

Lothian Valuation Joint Board

Report to Members on the 2005/06 Audit

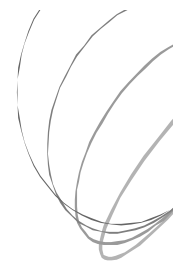
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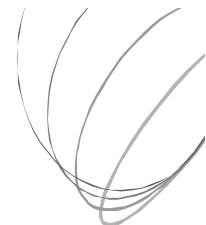
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- providing independent reports to the Commission and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



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Executive summary

1. This report summarises the main issues arising from the 2005/06 audit. Overall, the financial stewardship of Lothian Valuation Joint Board during the year was satisfactory. Our conclusions on key aspects of the Board's performance are highlighted in the table below, based on the audit work undertaken during the year and an assessment range of very good, good, fair and unsatisfactory.

Financial statements & financial position	Good
<ul style="list-style-type: none">• The financial statements present fairly the Board's financial position• In terms of Section 58 of the Local Government (Scotland) Act 1973, the Board has no specific power to retain reserves to meet future funding requirements, and the amount due to constituent authorities therefore has been transferred to creditors• The Statement on the System of Internal Financial Control complies with accounting requirements and is not inconsistent with audit findings• Final accounts preparation procedures & working papers were satisfactory.	
Corporate governance	Good
<ul style="list-style-type: none">• A corporate anti-fraud & corruption policy is in place, supported by a fraud response plan• Internal Audit concluded that <i>'reasonable assurance can be placed upon the adequacy & effectiveness of the Board's internal control system in the year to 31 March 2006'</i>	

Introduction

2. The members and officers of the Board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - the Board has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption
 - the Board has proper arrangements for securing best value in its use of resources
3. This report summarises the significant issues arising from our work during 2005/06.

Financial statements

Auditor's report

4. The financial statements present fairly the Board's financial position at 31 March 2006 and income and expenditure during the year.
5. The Board's balance sheet has an excess of liabilities over assets of £9.195 million due to the accrual of pension liabilities in accordance with accounting standards. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
6. The Foreword to the Report and Accounts outlines the Treasurer's view that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the accounting requirements for pensions do not impact on the underlying basis for meeting the Board's current and ongoing liabilities. Future pension liabilities will be met, as they fall due, by contributions from constituent authorities in the normal way. We are satisfied that the process the Board has undertaken to consider going concern is reasonable.

Financial position

7. The Board's net revenue expenditure amounted to £5.708 million in 2005/06 and was met by constituent authorities' contributions of £5.795 million, resulting in a surplus for the year of £0.087 million. In his Foreword the Treasurer summarises performance against budget. The major factors contributing to the under spend were employee and running costs being less than expected together with interest received being greater than anticipated.
8. In terms of section 58 of the Local Government (Scotland) Act and the Valuation Joint Boards (Scotland) Order 1995, the Board has no specific power to retain reserves to meet future funding requirements. The excess of contributions over expenditure, amounting to £0.161 million, is reflected as creditor balances due back to constituent authorities.

Issues arising

9. The Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were generally satisfactory, although there were some specific gaps noted. These deficiencies will be discussed with officers as part of the planning process for the 2006/07 audit.
10. Although the Board is governed by can the Local Government (Scotland) Act 1973, which permits the creation of certain specified reserves, it is funded on an actual expenditure basis per the Valuation Joint Boards (Scotland) Order 1995, and therefore has no specific power to retain any reserves at the year end. As a consequence, the surplus of contributions over expenditure at the financial year end has been disclosed as creditor balances due back to constituent authorities. No other material adjustments were made to the figures included in the unaudited accounts made available for public inspection.
11. Further matters arising from the audit of the financial statements also require to be brought to the attention of members and these are summarised in the following paragraphs.



Pension liabilities

12. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.
13. The Board participates in the Local Government Pension Scheme, a defined benefits scheme administered by Lothian Pension Fund. Note 1 to the accounts highlights that the Board's scheme liabilities at 31 March 2006 is £9.195 million. The increase from a liability of £7.533 million at 31 March 2005 is largely due to a change in the financial assumptions used to calculate scheme liabilities.
14. The full actuarial valuation of the Lothian Pension Fund at 31 March 2005 recommended that deficits in the fund in respect of benefits already accrued should be met by additional contributions of £110,000, £122,000 and £135,000 in the years 2006/07, 2007/08 and 2008/09 respectively, on top of an employers' contribution (known as the "future service rate") of 14.3% of salaries.

Legality

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

Statement on the system of internal financial control

17. The 2005/06 financial statements include a Statement on the System of Internal Financial Control which highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal financial control system. The Treasurer notes that the control environment is continuing to improve as a result of the formal approval of the 2006-09 corporate and service plan, including the integration of risk management in the process.
18. In accordance with good practice, the statement was reviewed by the Board prior to being signed by the Treasurer and is supported by a high level review of the adequacy and effectiveness of internal financial controls undertaken by Internal Audit. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Looking ahead

19. In the coming years the Board faces significant challenges including:
 - the introduction of proposed legislative changes to Electoral Registration over a 2 year period, including door to door canvassing, anonymous registration and postal voting
 - additional costs associated with potential council tax revaluation in 2009.

These areas and the controls put in place by management to the issues will be the subject of on-going review during the 2006/07 audit.



Corporate governance

Overview

20. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. As highlighted in the Statement on the System for Internal Financial Control, improvements have been made in the control environment, including the Board's formal approval of the 2006-2009 Corporate and Service Plan. Risk Management is now firmly embedded within the Board, forming an integral part of the service planning process.
21. Internal audit plays a key role in the Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Board's internal audit service is provided by the City of Edinburgh Council under a service level agreement.
22. Due to the size of the organisation the Board does not operate an Audit Committee. The Board does consider reports by internal and external audit and the Chief Internal Auditor provides an annual report, including a statement on the adequacy and effectiveness of the internal control system.

Anti-fraud and corruption arrangements

23. The Board approved the Anti-Fraud and Corruption Policy, Fraud Response Plan and Public Interest Disclosure Policy in November 2004. The Board continues to have appropriate arrangements in place to prevent and detect fraud and corruption.

Systems of internal control

24. The internal audit work within the Board continues to be of a sufficient standard to allow us to place reliance on it. The Chief Internal Auditor concluded in his annual report that 'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006'.

Looking ahead

25. Internal audit form an important role in ensuring that the Board's risks and controls are appropriately managed. We will seek to take assurance from the work undertaken by the Board's internal audit service during the 2006/07 audit.