for dealing with data breaches or data losses.		⊙		The ITMS Policy does not include a specific section covering actions	8.1.1 Update / modify the ITMS Policy to include the process to be applied in	8.1.1 The ITMS policy will be updated by July 2018. Owner: Bernie Callaghan

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
	(Second Line)				required in the event of a significant data breach or loss incident.	<p>the event of a significant data breach or data loss incident. This should include, but not be restricted to:</p> <ul style="list-style-type: none"> • Roles and responsibilities of employees and senior officers; • Responsibility for reporting significant breaches to the Information Commissioner's Office; • The process for communicating the breach to any impacted third parties; and • Frequency of testing incident plans. 	Date: 27 July 2018
8.2	Relevant training to support incident response plans has been developed and delivered. (Second Line)			⦿	See comments at 8.1 above	See recommendation at 8.1 above.	See 8.1
9 GDPR Readiness							
9.1	A GDPR preparation and implementation plan has been established. (Second Line)	⦿			The Governance Manager has developed an outline GDPR preparation and implementation plan.	N/A	N/A
9.2	Privacy notices have been reviewed and updated in line with GDPR requirements. (Second Line)	⦿			The Governance Manager has drafted updated privacy notices and is in the process of finalising these.	N/A	N/A

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
9.3	A comprehensive GDPR gap analysis has been undertaken. (Second Line)	⊙			<p>An assessment of GDPR requirements in comparison to current operational processes has been performed.</p> <p>Whilst this has not been fully documented, the assessment has not highlighted any significant gaps that are not already being addressed by management.</p> <p>The Governance Manager is attended a 4-day GDPR course at the end of March 2018 and will use this as an opportunity to consider whether any additional action is required.</p>	<p>9.3.1 Known GDPR compliance gaps should be documented together with supporting action plans, and presented to the Board.</p> <p>This paper should also include details of any additional resources to address the gaps identified.</p>	<p>9.3.1 This will be presented at the September 2018 Board meeting.</p> <p>Owner: Graeme Strachan Date: 3 September 2018</p>
10 Business Change Projects							
10.1	Data privacy considerations are fully reflected in business change projects. (First Line)	⊙			<p>Management has advised that there have been no recent business or system change projects which presented significant impacts from a privacy or data protection perspective.</p> <p>Whilst the Transformation and Cultural Change Project (TCCP) was significant, it did not involve any substantive change or new use of personal data.</p> <p>Business changes associated with the Barclay Review and the proposed Tram Extension are more likely to involve data privacy considerations.</p>	10.1.1 Data privacy considerations should be included in planning for the Barclay and Tram Extension projects.	Complete: Data Privacy Impact Assessments are already embedded in the Project Initiation Documents for Barclay and Tram Extension projects
10.2	Privacy by Design (PBD) and Privacy Impact Assessment (PIA) methodologies are used to support key business change projects.	⊙			The Governance Manager is familiar with the Privacy by Design (PBD) and Privacy Impact Assessment (PIA) methodologies and will ensure that	10.2.1 PBD and PIA methodologies should be documented and shared with other employees to	See 10.1.1 above.

Ref	Expected Control	Established			Observation	Recommendation	Agreed Management Action and Timeframes
		Y	P	N			
	(Second Line)				these are applied to future business change projects.	mitigate any potential key person dependency risk.	

Appendix 2 - Basis of our Classifications

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 3 – Terms of Reference

Lothian Valuation Joint Board

Terms of Reference – Review of Data and Records Management Arrangements

To: Graeme Strachan, Principal Assessor; Bernie Callaghan, Governance Manager

From: Lesley Newdall, Chief Internal Auditor; Paul McGinty, Principal Audit Manager

Date: 12/02/18

This Internal Audit review is undertaken as part of the Lothian Valuation Joint Board Internal Audit coverage plan for 2017/18. Given the financial, fiscal and democratic importance of the registers managed and maintained by LVJB, there is obviously a clear expectation that LVJB's arrangements for data and records management are robust and fully in line with good practice. As such, as part of the Internal Audit coverage for 2017/18, senior officers requested that we ensure some focus on overall data and records management arrangements.

Scope

Based on the planning discussions outlined above, we agreed that we would undertake a high level 'baseline' assessment of LVJB's broad data and records management arrangements. This involved consideration of the following aspects:

- Overall Policy and Governance
- Training and Awareness
- Data Assets and Flows
- Data Retention and Destruction
- Data Access and Security
- Subject Access Requests
- Freedom of Information Requests
- Third Party Data Sharing
- Data Breaches
- GDPR Preparation and Compliance
- Business Change Projects
- IT Security Risk Considerations.

Approach

Our approach involved:

- Meetings, interviews and inquiries with relevant managers and officers to understand current arrangements
- Review of relevant policies, procedures, documentation and management reports
- Use of our baseline control assessment framework model to compare expected controls, activities and procedures with current arrangements (see Appendix 1)
- Highlighting any identified gaps or opportunities for improvement for management consideration and action.

Scope Limitations

It should be noted that our assessment at this stage represents a high-level baseline review of current arrangements – we have not undertaken testing of the effectiveness of existing controls as part of this review. The framework outlined in Appendix 1 can be further developed and refined in subsequent periods and used to provide the basis for targeted first, second and third-line testing* as required.

In 2014/15 LVJB obtained accreditation to access certain services (such as the Cabinet Office Individual Electoral Registration Digital Service) over the Public Services Network (PSN). PSN is the UK Government's secure high-performance network and access to use it requires LVJB to demonstrate compliance with a range of IT security requirements proscribed by the Cabinet Office. This also requires LVJB to commission an annual Network Penetration Test and IT Security Healthcheck from a Crest accredited advisor and to submit an annual compliance confirmation to the Cabinet Office. Our work has not sought to repeat or re-assess any aspect of PSN compliance (or the external Penetration Test or Healthcheck) as part of this exercise

Internal Audit Team

Name	Role	Contact Details
Lesley Newdall	Chief Internal Auditor	Lesley.Newdall@edinburgh.gov.uk
Paul McGinty	Principal Audit Manager	Paul.McGinty@edinburgh.gov.uk

Key Contacts

Name	Title	Role	Contact Details
Bernie Callaghan	Head of Governance	Key Contact	Bernie.Callaghan@lothian-vjb.gov.uk
Graeme Strachan	Principal Assessor	Review Sponsor	graeme.strachan@lothian-vjb.gov.uk

Lothian Valuation Joint Board

Internal Audit Report

Review of LVJB Business Rates Internal Assurance Framework

27 August 2018

LVJB1702

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This Internal Audit review is undertaken as part of the established service level agreement with the Lothian Valuation Joint Board that covers provision of Internal Audit services by the City of Edinburgh Council.

The review is designed to help the Lothian Valuation Joint Board assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose or by any other party.

The internal audit work and reporting has been performed in line with the requirements of the Public Sector Internal Audit Standards (PSIAS) and as a result is not designed or intended to comply with any other auditing standards.

Whilst a number of specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud.

This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate

1. Background and Scope

Background

The Lothian Valuation Joint Board (LVJB) is a statutory entity established under the 1995 Valuation Joint Boards Order. LVJB provides a range of specialist valuation and electoral registration services for the Edinburgh; East Lothian; West Lothian; and Mid Lothian local authorities, and is responsible for the management and ongoing administration of their Business Rates Valuation Rolls; Council Tax Valuation Lists; and Electoral Registers.

LVJB delivers these services on an operating budget of c.£6m, but generate circa £600m of Business Rate and Council Tax revenue across for local authorities.

The financial, fiscal, and democratic significance of the activities performed by LVJB reinforce the need to ensure that they have strong operational controls that are adequately designed; operate effectively; and are and consistently applied, with supporting governance and assurance frameworks.

Operational control; governance; and assurance frameworks can be considered in the context of the three lines of defence model where the first line is those employees responsible for applying controls when performing operational processes; the second line is those responsible for defining the frameworks and policies that apply to operational processes and assessing ongoing compliance with them; with the independent third line responsible for providing assurance that the framework is appropriately designed and operating effectively.

All amendments to LVJB's core registers are subject to review and checking by (first line) team members. Additionally, there is a small team of two (second line) employees who provide internal assurance across the three core areas of LVJB's operations outlined above.

LVJB receives (third line) Internal Audit services from both the City of Edinburgh Council who provide assurance on key operational controls; and their external auditors (Scott Moncrieff) who provide assurance on financial controls; with the outcomes of their work provided to the LVJB Board. Additional assurance is also provided by external third parties, for example, the independent third party assurance provided on IT security to confirm ongoing compliance with the Scottish Government's Public Sector Network requirements).

Scope

Our review was performed as at **31 March 2018**, and focused on the adequacy of design of the business rates valuation governance and assurance framework. The objective of the review was to:

- Assess the adequacy of the design of existing internal assurance arrangements; and
- Identify opportunities to further improve and develop these arrangements;

Scope Limitations

The Council Tax and Electoral Register governance and assurance frameworks were specifically excluded from the scope of our review.

2. Executive Summary

Our review confirmed that the business rates internal assurance framework is generally adequate, with enhancements required. This assessment is based on the outcomes of our review; the fact that there have been no significant issues identified with the completeness and accuracy of source business rates valuation data; and no significant valuations errors.

Whilst LVJB has an established first and second line business rates valuation assurance framework, it is not currently used efficiently and effectively as resources are not focused on the most significant risks associated with maintaining the valuation roll and calculating rateable values.

Consequently 10 findings have been raised (8 medium and 2 low) highlighting the need to improve the internal assurance framework. Addressing these findings will ensure that first and second line assurance over the operational and system controls supporting maintenance of the valuation roll and valuations calculations is strengthened to mitigate more effectively exposure to the risks associated with these processes.

Further detail on the findings raised are included at Section 3 below - [Detailed Findings and Agreed Management Actions](#); and with further supporting detail on the risk and control assessments performed at [Appendix 1 – Valuation Roll – Risk and Control Assessment](#).

Once implemented, LVJB would also derive benefit from implementing similar risk based assurance frameworks across the Council Tax and Electoral Register teams.

Finally, it is recommended that progress with implementation of these findings is monitored via the new Governance Committee, with regular progress updates provided to the Board.

Internal audit will also review the full population of the High and a sample of the moderate rated actions as part of the 2019/20 LVJB review to confirm that they have been effectively implemented and sustained.

3. Detailed Findings and Agreed Management Actions

Rating	Initial Observation / Recommendation	Agreed Management Action and Date	X Ref to App 3
Medium	<p>1. Business Rates Assurance Framework</p> <p>LVJB should develop and implement an appropriate risk based business rates valuation assurance framework that is applied across the operational processing (first line) teams and assurance (second line) teams.</p> <p>This model should include first line assurance checks performed by operational management, and review of those management checks performed by second line assurance teams.</p> <p>Sampling methodology should be developed and implemented to support the framework, detailing the number (based on volumes) and nature of roll changes and rateable value calculations to be reviewed, with focus on the most significant risks associated with maintaining the valuation role and calculating rateable values.</p> <p>This could include (for example) additional review of higher risk properties; higher risk property classes; and highly valued properties with fewer checks performed on lower risk properties and roll changes.</p> <p>Meaningful thresholds and limits such as <£15,000; £15,001 - £18,000; and £18,001 - £35,000 should also be considered as small business relief levels can be applied to properties where rateable values fall within these categories. Some further areas for consideration are included at Appendix 3.</p> <p>The volume and depth of checks to be performed should consider resource availability; the skills and experience of the first line (operational) team members with (for example) more focus on new starts or poor performers; and ensure appropriate rotation and segregation of duties in checking responsibilities.</p> <p>Management should also consider the whether it would be beneficial to implement external quality assurance checks in collaboration with other valuation boards on a reciprocal basis.</p> <p>Once implemented, management should also consider extending this framework to Council Tax and Electoral Register processes.</p>	<p>LVJB is progressing with an improved Governance and Assurance model and will take account of the elements outlined in Appendix 3.</p> <p>This shall be raised through the Scottish Assessors Association with a view to establishing the possibility of reciprocal review processes.</p> <p>Head of Governance – Dec 2018</p>	E; F; G; S; Y
Medium	<p>2. Governance Framework</p> <p>The new Governance Committee should be constituted in line with Audit Committee good practice - a number of 'good practice' and guidance documents have been shared with LVJB to assist with the development of the Governance Committee remit / terms of reference.</p>	<p>The new Governance Committee will be constituted by May 2018 with a formal remit which takes account of these good practice and guidance documents.</p>	AA

	<p>Detailed Internal Audit and other assurance reports should be circulated to the new Governance Committee with summaries provided to the Board where appropriate.</p>	<p>Detailed Internal Audit reports will be circulated to the new Governance Committee with summaries provided to the Board.</p> <p>Head of Governance – May 2018</p>	
Medium	<p>3. Business Rates Avoidance Processes</p> <p>LVJB should document the current processes applied to mitigate against the key risk of business rates avoidance, considering the processes and controls applied by local authorities (for example, notification of new buildings developed with no planning consent).</p> <p>Emphasis should be placed on the processes to be applied to establish the correct effective date from which Rateable Value increases apply.</p> <p>This will provide the opportunity to assess whether these processes are adequate or whether additional measures should be considered.</p> <p>There may be merit in considering recent developments in England where LVJB management highlighted that many businesses have evolved their 'business rates avoidance' controls.</p>	<p>Agreed. The framework of current arrangements will be documented assessed and reported. Specific consideration will be given to the areas noted opposite.</p> <p>Head of Governance – Dec 2018</p>	A
Medium	<p>4. Local Authority Source Data Filtering</p> <p>Management should ensure that the new process for manually filtering planning permission, building warrant and completion certificate information received from local authorities is fully assessed prior to implementation, as there is a risk that information that could impact the rateable value could be inadvertently filtered.</p> <p>The process should be documented, and clear guidance provided on the nature of information that will not impact rateable values and can be ignored.</p> <p>It will also be important to ensure appropriate segregation of duties in the filtering process.</p> <p>Sample based checking should also be applied to the filtering process to ensure that no significant error have been made.</p>	<p>Agreed. These aspects will be considered as part of the implementation of the new arrangements.</p> <p>Head of Governance – May 2018</p>	B; M
Medium	<p>5. Performance and Exception Reporting</p> <p>Management should consider how existing business rates valuations operational performance reporting could be improved to provide a clearer view of performance.</p> <p>Management should also consider reporting on potential 'Tax Loss' situations where an increase in Rateable Value has been 'delayed' into a subsequent fiscal year thus limiting the ability to apply an increase in Rateable Value for the entire period since the change occurred.</p>	<p>Agreed. Management have already commenced work in this respect and intend to establish a suite of such reporting – in developing this we will assess our longer-term requirements for data analytics and wider reporting.</p>	C; G; J; K; L; N; R; T; Z

	<p>Additionally, regular exception reporting should be developed and implemented detailing any unusual or exceptional transactions processed, for example: unusual reductions in rateable value; changes close to applicable small business relief thresholds; 'delayed' projects; and instances where expected changes in Rateable Value do not occur.</p> <p>These exception reports could also include 'alerts' to highlight transactions which are approaching key deadlines.</p> <p>Finally, management should consider use of data analytics to support sample selection for the assurance process; and identification of any unexpected anomalies in the valuation roll.</p>	Head of Governance – Dec 2018	
Medium	<p>6. Spreadsheet Model Guidance and Oversight</p> <p>LVJB should establish general guidance on creating, maintaining, and reviewing spreadsheet models. Guidance should include, but should not be restricted to:</p> <ul style="list-style-type: none"> • use of password protection to ensure the spreadsheet cannot be accessed and amended in error; • use of cell protection to protect complex macros and formulae; • the requirement to document assumptions and rationale supporting the model; • Details of any external evidence provided to support the calculations; and • Protocols for naming and filing these spreadsheets so that they can be easily located in the event of a rateable value calculation. <p>The process for risk based independent review and validation of spreadsheets should also be documented. It is important that this validation process is applied prior to generation of final rateable value calculations.</p>	<p>Agreed. New arrangements will be implemented in this regard.</p> <p>Head of Governance – Dec 2018</p>	D
Medium	<p>7. Corporate Policies – Employee Inducement and Conflicts of Interest</p> <p>Management should consider whether adequate corporate policies; procedures; and employee guidance; have been established in relation to situations where employees could be subject to inappropriate influence or inducement when assessing the Rateable Value of individual properties.</p>	<p>A review will be undertaken to assess the adequacy of our current policies and arrangements in this regard.</p> <p>Head of Governance – Dec 2018</p>	L
Medium	<p>8. User Entitlement Reviews</p> <p>A quarterly / six-monthly review of all access permissions and authorities on the CVS / Civica systems should be implemented to ensure that these remain appropriate and that access is appropriately restricted to relevant modules / sections of the system in line with employee roles and levels of seniority.</p>	<p>Agreed. This will be established.</p> <p>Head of Governance – Sep 2018</p>	O; P; Q
Low	<p>9. Third Party Documentation supporting Valuations</p>	<p>Professional valuation staff apply experience and judgement to a range of information</p>	H

	<p>Management should consider whether there would be benefit in establishing clear guidance as to what is acceptable from, and what reliance can be placed upon, documentation provided by third parties.</p> <p>For example, are all certifications by Advisors worthy of equal reliance, and are distinctions drawn between certification reports provided by 'Accountants' and 'Chartered Accountants'?</p>	<p>sources to support valuation decisions. The creation of baseline standards shall be considered as part of ongoing changes and improvements.</p> <p>Head of Governance – June 2018</p>	
Low	<p>10. Best Practice Sharing with Local Authorities</p> <p>The LVJB Governance team should consider meeting with the local authority Assessment Roll teams to gain a more informed and detailed understanding of how weekly interface files are used for reconciliation purposes at local authority level and to identify opportunities for incremental improvement and development in current arrangements.</p>	<p>Agreed. We will seek to have a first round of meetings by Sep 2018.</p> <p>Head of Governance – Dec 2018</p>	

Appendix 1 – Valuation Roll – Risk and Control Assessment

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
A	Risk that properties are not included on the Valuation Roll.	<p>The historical basis of the Valuation Roll and processes established to capture new properties (refer below) make it unlikely that existing properties would consistently excluded from previous quinquennial revaluation exercises.</p> <p>Some property categories (for example ATMs, mobile masts; construction portacabins; or stalls in shopping malls) could be established with no formal notification (Senior officers explained that such risk trends are generally picked up on by LVJB professionals.</p> <p>Management has also confirmed that a number of compensating controls exist, such as the vigilance and local knowledge of LVJB professionals; or adjacent owners advising re any new properties.</p> <p>Some properties are also excluded from the Valuation Roll - such as agricultural properties.</p>	Finding 3	<p><u>Second Line</u></p> <p>Regular review to confirm that processes are consistently applied by all valuers.</p>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
B	<p>New properties are built, but are not added to the Valuation Roll.</p> <p>OR</p> <p>New properties are built but are not added to the correct local authority Valuation Roll.</p>	<ol style="list-style-type: none"> 1. New properties are legally required follow local authority planning, building warrant and completion certificate approval processes. Consequently, LVJB receives weekly updates on planning permission; building warrants; and completion certificates from each local authority that are used to update to update the roll. 2. Where new properties are built without securing the necessary planning or building warrant permissions, compensating controls include local knowledge of LVJB professionals or adjacent owners making LVJB or the local authority aware of any new properties. 3. A weekly reconciliation is performed between details of planning and building warrant applications and completion certificates and the relevant local authority valuation rolls to confirm that they are complete and accurate, with any exceptions identified addressed and resolved. 	Finding 4	<p><u>Second Line</u></p> <p>Regular sample testing by second line assurance teams to confirm that the filtering process is consistently applied in line with guidance.</p> <p>Any exceptions should be recorded and discussed with the teams performing the filtering exercise.</p>
C	<p>A property is changed (as described at 2 above) but this is not reflected on the Valuation Roll on a timely basis.</p> <p>OR</p> <p>An inaccurate 'effective date' is applied.</p>	<ol style="list-style-type: none"> 1. LVJB's main responsibility is to ensure that it accurately reflects the change in the Valuation Roll and the Effective Date of the change and communicates this to the local authority. Management reporting on elapsed time between the Effective Date of the assessment and the change recorded on the Valuation Roll is provided each month to the LVJB Corporate Leadership Team. 2. Valuers are required to include explanations on the CVS system for any changes processed more than 3 months after the effective assessment date. This report is also provided to the monthly Corporate Leadership team meetings. 	Finding 5	<p><u>First Line</u></p> <p>Review of performance reporting by first line assurance teams and investigation of any items that seem unusual or do not meet any expectations.</p> <p>The outcomes of these reviews and investigations should be documented.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks to ensure that they are performed effectively, with focus on ensuring that explanations for any anomalies are adequate</p> <p>Testing to confirm the ongoing accuracy of KPIs included in the performance reports.</p>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
D	Rateable Value calculations are incorrect.	<ol style="list-style-type: none"> The majority of RV calculations are performed calculations by CVS system. If there were underlying errors in the CVS system it is likely that these would have been identified already, as a significant volume of RV's would be incorrectly calculated. For more complex properties, RV calculations are performed in separate spreadsheets with the numbers calculated then entered into CVS. A senior colleague is unlikely to cross-check and recalculate every element of an underlying spreadsheet (which is understandable) but will apply professional judgement and experience to the review process as appropriate. 	Finding 6	<p><u>First Line</u></p> <p>Review of accuracy of spreadsheet calculations prior to entry into the CVS system.</p> <p><u>Second Line</u></p> <p>Review of a sample of spreadsheet models to ensure that they are developed and maintained in line with guidance.</p> <p>Review of ongoing accuracy of CVS RV calculations.</p>
E	Rateable Value calculation includes errors as a result of an incorrect application of the relevant Valuation Rules / Practice Notes.	<ol style="list-style-type: none"> The valuation process is supported by a detailed framework of guidance and practice notes as well as the ability to consult with colleagues internally or at other Valuation Boards. Errors in the application of technical guidance would be made in the first instance by the employee performing the valuation, and then remain undetected by the more senior employee performing an independent review. Reliance on the professional judgement, diligence and experience of the employee performing the valuation calculation and the senior person reviewing the calculation. <p>LVJB management is at the early stage of planning a move away from a full secondary review model to a more risk-based approach. Secondary review of all transactions / changes has been a core part of LVJB's approach (and culture) for many years – and it will be important to assess the risks and practicalities associated with moving to a new arrangement where this is not the case.</p>	Finding 1	<p><u>First Line</u></p> <p>Regular risk based reviews by Senior employees prior to completion of changes and calculation of RV to ensure that processes and guidance have been applied.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks to confirm that they are being performed effectively and all exceptions identified and resolved.</p>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
F	Properties are incorrectly valued due to complexity, size, or the specialised nature of the property (such as plant or machinery valuations or other specialist factors). Main risk is undervaluation as rate payer has right of appeal if valuation is perceived as being too high.	Professional judgement, experience and diligence of the employee performing the valuation calculation and the more senior person reviewing the calculation.	Finding 1	<u>First Line</u> Regular risk based reviews by Senior employees prior to completion of changes and calculation of RV to ensure that processes and guidance have been applied. Regular review of performance reporting to identify any instances of undervaluation for subsequent investigation. <u>Second Line</u> Review of a sample of first line checks to confirm that they are being performed effectively and all exceptions identified and resolved.
G	Rateable Value calculations are incorrect due to incorrect measurements / dimensions / size of the property as recorded on CVS.	<ol style="list-style-type: none"> 1. Management has advised that 'clerical errors' can occur despite reliance on the professionalism and diligence of the team members; existence of guidance and practice notes; and first line reviews. 2. If a clerical error resulted in a material or recurring error in Rateable Value, LVJB does have the option of revisiting this and revising the Effective Date (albeit such instances would be very rare). 	<p>Finding 1</p> <p>Finding 5</p>	<u>First Line</u> Regular risk based reviews by Senior employees prior to completion of changes and calculation of RV to ensure that processes and guidance have been applied. <u>Second Line</u> Review of a sample of first line checks to confirm that they are being performed effectively and all exceptions identified and resolved.
H	Underlying information provided by third parties used for Rateable Value calculations is incorrect.	<ol style="list-style-type: none"> 1. LVJB has legal authority to request a range of relevant rental and financial information from these parties. 2. Information provided is often supported by certifications and correspondence from other parties such as Financial Advisors or Accountants 	Finding 9	<u>First Line</u> Review of documentation provided by third parties to confirm authenticity and accuracy prior to completion of RV calculation. <u>Second Line</u>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
	OR Properties that do not exist are included on the Valuation Roll.	3. Professional judgement of the valuers to assess and consider this information with respect to accuracy / reliability. 4. Comparison to other similar properties 5. Second review by senior team member		Review of a sample of first line checks to confirm that they are being performed effectively and all exceptions identified and resolved.
I	Other information (for example Owner, Tenant, Proprietor) recorded on the Valuation Roll is incorrect.	LVJB is responsible for the Valuation Roll and local authorities are responsible for the Assessment Roll. Local authorities rely upon LVJB for Rateable Value and Effective Date data and are less concerned with other fields such as they use data in their own systems to generate bills. Local authorities currently do not share their more up to date information with LVJB. In practice, this means that LVJB will, on some occasions, be issuing incorrect correspondence (such as Valuation Notices). The scale of this issue is not easy to quantify but LVJB management are engaged in discussions with local authority partners to address this.	Finding 10	N/A
J	Information regarding reliefs, allowances or discounts which impact rates recovery are inaccurate or incorrect.	1. Responsibility for managing all reliefs and discounts regarding commercial rates is the responsibility of the relevant local authority. LVJB's core responsibility remains the Rateable Value and the effective date. 2. It was noted that the Small Business Bonus Scheme that provides business rates relief applies to properties with Rateable Values of <£15,000; £15,000-£18,000; and £18,000-£35,000. In terms of LVJB's consideration of exception and analytical reporting, there may be some merit in considering valuation trends and practices in relation to these values.	Finding 5	<u>First Line</u> Review of exception reports to identify any odd or unusual reductions in RVs that reduce thresholds sufficiently to qualify for discounts or relief, and perform checks to supporting documentation. <u>Second Line</u> Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
K	Inappropriate or unauthorised amendments made to the Valuation Roll.	<ol style="list-style-type: none"> Changes would be made by a member of the LVJB team and then subsequently reviewed and approved by a second more senior team member. Consequently, collusion would be required. Reductions in Rateable Value would tend to 'be of interest' and therefore subject to close scrutiny when checked as part of the secondary review process. <p>We did note that there is no 'separate' or selective checking of reductions in Rateable Value or, for example, a weekly or monthly exception report of detailing all reductions in Rateable Value.</p>	Finding 5	<p><u>First Line</u></p> <p>Review of exception reports to identify any odd or unusual reductions in RVs that reduce thresholds sufficiently to qualify for discounts or relief and check these to supporting documentation.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.</p>
L	LVJB employees are subject to inappropriate influence in performing their duties.	<ol style="list-style-type: none"> Professionalism of the LVJB personnel. Collusion would be required as any inappropriate undervaluation changes would need to be processed by a member of the LVJB team, and then subsequently reviewed and approved by a second more senior team member. 	Finding 5 Finding 7	<p><u>First Line</u></p> <p>Review of exception reports to identify any odd or unusual reductions in RVs that reduce thresholds sufficiently to qualify for discounts or relief and check these to supporting documentation.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.</p> <p>Obtain confirmation that all employees have read and understood policy and guidance on an annual basis.</p>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
M	LVJB employees are subject to inappropriate influence to remove or exclude properties or amend their details.	<ol style="list-style-type: none"> 1. Professionalism of the LVJB personnel. Collusion with senior reviewer would also be required. 2. LVJB has implemented a new manual process where planning permission, building warrant and completion certificate information is 'filtered' in advance by a Divisional Valuer and therefore may not be uploaded into Civica / CVS if considered immaterial <p>This is an important process change and could increase the risk that changes in Rateable Value are not reflected on the Valuation Roll (as there would be no separate indication that a change in value had occurred if it was manually filtered out).</p>	Finding 4	<p><u>Second Line</u></p> <p>Review of the data filter process to ensure that it is being applied in line with applicable guidance.</p>
N	Inappropriate amendments are made to the Valuation Roll in error	<ol style="list-style-type: none"> 1. Reliance on the professional experience and diligence of those with access to the CVS system i.e. that errors or mistaken entries are not made. 2. All changes are currently subject to secondary review and checking by a more senior colleague - therefore any obviously incorrect or mistaken entries should be identified through this review. 3. A daily report of all transactions processed within each team is also available from the CVS system for each Team Manager - as such, review of this report would provide another opportunity to identify any obviously incorrect entries which had not been identified via secondary review and checking. 	Finding 5	<p><u>First Line</u></p> <p>Review of exception reports to identify any odd or unusual reductions in RVs that reduce thresholds sufficiently to qualify for discounts or relief and check these to supporting documentation.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.</p>
O	Inappropriate access to the Valuation Roll.	<ol style="list-style-type: none"> 1. Access to the Civica and CVS applications is controlled through the Windows Active Directory network management system. 2. Network access is controlled through username and password. An additional user name and password access is required to enter the Civica application whilst network access provides a single sign on to the CVS system. 	Finding 8	<p><u>First Line</u></p> <p>Review of team system access rights to confirm that all leavers have been removed; new starts have been allocated appropriate access rights; and that systems access has been updated to reflect internal changes.</p> <p><u>Second Line</u></p>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
		3. There is currently no structured or regular review of user access rights across the Civica and CVS applications on an ongoing basis.		Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.
P	Employees obtain access to elements or modules of the CVS system which they should not have access to.	<ol style="list-style-type: none"> 1. Network rights and permissions are controlled by the IT Department with approvals for new joiners and changes required from relevant Departmental / Line Managers. 2. Access permissions within Civica and CVS are based on job roles with specific settings available for different levels and modules of access. (Civica has more granularity in this respect than CVS). 	Finding 8	<p><u>First Line</u></p> <p>Review of team system access rights to confirm that all leavers have been removed; new starts have been allocated appropriate access rights; and that systems access has been updated to reflect internal changes.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.</p>
Q	Unauthorised or inappropriate access is obtained due to weak or ineffective password or access controls.	<ol style="list-style-type: none"> 1. Windows Active Directory password settings are in place as a first line of defence in this regard. 2. An additional username and password access is required for the Civica system. 	Finding 8	<p><u>First Line</u></p> <p>Review of team system access rights to confirm that all leavers have been removed; new starts have been allocated appropriate access rights; and that systems access has been updated to reflect internal changes.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.</p>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
R	Changes to the Valuation Roll are complete and accurate but are not made on a timely basis.	<ol style="list-style-type: none"> 1. Daily reports are generated from the CVS system that show the activity and changes made the previous day. 2. Team Managers receive an auto-email report with visibility of the changes being processed by their team members. 3. The Civica system provides a series of queues and intrays which show the work flow and status across the various teams. 4. Management has overall visibility of volumes and status as well as the ability to search flexibly on a wide range of criteria. 5. No 'alert' reports have been established detailing actions due within specific timeframes, or transactions awaiting review. 	Finding 5	<p><u>First Line</u></p> <p>Review of exception reports to identify any odd or unusual reductions in RVs that reduce thresholds sufficiently to qualify for discounts or relief and check these to supporting documentation.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.</p>
S	Secondary / senior review of changes to the Valuation Roll fails to identify errors or inaccuracies.	<ol style="list-style-type: none"> 1. All changes to the system require a second review by a more senior team member (within the same team) which is recorded and noted in the CVS system ensuring there is a clear audit trail for the review of all transactions. 2. Risk that the review process could become a 'rubber stamping' or token gesture process - ultimately this is down to the professionalism of the individuals involved in the review process. 3. Management is considering implementation of new arrangements where certain lower risk transactions may not be subject to secondary review albeit this is not fully developed or implemented yet. 	Finding 1	<p><u>First Line</u></p> <p>Regular risk based reviews by Senior employees prior to completion of changes and calculation of RV to ensure that processes and guidance have been applied.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks to confirm that they are being performed effectively and all exceptions identified and resolved.</p>
T	Management information and KPIs generated are not accurate or robust.	Current management reports focus upon timeliness and volume of changes made to the Valuation Roll - with a strong focus on changes processed more than 3 months or more than 6 months after the effective date. Reports focus on volume and timeliness by person and by team.	Finding 5	<p><u>First Line</u></p> <p>Review of exception reports to identify any odd or unusual reductions in RVs that reduce thresholds sufficiently to qualify for discounts or relief, and perform checks to supporting documentation.</p> <p><u>Second Line</u></p>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
				Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.
U	Third party reports and KPIs produced by LVJB are incomplete or inaccurate.	<ol style="list-style-type: none"> 1. Management has advised that there are few bespoke reports or outputs generated for specific third parties. 2. Some specific data sets are provided to the Scottish Government. 3. A number of third parties (for example Equifax or Scottish Water) make significant use of and rely upon the underlying Valuation Roll data sets - this underlines the importance of the Valuation Roll as the de facto data set for commercial property. 	No finding raised	N/A
V	Data transmission / data interface to local authorities is incomplete, inaccurate, or subject to error.	<ol style="list-style-type: none"> 1. The Valuation Roll interface files comprise 6 main data fields: 1 Inserts (new properties added); 2 Amends (changes to Rateable Values); 3 Deletion/Amends; 4 Name Changes (changes to name of owner / tenant); 5 Property Number Changes; 6 Deletes (properties removed or demolished). 2. CEC has advised that the principal data field transferred into the CEC Northgate iWorld system is the Rateable Value - in general, other data fields (such as owner or tenant) are not used. 3. On some occasions, data may be rejected (e.g. if a data field is already populated). A 'receipt' email file is received from the constituent councils and is saved in the LVJB Interface file email tray. LVJB staff explained that very occasionally a notice may be withdrawn from the interface report if an error or oversight is identified by one of the valuers after the interface file has been sent. On such occasions, IT would be contacted to rectify the matter. 4. A weekly check is in place where LVJB staff confirm that the interface files have been sent to each local authority by auto-email. 	No findings raised	N/A.

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
		<p>An email read receipt is received and this is saved as confirmation that the file has been received by the relevant local authority.</p> <p>Local authorities are not contacted unless there is a specific issue or problem with the interface file - this is very rare.</p>		
W	Data is not adequately protected or secured and could be lost, corrupted, or inappropriately accessed / deleted.	<p>Management has advised that there is robust on-site and off-site back up and IT continuity arrangements have been established.</p> <p>A framework of IT access and security controls is in place.</p>	No findings raised	N/A
X	Data recorded on the CVS system is subject to a cyber or ransomware attack or similar security incident or similar issue.	A framework of IT access and security controls is in place which includes firewalls and email filtering.	No findings raised	N/A

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
Y	Management and maintenance of the Valuation Roll is not subject to appropriate internal or external assurance	<ol style="list-style-type: none"> 1. The current internal assurance activities performed are narrowly focused on the weekly interface file process and a few other targeted areas. 2. Current assurance activities are not risk-based; take place after transmission of interface files; are not supported by a clearly defined assurance framework; and provide limited assurance to senior management. 3. We understand that a full 'changes' report showing all the detailed changes is also generated from the system but this is not used by the internal assurance team. 4. LVJB third line independent assurance is provided by Scott Moncrieff as External Auditors focusing on focuses financial controls and CEC Internal Auditor who provide one review per annum. 5. There is no other independent third party quality assurance provided in relation to operational processes. 	Finding 1	<p><u>First Line</u></p> <p>Regular risk based reviews by Senior employees prior to completion of changes and calculation of RV to ensure that processes and guidance have been applied.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks to confirm that they are being performed effectively and all exceptions identified and resolved.</p>
Z	Data analytics or other information analysis tools are not used to inform, assess, and scrutinise the governance, control, and performance of the Valuation Roll process.	<ol style="list-style-type: none"> 1. Management has confirmed that there is opportunity to interrogate, analyse and report upon the data sets in Civica and CVS. 2. There is currently limited focus on use of data analytics, data mining, or exception reporting to analyse data or generate exception reports. 	Finding 5	<p><u>First Line</u></p> <p>Review of exception reports to identify any odd or unusual reductions in RVs that reduce thresholds sufficiently to qualify for discounts or relief and check these to supporting documentation.</p> <p><u>Second Line</u></p> <p>Review of a sample of first line checks on performance reports to confirm that they are being performed effectively with any potential anomalies investigated.</p>

#	Process Risk	What controls currently mitigate this risk?	X Ref to Section 3 - Detailed Findings	Suggested Internal Assurance Checking
AA	Management and maintenance of the Valuation Roll is not subject to appropriate governance and scrutiny arrangements through the LVJB Board or other Committees.	<ol style="list-style-type: none"> 1. The LVJB Board receives reports from both external and internal audit. 2. LVJB has historically not operated an Audit Committee however a new Governance Committee will be introduced from FY18/19. This should provide additional focus on governance, assurance, risk, and compliance issues across the organisation 3. An appropriate structure and membership for this Committee should be established, including a remit in line with Audit Committee good practice, appropriate representation from Board members and specialist input where appropriate. 	Finding 2	<u>Third Line</u> Internal Audit to confirm that the committee has been established with an appropriate term of reference and continues to operate effectively in line with good practice.

Appendix 2 - Basis of our Classifications

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 5 – Terms of Reference

Lothian Valuation Joint Board

Review of LVJB Business Rates Internal Assurance Framework

To: Graeme Strachan, Principal Assessor; Bernie Callaghan, Governance Manager

From: Lesley Newdall, Chief Internal Auditor; Paul McGinty, Principal Audit Manager

Date: 12/02/18

As a result of our discussions with LVJB management it was agreed that the Internal Audit effort for 2017/18 would focus on review of LVJB's current arrangements for internal quality review and checking. Any amendments, revisions or changes to LVJB's underlying data sets or registers are subject to secondary review and checking and this is a fundamentally important aspect of maintaining the underlying integrity of LVJB's registers. The associated internal quality control and checking work is principally undertaken by two members of LVJB staff and management were keen to focus on this area given the wider context of management reviewing overall governance arrangements as part of the Transformation Project and as part of the look forward to 2018/19 where there would be increased focus upon governance.

Scope

It was therefore agreed that our review should include consideration of:

- the overall resourcing and management arrangements in place
- the current focus and targeting of the quality control and checking arrangements
- the processes covered and the robustness of the methodology applied
- the recording and reporting of results
- the follow up and closure of exceptions or management actions.

It was also agreed that our work would consider current arrangements in the wider context of the '3 lines of defence model' and its applicability within LVJB. The Chief Assessor was also keen to ensure some coverage of Records Management arrangements. As such, we will also seek to incorporate a high-level benchmarking review of current arrangements with respect to best practice Records Management.

Approach

Our approach involved:

- Meetings, interviews and inquiries with relevant managers and officers to understand current arrangements
- Assessment of the adequacy of the current arrangements
- Development of a control assessment framework to illustrate how an improved approach could be applied in practice – for this we applied our methodology to the **Business Rates Valuation Roll**
- Highlighting a range of initial recommendations and considerations for management arising from our work
- Highlighting a range of recommendations to support management in the development and ongoing implementation of improved arrangements.

Scope Limitations

Whilst recognising that LVJB provides services to several local authorities, our primary focus was on arrangements as they apply to CEC. At this stage, our work has not involved testing of the operation of

individual controls or procedures in relation to the **Business Rates Valuation Roll**, however this should be a consideration for coverage in subsequent years as well as focus on the risk and control framework applicable to **Council Tax** and **Electoral Register** data sets.

Internal Audit Team

Name	Role	Contact Details
Lesley Newdall	Chief Internal Auditor	Lesley.Newdall@edinburgh.gov.uk
Paul McGinty	Principal Audit Manager	Paul.McGinty@edinburgh.gov.uk

Key Contacts

Name	Title	Role	Contact Details
Bernie Callaghan	Head of Governance	Key Contact	Bernie.Callaghan@lothian-vjb.gov.uk
Nick Chapman	Depute Assessor	Key Contact	nick.chapman@lothian-vjb.gov.uk
Graeme Strachan	Assessor	Review Sponsor	graeme.strachan@lothian-vjb.gov.uk



Lothian Valuation Joint Board

2017/18 Annual Audit Report to members of
Lothian Valuation Joint Board and the Controller
of Audit

September 2018

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Key messages

Annual accounts

The Lothian Valuation Joint Board annual accounts for the year ended 31 March 2018 will be recommended for approval by the Board on 3 September 2018.

We intend to report within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters. There are no matters which we are required to report by exception.

Our thanks go to management and staff for their assistance with our work.

Wider scope

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement; and
- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

Our conclusions are set out below:

Key facts

- The Board spent £7.220million on the delivery of services in 2017/18.
- A £0.213million overspend was reported in 2017/18 funded through the general reserve.
- The balance on general reserves reduced to £0.798million from £1.011million in 2016/17.
- In February 2018, the Board approved a budget of £5.847million for the 2018/19 financial year. The budget is to be funded from constituent council requisitions.

Governance statement

- We have reviewed the Annual Governance Statement and have found that it is consistent with the accounts and has been prepared in accordance with Delivering Good Governance in Local Government: Framework (2016).
- The Board has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in the Board's accounting and internal control systems.

Financial sustainability

- The Board has arrangements in place for short term (1year) financial planning, with budgets aligned to its Corporate and Service Plan. However, the Board does not prepare medium to long-term financial plans due to the uncertainty over future funding allocations.
- At present, the longer term strategic direction has not been formally documented and presented to the Board. We recommend that the Board develops a strategic plan which documents the Board's future plans and key challenges.

Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Scott-Moncrieff
September 2018**

1

Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of the Lothian Valuation Joint Board for 2017/18.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

At Lothian Valuation Joint Board, we have designated the Board as "those charged with governance".

Introduction

1. This report summarises the findings from our 2017/18 audit of the Lothian Valuation Joint Board ("the Board").
2. The scope of our audit was set out in our External Audit Plan which was presented to the Board in April 2018. The core elements of our audit work in 2017/18 have been:
 - an audit of the 2017/18 annual accounts; and
 - consideration of the Board's arrangements for securing financial sustainability.
3. The Board is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts 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.
4. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the Board assess their significance and prioritise the actions required.
5. We would like to thank management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we have complied with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

Adding value through the audit

8. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision-making and more effective use of resources.

Feedback

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX
10. While this plan is addressed to the Board, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.



Annual accounts

The Board's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2017/18 annual accounts.

Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2018 will be recommended for approval by the Board on 3 September 2018. We intend to report within our independent auditor's report:

- An unqualified opinion on the annual accounts; and
- An unqualified opinion on other prescribed matters.

Good administrative processes were in place

We received draft annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to staff at the Board and City of Edinburgh Council for their assistance with our work.

Our assessment of risks of material misstatement

11. The assessed risks of material misstatement described in Exhibit 1 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the

annual accounts as a whole, and not express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2017/18 External Audit Plan

12. We have not identified any indications of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.
13. During our prior year audit, we noted that there was a lack of segregation of duties in respect of the posting of journals. While journals continue to be prepared and posted without any secondary review or authorisation, we noted, during our current year audit, that an additional control has been designed and implemented whereby the Assessor is sent a full transaction listing for review each month. The Assessor will query or challenge any unusual or unexpected postings.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

14. We also noted, during our 2017/18 audit, that user access controls to the financial ledger could be strengthened. At present, any member of the City of Edinburgh Council finance team with ledger access could post to the Board's financial ledger. While any incorrect postings should be picked up through budget monitoring and the Assessor's review of the transaction listings, there is a risk that mis-postings are not detected.

Action plan point 1

2. Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2017/18 External Audit Plan

15. At the planning stage of our audit cycle, we reported that we did not believe the risk of fraud in revenue recognition was material to the annual accounts and therefore rebutted this risk as the Board receive the majority of their income from requisitions and Cabinet Office grants both of which can be readily agreed to external sources. We have reviewed this throughout the audit and concluded that this assessment remained appropriate.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "The Audit of Public Sector Financial Statements" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2017/18 External Audit Plan

16. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion, we carried out testing to confirm that the Board's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.


Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

4. Transformation and Cultural Change Programme – Severance costs

At its meeting of 6 February 2017, the Board advised of the intention to undertake an organisational review exercise: the Transformation and Cultural Change Programme (TCCP). This programme has included a redesign of the organisational structure and as a result, a number of staff will be leaving the organisation through voluntary early release.

There is a risk that costs associated with the programme are not correctly recorded and accounted for within the financial statements.

Excerpt from the 2017/18 External Audit Plan

- 
17. We have reviewed the process undertaken by the Board with regard to voluntary early release arrangements and have concluded that those processes were in line with the Board's policy and relevant guidance.
 18. Within the remuneration report, a total of 13 exit packages have been disclosed with total costs of £470,507. We have gained reasonable assurance that these costs associated with the programme have been correctly recognised in line with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Our application of materiality

19. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
20. Our initial assessment of materiality for the annual accounts was £134,000. We revised our assessment following receipt of the unaudited annual accounts to £144,000 and it remained at this level throughout our audit. Our assessment of materiality equates to approximately 2% of the Board's expenditure. We consider this to be a principal consideration for the users of the accounts when assessing the performance of the Board.

Performance materiality

21. Performance materiality is the amount set by the auditor at less than overall materiality for the annual accounts as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed materiality for the annual accounts as a whole.

22. We set a performance materiality for each area of work based on a risk assessment for the area and percentage application of overall materiality. We then perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

Area risk assessment	Weighting	Performance materiality
High	45%	£101,000
Medium	55%	£79,000
Low	70%	£65,000

23. We agreed with the Board that we would report all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We

would also report to the Board on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

24. We identified one material adjustment to the annual accounts in relation to the net pension liability.
25. The timing of the request for actuarial reports means that actuaries produce IAS 19 actuarial reports using estimated figures.
26. The validity of the information provided to the actuary has been compared with the actual information reported by Lothian Valuation Joint Board and Lothian Pension Fund. This review highlighted a risk of material misstatement arising from difference between the figures relating to asset values.
27. We requested that management instruct the actuary to update its calculations based on year end results; the results of which have been incorporated into the annual accounts.
28. The difference between actual and estimated figures for investment returns resulted in a reduction of £0.884million to the net pension liability with an associated increase to total comprehensive income and expenditure.
29. This adjustment has been discussed with management and is detailed within an appendix to the letter of representation. The letter covers a number of issues and we have requested that it be presented to us at the date of signing the annual accounts.
30. We additionally identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of annual accounts.
31. We confirm there were no unadjusted differences in the accounts.

An overview of the scope of our audit

32. The scope of our audit was detailed in our External Audit Plan, which was presented to the Board in April 2018. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during

the course of the audit to take account of developments that arise.

33. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
34. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit management team. In performing our work, we have applied the concept of materiality, which is explained earlier in this report.

Legality

35. We planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures include the following:
 - Reviewing minutes of relevant meetings;
 - Enquiring of senior management and the Board's solicitors the position in relation to litigation, claims and assessments; and
 - Performing detailed testing of transactions and balances.
36. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

37. During the course of our audit we noted the following:

Going concern

38. As at 31 March 2018, the Board reported a net liability position of £4.769million.
39. The Board's usable reserves decreased by £0.213million to £0.798million as a result of the overspend in the year.
40. The Board's unusable reserves totalled £5.567million. This is primarily related to the net pension liability of £5.933 million as at 31 March 2018.

41. In the Board's opinion, the organisation will be able to continue for the foreseeable future. The Board has adequate budget to meet the ongoing employer contributions required by Lothian Pension Fund.

The Local Authority Accounts (Scotland) Regulations 2014

42. As part of our audit, we reviewed the Board's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10¹ as they relate to the annual accounts. Overall, we concluded that appropriate arrangements are in place to comply with these Regulations.

Management commentary

43. We are satisfied that the information given in the management commentary is consistent with the accounts and has been prepared in accordance with the statutory guidance issued under the Local Government Scotland Act 2003.

Remuneration report

44. Our independent auditor's report confirms that the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Annual governance statement

45. The Treasurer of the Board has confirmed that in their opinion, reasonable assurance can be placed upon the adequacy and effectiveness of the systems of internal financial control.
46. We have reviewed the annual governance statement and have found that it is consistent with the accounts and has been prepared in accordance with Delivering Good Governance in Local Government Framework (2016).
47. We did however note that a number of policies supporting the Board's governance framework are overdue for review.

Action plan point 2

¹ Regulations 8 to 10 relates to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

Internal audit

48. The Board's internal audit function is provided by City of Edinburgh Council's Internal Audit service. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the annual governance statement.

Accounting and internal control systems

49. The Board has adequate systems in place to record, process, summarise and report financial and other relevant data. We have identified one area for improvement with respect of user access to the financial ledger and we have followed up on progress in implementing actions raised in the prior year. We outline the issues identified and our recommendations at Appendix 1.

Cyber Security

50. In May 2017, a number of public sector bodies were impacted by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'.
51. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public sector bodies to achieve Cyber Essentials Plus certification by the end of October 2018.
52. The Board's Cyber Essential Plus assessment was conducted in August 2018 and we understand that the Board has achieved the accreditation.

General Data Protection Regulations

53. The General Data Protection Regulations (the Regulations) came into force in the UK on 25 May 2018. The Regulations replace the Data Protection Act 1998 and as well as strengthening existing regulations, the Act has brought in new legislative duties for the Board. The Regulations bring significant potential penalties for non-compliance.
54. Lothian Valuation Joint Board staff attended GDPR awareness training during 2017/18 and the role of data protection officer has been allocated. A revised privacy statement was published on the website in May 2018.

55. Compliance with the Regulations is an ongoing process, which we will monitor as part of our annual audit procedures. We have not identified any significant issues during our 2017/18 audit.

Qualitative aspects of accounting practices and financial reporting

56. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. Our findings are summarised in the following table:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the Board.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Estimates have been made in relation to property, plant and equipment and pensions. We consider the estimates made, and the related disclosures, to be appropriate to the Board. Pension estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of managements' experts in line with the requirements of ISA (UK) 500.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the annual accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial sustainability



The Board has arrangements in place for short term (1 year) financial planning. Budgets are aligned to the Corporate and Service Plan.

The Board has recognised the importance of establishing a sustainable financial position. A major review titled the “Transformation and Cultural Change Programme” is continuing.

The Board should develop a strategic plan which sets out their vision for the next three to five years.

Significant audit risk

57. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

Exhibit 2: Key audit risk: financial sustainability

Financial sustainability

The Board has arrangements in place for short term (1 year) financial planning. Budgets are aligned to the Corporate and Service Plan. The Board has recognised that there is a high degree of uncertainty over future funding allocations and therefore has not prepared long term financial plans. However, the Board has recognised the importance of establishing a sustainable financial position.

A major review titled the ‘Transformation and Cultural Change Programme’ has been ongoing throughout 2017/18. The review aims to modernise the organisation through consideration of three principle areas: process improvement, cultural change and customer focus. One of the key outcomes of for the review is ‘placing the organisation on a financially sustainable platform for the future delivery of services.’

An update on progress made to date was reported to the Board in February 2018. This included the reporting of a revised organisational structure which will be implemented from 1 April 2018.

Excerpt from the 2017/18 External Audit Plan

58. The Board has set a balanced budget for 2018/19. This is based on a reduction of income in 2018/19 of 4.4% reducing from £6.118million to £5.847million. The Board’s budget is funded through constituent council requisitions.
59. The reduction in income for 2018/19 has been offset by a reduction in employee costs, following the restructure as a result of the Transformation and Cultural Change Programme, alongside a reduction in non-domestic rates.
60. While officers have begun considering what the financial outlook for the Board may look like in the medium term, this has not yet been formalised due to significant uncertainties with regard to implications of the Barclay review and IER funding.
61. IER funding is expected to cease by 2020 and would leave the Board with a funding gap of approximately £0.27million based on IER costs incurred in 2017/18. This funding gap would likely have to be met through additional funding from the constituent councils if costs do not reduce to a negligible level.
62. The current valuation model for non-domestic rates will change significantly following the Scottish Government’s acceptance of the main recommendations from the Barclay review.

Exhibit 2: Key audit risk: financial sustainability

The most significant change will be moving from a 5-year valuation cycle to a 3-year valuation cycle from 2022. At this stage, costs are still being quantified but the impact is expected to be significant.

63. The Board currently only prepares an annual budget and Corporate and Service Plan. The Board are facing a number of longer term challenges including the impact of IER funding and the Barclay review. The Board should develop a medium to long term strategy that sets out the Board's strategic vision and how this can be achieved.

Action plan point 4

The Board's financial performance in 2017/18

64. The Comprehensive Income and Expenditure Statement for 2017/18 shows that the Board spent £8.919 million on the delivery of services, resulting in an accounting deficit of £1.121million. However, the accounting surplus includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the 2017/18 Code), and which are
- subsequently adjusted to show their impact on reserves.
65. Taking account of these adjustments, the Board reported an overspend position of £0.213million as shown in Exhibit 3. The overspend primarily related to the voluntary early retirement costs incurred as part of the Transformation and Cultural Change Programme.
66. The costs of Individual Electoral Registration (IER) were fully funded in 2017/18 with £0.350million currently being deferred for future years.

Exhibit 3: Revenue performance against budget

	Revised Budget £'000	Actual £'000	Variance £'000
Core Expenditure	6,164	6,372	208
IER Expenditure	427	269	(158)
Total Expenditure	6,591	6,641	50
Core Income	(46)	(38)	5
IER Income	(427)	(269)	158
Total Income	(473)	(310)	163
Total	6,118	6,331	213

Source: Annual accounts for the year ended 31 March 2018

- 67. The Board has held a general reserve since 2015/16. The general reserve balance of £0.798million has decreased by 21% in comparison to 2016/17 as a result of the overspend position.
- 68. The Board approved the maintenance of the current reserve position and agreed for a balance of 3% of annual budget requisition to be maintained as an ongoing policy.
- 69. Based on the ongoing financial challenges including IER funding and the Barclay review, the Board agreed to retain the current uncommitted general reserve in excess of 3%. However, an update report will be provided to the Board in November

4

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist.

Communication of the matters arising from the audit of the annual report and accounts 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.

Action plan grading structure

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue, Risk & Recommendation	Management Comments
1. User access controls	<p>Issue</p> <p>Our review of the journals environment identified that all City of Edinburgh Council staff with access to Oracle journal input function in the financial ledger system, have the ability to post to the Board's financial ledger.</p> <p>Risk</p> <p>There is a risk that incorrect or fraudulent postings could be made without detection by the Board's officers.</p> <p>Recommendation</p> <p>While our audit review in respect of the 2017/18 financial year did not identify any indications of user access being manipulated, we recommend that Lothian Valuation Joint Board officers in conjunction with City of Edinburgh Council review user access controls for the financial ledger.</p>	<p>Responsible officer:</p> <p>Governance Manager/Treasurer</p> <p>Implementation date: Feb 2019</p> <p>LVJB will liaise with CEC to assess current access controls to the financial ledger. Following this assessment agreed recommendations will be implemented.</p>
Rating		
Grade 3		
Paragraph ref		
17		

Action plan point	Issue, Risk & Recommendation	Management Comments
2. Policy Review	<p>Issue</p> <p>The Board has a comprehensive suite of governance policies in place however we noted that a number of these are significantly overdue for review.</p> <p>This includes the Risk Management Strategy which has not been reviewed since 2006 and the Anti-Fraud and Corruption policy which has not been reviewed since 2013.</p>	<p>Responsible officer: Governance Manager</p> <p>Implementation date: Dec 2018</p> <p>The Risk Management Strategy and Anti-Fraud and Corruption policy will be reviewed and updated. A review schedule identifying appropriate policies requiring review by the Governance, Risk and Best Value Group shall be created.</p>
Rating		
Grade 3		
Paragraph ref		
38	<p>Risk</p> <p>There is a risk that the Board's arrangement for risk management and fraud prevention are outdated and do not comply with best practice.</p> <p>Recommendation</p> <p>The Board has recently established a Governance, Risk and Best Value Group and we recommend that the group identifies all policies requiring review and introduces a prompt review schedule for these.</p>	

Follow up of prior year audit recommendations

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
1. Authorisation of journals	<p>Observation</p> <p>Our review of the journals environment found that there was a lack of segregation of duties over the posting of journals. Journals are prepared and posted without any secondary review or authorisation. Journals can be used to override controls and create fraudulent errors therefore, it is essential appropriate controls are in place</p> <p>Recommendation</p> <p>While our audit review in respect of the 2017/18 financial year did not identify any indications of management override we recommend that a review process is put in place for the preparation and posting of journals to the ledger.</p>	<p>Action owner: Treasurer/Interim assessor</p> <p>Due Date: Immediate</p> <p>Expenditure and Income monitoring reports are prepared for the Valuation Board monthly. Any exceptional or unanticipated expenditure or income would be identified through this process. To enhance control, the monthly monitoring report will include details of all journal entries processed, for review, with immediate effect.</p> <p>Expenditure and income to date and annual forecast is reported to the Board on a quarterly basis.</p> <p>Strict separation of financial controls, segregation of duties and authorisation levels exist for all expenditure transactions of the Board.</p>	<p>Action Complete</p> <p>While segregation of duties has not been introduced, an additional control has been designed and implemented whereby the Assessor is provided with a full transaction listing for review each month. The Assessor will query or challenge any unusual or unexpected postings.</p>
Rating			
Grade 3			

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
2. Registers of Interests	<p>Observation</p> <p>From our review of the Members Registers of Interests, we noted that a number of the declaration forms have not been updated on a regular basis. Upon further review, we also identified a number of members interests have not been declared. These however did not result in undisclosed related parties in the Board's annual accounts.</p> <p>Recommendation</p> <p>While the Board rely on constituent councils to maintain up to date Registers of Interests for members, we recommend that the Board gain assurance that this process is occurring and remind members of the importance of updating interests on a regular basis.</p> <p>The Board should seek to maintain their own records of members' interests if assurances cannot be established.</p>	<p>Action owner: Interim Assessor/Clerk to the Lothian valuation Joint Board</p> <p>Due Date: 20 November 2017</p> <p>This shall be discussed with the Convenor of the Board with the intention that the matter be formally raised with all Board members on the 20 November 2017.</p>	<p>Action complete</p> <p>A reminder was given to all Board members at the Board meeting held on 18 September 2017 to ensure registers of interest are updated.</p> <p>Our 2017/18 review of the Register of Interest for members did not identify any issues with regard to the timeliness of completion or accuracy of content.</p>
Rating			
Grade 2			

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
3. Reserves Policy	Observation The Board does not currently have a policy in place over the level and application of its general reserve.	Action owner: Interim Assessor/Treasurer Due Date: February 2018 A report with recommendations will be submitted to the Board seeking approval in February 2018.	Action complete A reserve policy has now been set at 3% of annual budget requisition.
Rating	Recommendation		
Grade 3	The Board should develop and formally approve a reserves policy, which outlines the purpose and level of general reserve that should be maintained.		

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
4. Financial Planning	Observation 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.	Action owner: Treasurer Due Date: 31 December 2016 The provision of funding on an annual basis coupled with meeting the requirements of new legislation, that places additional pressure on an already stretched resource, makes the creation of a longer term and meaningful financial planning framework difficult. In addition ongoing uncertainties surrounding the future of key 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 achieve this in both the short and longer term.	Action partially complete The action has been partially addressed through the Transformation and Cultural Change Programme. However, the Board should progress this through development of a medium to long-term strategy which includes an outline of the financial outlook. 2017/18 management comments A 3/5 year strategic vision shall be developed that reflects on operational activity and associated risks within the ongoing change environment, highlighting options and possible outcomes, and placing these in the context of the projected financial outlook.
Rating	Recommendation		
Grade 3	The Board should move towards developing a longer-term financial planning framework, which considers a range of options and scenarios around service delivery.		

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
			Responsible officer: Assessor and Electoral Registration Officer/Treasurer Implementation date: 31 st March 2019

Appendix 2: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual accounts

The Board is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Treasurer has been designated as that officer.

The Treasurer is responsible for the preparation of the annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Treasurer is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

The Treasurer is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of the affairs of the body as at 31 March 2018 and of the its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code;
- they 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;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We are also required to report, if in our 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 accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money. The Code recognises that full application of its requirements may be impractical or inappropriate due to the nature or size of the audited body.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement; and
- financial sustainability of the body and the services that it delivers over the medium to longer term.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Ethical Standards. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff, the Board and its Board members or senior management that may reasonably be thought to bear on our objectivity and independence.



Scott-Moncrieff
business advisers and accountants

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Period 4 Financial Statement 2018/19

3rd September 2018

1 Purpose of report

This report summarises the projected revenue budget outturn position to 31st March 2019, based on the position at period ending 31st July 2018. The report has been prepared in consultation with the Assessor.

2 Main Report

Projected Revenue Outturn 2018/19 – Core Budget

- 2.1 The table below compares projected revenue outturn 2018/19 with the budget. The forecast variance, based on the position at 31st July, is an under spend of £0.115m.

	Core Budget			IER Budget			Total		
	Budget £'000	Forecast £'000	Variance £'000	Budget £'000	Forecast £'000	Variance £'000	Budget £'000	Forecast £'000	Variance £'000
<u>Expenditure</u>									
Employee costs	4,378	4,263	(115)	59	21	(38)	4,437	4,284	(153)
Premises costs	520	520	0	0	0	0	520	520	0
Transport costs	96	96	0	0	0	0	96	96	0
Supplies & Services	750	750	0	216	216	0	966	966	0
Third Party Payments	82	82	0	0	354	354	82	436	354
Support Services	67	67	0	0	0	0	67	67	0
Gross Expenditure	5,893	5,778	(115)	275	591	316	6,168	6,369	201
<u>Income</u>									
Sales, Fees & Charges	(43)	(43)	0	0	0	0	(43)	(43)	0
IER Grant	0	0	0	(275)	(591)	(316)	(275)	(591)	(316)
Interest	(3)	(3)	0	0	0	0	(3)	(3)	0
Total income	(46)	(46)	0	(275)	(591)	(316)	(321)	(637)	(316)
Net Expenditure	5,847	5,732	(115)	0	0	0	5,847	5,732	(115)

Forecasts to 31st March 2019 – Core Budget

- 2.2 At this stage, the projected outturn indicates a forecast under spend of £0.115m. With the exception of employee costs, all other budget headings have been forecast on budget as it is relatively early in the year to predict otherwise and there are no known material budget variances at this stage. A further 2018/19 budget update will be provided to the Board in November.
- 2.3 The principal reason for the budget under spend reported is as follows:
- Employee costs - £0.115m under spend – following transformational change and staffing appointments a saving is predicted in relation to vacant posts forecast to be filled part-year only.

Individual Electoral Registration (IER)

- 2.4 The 2018/19 budget assumes that all costs will be met by grant from the Cabinet Office. Grant of £0.241m has been received for 2018/19 from the Cabinet Office and unspent grant of £0.350m was carried over from 2017/18. Total grant of £0.591m is therefore currently available to fund IER costs 2018/19. It is not anticipated that costs will exceed grant and for reporting purposes the current forecast assumes that all IER funds will either be fully spent during 2018/19 or any balance carried forward to 2019/20. The forecast carry-forward at this stage of the year is £0.354m.
- 2.5 As reported to the Board previously, the introduction of the IER process has resulted in additional costs to the Board. The process is now embedded and the additional costs are estimated at £0.300m annually. These costs have so far been fully funded by Cabinet Office grant. The IER process remains under review and a funding commitment until 2019/20 was agreed previously. The funding of these costs beyond this period and options to reduce it through procedural change remain subject to further discussion. The Assessor will provide updates to the Board when they become available.

General Reserve

- 2.6 The Board's general reserve balance currently stands at £0.798m. This includes the £0.213m over spend from 2017/18 reported previously on this agenda. An update on financial risks will be presented to the Board in November. In February 2018 the Board approved a formal reserves policy based on holding a general reserve with a minimum value of 3% of annual requisition. Balances held in excess of 3% require to be reviewed annually in-line with risk/identified commitments.

3 Conclusions

- 3.1 At this stage, there is a projected net under spend of £0.115m relating to Financial Year 2018/19.

4 Recommendations

The Board is recommended to:

- 4.1 note the projected outturn position for 2018/19;
- 4.2 note that a further 2018/19 budget update will be presented in November.

**Hugh Dunn,
Treasurer.**

ASSESSOR'S SEPTEMBER 2018 PROGRESS REPORT TO THE Lothian VALUATION JOINT BOARD

3rd September 2018

1.0 PURPOSE OF THE REPORT

To advise and update members to the service overview and priorities, current issues and future direction.

2.0 ELECTORAL REGISTRATION

2.1 General Maintenance

Throughout the year the electoral register is maintained by way of insert, deletion, amendment and update of elector information.

Detailed below is information on activity reflecting the period 1st April 2018 to 17th August by Council area for the principal maintenance activities.

Council Area	No. of Additions	No. of Deletions	No. of Modifications
City of Edinburgh	14325	11182	536
East Lothian	1526	1513	54
Midlothian	1686	1149	81
West Lothian	4297	3002	165
Totals	21834	16846	836

2.2 2018 Household Canvass

The annual household canvass is currently underway. The initial delivery of canvass forms commenced in early July followed by first reminders during August. To date 596,782 household enquiry forms have been issued, with an issue of final reminders scheduled for September. The current returns rate is 59.45% which compares with 52.63% at the same point in 2017. Electronic engagement continues to be popular with 50.36% of returns being made on a digital platform, online being the most popular (81%).

We are continuing to explore and test different approaches during the household canvass and an evaluation of these shall be undertaken at the end of the year when the canvass ceases. However the following are examples, increased use of email during the canvass and register update stages, early commencement of door to door canvass, increased flexibility surrounding the canvass tablet facility, improved levels of automatic update between door to door canvass and the electoral management system, improved internal processes and engagement activities.

2.3 Engagement

As the current election timetable does not legislate for an election until 2021, although that could change at any time, the engagement role faces considerable challenge in supporting the ongoing requirement to maintain accuracy and completeness within the electoral register. While engagement events aim to encourage potential electors to register it is also important that information is easily and constantly available on ways to register and other aspects of registration, such as absent voting. The Scottish Government continues to investigate the possibility of amending the franchise for Scottish Parliament and Scottish Local Government elections, using residency as a key element. If this change proceeds engagement shall be vital to ensure the register is updated accordingly.

Since the appointment of the Engagement Officer in April there has been a greater focus on elector engagement opportunities and activities. The Engagement Officer has held initial meetings with the Communications departments of all four constituent Councils to further develop the relationship between the organisations and identify useful contacts/potential registration event locations.

Following these meetings three registration events have taken place, allowing people to check if they are registered, submit applications if they are not and have electoral registration related queries answered by ERO staff. The first of these events was hosted by Midlothian Champions Board and LLE - organised for care experienced young people, whilst the other two were conducted in connection with National Democracy Week at the beginning of July. There are five additional events with a similar focus, planned to take place in early September.

A range of further engagement activities have continued to be carried out since April, details of which are noted below:-

- Register newly qualified electors at British Citizenship Ceremonies (246 new citizens – 79 applications made & 169 information cards issued).
- TV and social media advertising campaign conducted to promote National Democracy Week and encourage return of annual canvass forms.
- Promotional materials on display at Museum of Edinburgh's exhibition and banner making workshops in connection with Processions March on June 10th to celebrate the centenary of women's suffrage.

- Article placed in upcoming CEC Tenants' Courier to encourage home movers to register to vote.
- Over 20,000 ITR's issued to new Council Tax Payers using data mining programs
- Working with student associations and universities to develop voter registration process for students and organise engagement events to promote voter registration.
- Working with various care homes to trial new approach to the canvass of care establishments.

2.4 Individual Electoral Registration

The Board has been advised previously concerning the funding provided to EROs by Cabinet Office to off-set the additional cost burden created by the introduction of IER.

In 2017/2018, and following mitigation action taken as part of the Transformation Programme, this additional cost was identified as approximately £270k per annum. The funding provided by the Cabinet Office for 2018/2019 is £241k. It is understood that this additional funding shall further reduce and then cease after 2019/2020.

The Cabinet Office, following the evaluation of pilot exercises, has recently provided information on proposed alterations to the annual canvass process aimed at reducing, if not removing, the IER cost legacy. The new process is currently under evaluation and the Board shall be provided with further reports indicating the potential effectiveness of these canvass changes.

2.5 Service Priorities

- Conclude the annual household canvass
- Publish the revised Electoral Register on 1st December 2018
- Continue general maintenance and engagement activities
- Undertake an evaluation of proposed changes to the annual canvass process
- Undertake pre-emptive planning in respect of an unexpected election and/or referendum

3.0 COUNCIL TAX

General maintenance of the Council Tax List continues and the tables below indicate the number of houses by Band and Council area that have been added to the List since 1st April 2018 to 15th August 2018, 1,860 in total.

	Edinburgh	Midlothian	West Lothian	East Lothian
A	16	2	25	-
B	97	2	34	9
C	169	50	52	53
D	218	58	62	52
E	185	51	63	38
F	125	52	72	24
G	138	58	33	85
H	31	5	1	-
Total	979	278	342	261

Entered on List	< 3 months	3– 6 months	> 6 months
Lothian	94.0%	5.0%	1.0%

Work is ongoing in respect of point of sales, monitoring of house alterations and council tax appeals.

In respect of appeals, there are currently 105 appeals outstanding. During the period 1st April to August 2018 55 appeals have been dealt with and as a result 9 have received band reductions.

The current project to use external survey devices in connection with Council Tax progresses well with the first phase of having the capability to capture property detail electronically in the field under trial. The secondary phase of applying this information to repetitive housing following monitoring of occupancy and electronically flushing this remotely into the core domestic valuation system is in the detailed planning stage.

3.1 Service Priorities

- Continue with Council Tax List maintenance activities
- Continue with disposal of Council Tax appeals
- Continue with trial and evaluation of external survey technology

4.0 NON-DOMESTIC RATING

4.1 2017 Revaluation Appeals

The disposal of appeals arising from the 2017 Revaluation is one of the principal activities ongoing within the organisation at present.

Since commencing the process of disposal in February 2018 3,514 appeals have been dealt with. These have primarily been bulk subject categories such as shop, office and industrial properties. The table below provides additional information.

Category	Withdrawn	% Withdrawn	Adjusted	% Adjusted
Shops	800	74.7%	270	25.3%
Offices	630	86.1%	102	13.9%
Industrials	462	66.5%	233	33.5%
Car Spaces	744	93.0%	56	7.0%
Licensed	46	58.2%	33	41.8%
Others	90	65.2%	48	34.8%
Total	2,772	78.9%	742	21.1%

The 2018 timetable for appeal disposal concludes on the 14th December by which time we are aiming to have dealt with 6,000 appeals. This represents 46% of the total number of revaluation appeals received. In addition to bulk class subjects, public houses, hotels and children's nurseries are also being dealt with.

A draft programme for appeal disposal during 2019 has been prepared and subject to the agreement of the secretary to the Valuation Appeal Committee, the aim is to have dealt with 80% by the end of that year. Currently 28 dates throughout 2019 year have been identified for VAC Hearings and the classes of property identified in addition to bulk classes include café's, restaurants, licensed premises, retail warehouses, advertising stations and specialised industrial subjects.

Further provisional planning has been undertaken to forecast the 2020 appeal disposal programme and the current aim is to deal with all revaluation appeals by autumn 2020.

Of all revaluation appeals dealt with so far 79% have been withdrawn with no reduction granted. The current loss in total appealed rateable value is 0.57%.

4.2 2018 Running Roll

The Valuation Roll is maintained throughout the year by inserting new properties, splits and mergers, deletions and reflecting physical alterations.

Between 1st April and 31st July 883 changes had been made to the Roll with the associated performance noted below.

Running Roll activity gives rise to additional appeal workload and there are currently 938 running roll appeals that require to be dealt with by December 2020. In many cases a revaluation appeal and running roll appeal relating to the same property shall be dealt with simultaneously.

	< 3 months	3 – 6 months	> 6 months
01/04 – 31/07/17	85.12%	14.88%	0.0%
01/04 – 31/07/18	82.45%	13.35%	4.20%

As disposal of revaluation appeals is a priority undertaking general maintenance activities places additional pressure on available resources.

As part of the Transformation Programme the creation of a Performance Framework is underway which is currently focused on reviewing Valuation Roll maintenance processes and resource allocation to ensure the most effective approaches are taken and performance maintained.

4.3 Barclay Review of NDR

4.3.1 Scottish Government Consultation

The Scottish Government is currently out to consultation on the implementation of recommendations, arising from the Barclay Review, requiring primary legislative changes to be enacted.

There are six recommendations in the consultation of direct relevance to Assessors, these are;

- The adoption of a 3 yearly revaluation cycle
- A reduction in appeal volumes
- The adoption of a Business Growth Accelerator model
- The ability to levy a civil penalty for non-provision of information
- The entry in the Valuation Roll of commercial activities in public parks
- The requirement for self-catering properties to provide evidence of a minimum actual letting period before entry in the Valuation Roll can be made.

Within the consultation document, and associated Business and Regulatory Impact Assessment (Partial), it is recognised that Assessors may face additional financial burdens as a result of these recommendations.

The consultation is due to close on the 17th September 2018 and all Assessors shall respond in a joint capacity through the Scottish Assessors Association. The Association is also represented on the Barclay Implementation Advisory Group, created by the Scottish Government, to provide input to the practical applications of the adopted recommendations.

The current Scottish Government timetable shall see draft primary legislation go forward for Parliamentary scrutiny in March 2019.

4.3.2 Scottish Assessors Association

In response to the issues raised by the Barclay recommendations the SAA has created a framework focusing around 5 project workstreams. These cover the following issues funding implications, IT development, sourcing information, reducing appeal volumes, and identifying best practice.

These workstreams are due to provide preliminary outcomes by September 2018 with the aim of informing ongoing discussions with COSLA and Scottish Government.

4.3.3 Barclay Road Map

Within the LVJB the senior team has met to consider and develop the creation of a Barclay Road Map. This is in essence a high level implementation plan and associated timeline that shall see the Board successfully deliver the move to a 3 yearly revaluation cycle.

At the time of writing the Road Map remains under construction however this shall be presented to the Board in due course. Key elements that are under consideration are the identification of significant ICT development that shall bring the organisation nearer to the concept of a “push button” valuation process for bulk class subjects, the simultaneous maintenance of both a Valuation Roll and shadow Revaluation Roll, enhanced levels of engagement with key stakeholders, the flexible allocation of resources, and a supportive approach to training and performance development.

Successful implementation of a 3 yearly revaluation cycle is influenced by the volume of appeals generated as a result of the revaluation process. Under the 5 year revaluation cycle the acts of revaluation and subsequent appeal disposal were sequential activities. Under the proposed 3 yearly cycle these activities shall become simultaneous.

While funding issues shall be explored between the SAA, COSLA and Scottish Government it is appropriate to identify the high risk that shall exist should additional funding not be awarded to Assessors. While opportunities shall be taken to mitigate these risks, at this stage it is difficult to identify ways by which the adoption of a 3 yearly revaluation cycle can be delivered without additional funding.

4.4 Service Priorities

- Continue the disposal of Revaluation 2017 appeals
- Continue with annual maintenance activities of the Valuation Roll
- Continue with the development of the Barclay Road Map
- Continue to engage with Scottish Government through the SAA and COSLA on funding issues arising from the Barclay Review of NDR
- Continue to explore and develop opportunities for change and increased efficiency

5.0 TRANSFORMATION PROGRAMME

Following the implementation of the revised staffing structure on 1st April 2018 a recruitment exercise has been underway.

The last elements of this are nearing conclusion with the final stages of recruitment due to complete by the end of September.

The Transformation Programme also identified a number of project work streams upon which the change process would advance. In some cases these have aligned themselves with the creation of the Barclay Road Map thereby providing greater drive and impetus.

6.0 GOVERNANCE, RISK & BEST VALUE

The Governance, Risk & Best Value Group is now fully operational.

The Group successfully delivered requirements under GDPR in May 2018 and have already answered the first subject access request under the new regulations. In addition the current Data Breach, Data Protection, and Clear Desk & Clear Screen Policies have been reviewed and staff advised of changes.

The Group also continue to audit internal process activity in support of recent procedural changes. Importantly requirements identified by recent City of Edinburgh Audit and External Audit action plans are under consideration and work progresses in this regard.

Work is also ongoing to review the current approach to the maintenance and presentation of corporate and operational risk registers.

External Audit, Scott-Moncrieff on behalf of Audit Scotland, have recommended that a 3 to 5 year strategic vision be developed that reflects on operational activity and associated risks within the ongoing change environment, highlighting options and possible outcomes, and placing these in the context of current financial constraints.

It is intended that the first external facing meeting of the Governance, Risk & Best Value Group shall be scheduled for November 2018. Further detail on this and appropriate arrangements shall be issued in due course.

7.0 RESERVE FUND

At the Board meeting of 5th February 2018 a Reserve Fund policy was agreed that would see the existing fund of £798k reduce over time to a base level of 3% of approved annual budget allocation. A reduction to this level would be subject to a regular assessment of the ongoing financial and operational risks facing the Board and the subsequent need to maintain the fund at a level sufficient to provide an element of mitigation.

While a more detailed report shall be provided to the Board in November, the following risks can currently be identified.

- Cabinet Office funding towards IER is due to cease from 2020. Current annual IER expenditure supported by this funding is approximately £270k. Until revised canvass procedures can be evaluated and their financial impact assessed, there remains a considerable risk to the Board in its ability to fully fund the Electoral Registration service from 2020 onwards.
- The Barclay Review of NDR provides considerable challenges to Assessors and their delivery of the Valuation Roll function. The move to a 3 yearly revaluation cycle and the disposal of associated appeals gives rise to additional funding requirements. Until national discussions surrounding funding have concluded and the outcome assessed, a considerable risk exists.
- During 2019/2020, due to the risks associated with the Barclay Review and the short term process of establishing the new staffing structure, it is unlikely that further staff reductions shall be made. However the ongoing Transformation Programme, following the identification of change opportunities, may give rise during 2020/21 for further organisational adjustments to be made that would require the Board's Voluntary Early Release Policy to be accessed. The Reserve Fund provides the necessary financial support to this policy allowing staffing changes to be made. During 2017/18 the fund supported the organisational staff review in the order of £471k.
- The current forecast for 2019/20 budget requirement estimates a level of inescapable growth, pay award and salary increments, in the region of £150k. While final projections are currently being considered it is unlikely that this amount shall, in total, be absorbed within current budget allocation. A possible solution to this would be to approve access to the reserve fund. The Board will have to maintain a minimum reserve of 3% so this option provides flexibility in the medium term until the risks/options highlighted above have been fully scoped.

One of the steps that can be taken now to mitigate the impact of the move to 3 yearly revaluations, identified under paragraph 4.3.3, is in respect of further development of the existing IT system that supports the valuation process. The scale of the development is considered to be outwith the current IT development capacity within the Board. A solution is to employ additional resource over a fixed period of time specifically for the purpose of this development. At this stage a cost of £150k spread over a 3 year period is projected.

A second instance of appropriate deployment of reserve funds and the reduction of pressure on the core budget, is in support of the training costs associated with recently appointed trainee staff. Such staff are placed on a career progression scale on appointment which involves the payment of external course fees and merit increments on successful exam pass and course completion. The current estimate of the costs

facing the Board over the next 3 years in order to support the career progression scale is £47k.

8.0 RECOMMENDATIONS

8.1 The Board is asked to note the content of this report.

8.2 The Board is requested to allow in principle access to the reserve fund to support costs arising in part or whole, as and when required, in respect of sourcing external IT development capacity and in support of costs arising from the career progression scheme for trainee staff as indicated in paragraph 7.0 of this report. In both cases such action shall reduce pressure on the current and future core budget allocation, and provide an element of mitigation against identified risks.

Graeme Strachan
ASSESSOR & ERO