

# Lothian Valuation Joint Board

## Annual report on the 2011/12 audit



Prepared for Lothian Valuation Joint Board and the Controller of Audit  
October 2012

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# Key messages

## 2011/12 audit findings

We have audited the 2011/12 financial statements and looked at aspects of performance management and governance, including the key financial risks faced by Lothian Valuation Joint Board (LVJB). This report sets out our main findings, summarising key outcomes from the 2011/12 audit and the outlook for the period ahead.

Overall we found the financial stewardship of LVJB during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- we have given an unqualified opinion on the financial statements
- financial statements preparation procedures and working papers were of a high standard
- many aspects of a sound corporate governance framework are in place
- Internal Audit concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the LVJB's internal financial control systems
- there were no significant issues that required to be brought to the attention of those charged with governance.

## Outlook

Key issues for LVJB in the future include:

- being able to respond to possible funding cuts from the constituent authorities as a consequence of financial constraints in local government
- increased demands on resources as a result of changes in legislation and the introduction of new electoral working practices
- continuing to respond to rating valuation appeals and council tax banding appeals
- preparing for major elections in 2014 and 2015.

The co-operation and assistance given to us by officers of LVJB and the City of Edinburgh Council, during the audit, is gratefully acknowledged.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Lothian Valuation Joint Board (LVJB). The nature and scope of the audit were outlined in the Audit Plan presented to the Board on 3 February 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of LVJB.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Board understands its risks and has arrangements in place to manage these risks. The Board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the Board and the Controller of Audit and should form a key part of discussions either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting. The report will be published on our website after consideration by the Board.
5. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. This section summarises the results of our audit on the financial statements.

## Audit opinion

9. We have given an unqualified opinion that the financial statements for 2011/12 give a true and fair view of the state of affairs of LVJB as at 31 March 2012 and of its income and expenditure for the year then ended. We also certify that the accounts have been properly prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
10. We have also stated that in our opinion:
  - the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985
  - the information given in the Foreword and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Legality

11. Through our planned audit work we consider the legality of the LVJB's financial transactions. In addition the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the LVJB management team, the financial transactions of LVJB were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to the Board's attention.

## Going concern

12. The balance sheet shows a net liability of £4.121 million (£4.526 million in 2010/11). The negative balance reflects the pension liabilities of £4.504 million (£4.964 million in 2010/11) falling due in future years. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of

the indications that may give rise to going concern considerations is an excess of liabilities over assets.

13. The statement of accounting policies confirms that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the constituent councils have a legal obligation to fund the net expense of the board. Future pension liabilities will therefore be met as they fall due by constituent authorities in the normal way. We are satisfied that the process LVJB has undertaken to consider going concern is reasonable.

### Annual governance statement and remuneration report

14. We are satisfied with the disclosures made in the Annual Governance Statement and the Remuneration Report as well as the adequacy of the process put in place by LVJB to obtain assurances on the systems of Internal Control.

### Accounting issues

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
16. The Code requires local authorities to prepare their financial statements under International Financial Reporting Standards ('IFRS'). We are satisfied that the 2011/12 Code has been followed without any significant variations.

### Accounts submission

17. The financial statements were submitted for audit on 12 June 2012, within the agreed deadline set by the financial audit timetable, included as part of the Annual Audit Plan. Working papers provided to support the financial statements were of a high standard. The financial statements were certified on 3 September 2012 and are now available for presentation and publication.

### Presentational and monetary adjustments to the unaudited accounts

18. A small number of errors were identified by our review and the audited financial statements have been adjusted to reflect this. There were no unadjusted errors included in the ISA 260 report to those charged with governance on the 2011/12 audit.

### Outlook

19. There are no significant changes planned which would impact on the financial statements for 2012/13.

# Financial position

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

## Financial results

23. The cost of service in 2011/12 was £6.04 million (£2.704 million in 2010/11). After accounting for income of £6.268 million (£6.143 million in 2010/11), mainly constituent authorities' contributions, there is a surplus on the provision of services of £0.228 million (£3.408 million in 2010/11). The significant reduction in the surplus from last year is due to a gain in 2010/11 of £3.459 million for past pension service costs when the government changed from using the Retail Price Index (RPI) to Consumer Price Index (CPI) for the purpose of calculating pension benefits.
24. Within these figures, LVJB made overall savings of £42,000 against budget. The savings include property of £24,000; supplies and services of £78,000; transport & plant of £25,000 and support services of £16,000. Overspends against budget included employee costs of £44,000 mainly due to pension strain costs in respect of three employees who left during 2011/12, and third party payments of £46,000 as the result of higher than anticipated activity of the Valuation Appeals Committee. In addition income received during 2011/12, was £11,000 less than originally budgeted.
25. For a second year, the Board agreed a recommendation not to return the underspend to constituent councils but to retain it to fund possible future liabilities arising from the early release and retirement of staff. The 2011/12 underspend of £42,000 and the 2010/11 underspend of £228,000 have both been carried forward accordingly.
26. The LVJB does not hold a general fund balance at the year end. However it holds Unusable Reserves which include the pension reserve £4.504 million (£4.964 million in 2010/11); the Capital Adjustment Account £ (465,000) (£ (524,000) in 2010/11); and the accumulated absences account £0.82 million (£0.86 million in 2010/11).



## Treasury management

27. Treasury Management is carried out on behalf of LVJB by the City of Edinburgh Council. Their Investment Strategy has been to maintain the bank account as part of the City of Edinburgh Council's group of bank accounts. Investment returns are small and the only investment / counterparty exposure is to the City of Edinburgh Council.

## Outlook

### 2012/13 budget

28. In February 2012 the Board agreed a revenue budget of £6.118 million for the 2012/13 financial year. This equates to a 0.73% reduction on the 2011/12 approved budget of £6.163 million. Savings from the previous year are being achieved against employee costs, transport costs, supplies and services costs and support services costs.

### Significant financial risks

29. The LVJB is funded by the four constituent councils and the continuing financial constraints on the public sector means that the various councils are working towards making considerable savings in their budgets. Should the funding available to LVJB be reduced much further there is a risk that, without adequate planning of services, the LVJB will be unable to fulfil its statutory duties.

**Refer Action Point no. 1**

30. A detailed risk analysis has been undertaken as part of the 2012/13 budget process. This identified a number of potential risks and these were highlighted to the Board in February 2012. Not all of the risks could be quantified and they are likely to impact on 2012/13 and on future years. For example, it is anticipated that workloads will continue to increase significantly as a result of changes in legislation and the introduction of new electoral working practices. In addition some of changes could potentially result in substantial increased expenditure (i.e. postages, printing, stationery and data storage costs). Furthermore, LVJB anticipate that the Local Government Finance Review and any resultant changes to local taxes introduced by the Scottish Government could also have a considerable impact on them.

**Refer Action Point no. 2**

# Governance and accountability

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

## Corporate governance

### Processes and committees

35. In June 2009 the Board approved the adoption of a Local Code of Corporate Governance which reflects the six principles outlined in the CIPFA/SOLACE guidance: Delivering Good Governance in Local Government. This document is published on the LVJB website.
36. The LVJB 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 has been nominated to review the effectiveness of the Local Code and to report annually to the Board.
37. We suggested last year that consideration be given to periodically reviewing the Local Code of Corporate Governance to ensure its continued relevance. We note that the corporate governance framework, within the Local Code, contains references to a number of documents and approvals, which existed in 2008/09 when it was created (i.e. Service Plan 2008-11, approved at Board meeting on 1 February 2008; Audited Accounts for the Year Ended 31 March 2008, etc.). Consideration should be given to refreshing this document to include up to date or more general references (i.e. Annual Corporate Plan, approved by the Board).
38. The Board is comprised of elected members from four constituent authorities but is a body corporate in its own right separate from those authorities. The Board met four times in 2011/12 to consider reports and budget monitoring. These meetings were generally well attended.

39. In June 2011 Councillor S McIvor stood down from his role as Convenor. Councillor L Beattie, Vice Convenor, held the role of Acting Convenor until the new Convenor, Councillor N Work took up post in June 2012. At the first meeting of the new Board the Assessor spoke to and issued to members a paper entitled "Introduction to Lothian Valuation Joint Board and the Functions of the Assessor and Electoral Registration Officer".
40. An Annual Governance Statement from the Treasurer was included within the financial statements. The Treasurer concludes that from this year's review there is evidence that the Code of Corporate Governance is operating effectively with overall compliance by the Board in all significant areas of its corporate governance arrangements.
41. In accordance with good practice, the statement was reviewed by the Board in June 2012 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.
42. The Treasurer to the Board took up a new position within the City of Edinburgh Council in July 2012. The council's Corporate Finance Manager was appointed Acting Treasurer while recruitment for a permanent position is underway.

### Internal Audit

43. Internal audit holds a key role in the authority's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Board's internal audit service is provided by the City of Edinburgh Council's internal auditor staff. Our review of internal audit was conducted as part of the audit of the City of Edinburgh Council. The review found that the work is conducted in accordance with CIPFA's Code of Practice for Internal Audit in Local Government.
44. We had planned to place reliance on internal audit's work in relation to payroll and trade payables transactions, however due to the earlier timing of our financial statements audit we were unable to rely fully on internal audit in 2011/12. In future, we plan to place reliance on internal audit work wherever possible.

### Internal control

45. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
46. The board's financial transactions are processed through the City of Edinburgh Council's financial systems. The City of Edinburgh's auditor evaluates significant financial systems and associated internal controls for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.

47. Our review of these systems was conducted as part of the audit of City of Edinburgh Council, supplemented by specific audit work on the LVJB financial statements. Overall no material issues of concern in relation to the main financial systems have come to our attention.
48. In addition, we visited LVJB and reviewed the procedures for the valuation of both commercial and domestic property and the processes around communicating the information to the constituent councils. We found the controls in place to be soundly based and no issues were raised. We are pleased to note that, in accordance with good practice, a quarterly check, between the valuation roll and the register of sales is undertaken by Internal Audit.
49. Previously, we have commented in our annual audit reports on the lack of a formal Service Level Agreement between the Board and the City of Edinburgh Council in respect of the support functions provided by the Council. For 2011/12 the Council provided details of "service specification and costs" which were approved by LVJB at the start of the year. We note that a "Service Level Agreement for the Provision of Treasury Services", incorporating all services provided by the Council, is currently in draft and undergoing discussion between both parties.

## **Prevention and detection of fraud/irregularities and bribery/corruption**

50. Audited bodies are responsible for establishing arrangements to prevent/detect fraud and minimise the risk of bribery and corruption. Auditors review and report on these arrangements.
51. LVJB continues to have appropriate arrangements in place, which include standing orders and financial regulations, a public interest disclosure policy (whistle blowing policy), an anti-fraud and corruption policy and codes of conduct for elected members and staff. We have concluded that the arrangements within the Board are satisfactory and we are not aware of any specific issues that we need to identify in this report.
52. Each year, Audit Scotland gathers information on cases of fraud identified by audited bodies. In 2011/12 there were no such cases reported for LVJB.

## **Outlook**

53. The City of Edinburgh Council Internal Audit function is being put out to tender. Although interim arrangements are in place there is a risk that internal audit may not complete their planned work for LBVJB in 2012/13. However, we do not believe the risk to be significant as the planned audit days for LBVJB is small and corrective action could be taken promptly should any delays occur in finalising internal audit arrangements.

# Best Value, use of resources and performance

54. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
55. This section includes a commentary on the Best Value/ performance management arrangements within the organisation.

## Best Value

56. LVJB has not been subject to a specific Best Value audit, and Audit Scotland's current Best Value audit regime (BV2) does not currently include the smaller joint boards.
57. LVJB's framework for achieving Best Value and delivering continuous improvement is detailed in the annual Corporate and Service Plan. The most recent plan, covering the period 2012-2013, was approved by the Board in February 2012.

## Performance management

58. The main way LVJB measures performance is through the key performance indicators (KPIs) in the areas of:
  - alterations to the valuation roll including amendments and appeals, and
  - new council tax entries and alterations to bandings.
59. Progress against these targets is reported to the Board throughout the year including the year-end position. The annual 2011/12 Performance Report was presented to the Board in June 2012 and noted that:
  - for alterations to the valuation roll, LVJB did not manage to meet its performance target figures set for 2011/12, which had been reduced from the previous year (back in line with 2009/10 targets). It is noted in the report that LVJB had a challenging year dealing with the number of appeals with reduced staff numbers and that the perhaps the targets were a little ambitious. For 2012/13 the performance targets have been subject to a further reduction, and
  - 96.72% of council tax payers are notified of their banded valuation within three months of taking occupancy of their new property, an improvement on previous years.
60. The continuing financial constraints on the public sector are likely to make it harder to deliver continuous improvement or to maintain performance. The board will need to monitor the impact of financial savings on performance to ensure that any adverse impact on service users is kept to a minimum.

**Refer Action Point no. 2**

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Board
Annual Audit Plan	26 January 2012	3 February 2012
Report on financial statements to those charged with governance	21 August 2012	3 September 2012
Audit opinion on the 2011/12 financial statements	3 September 2012	3 September 2012
Report to Members on the 2011/12 audit	19 October 2012	26 November 2012

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	29	Should the funding available to Lothian Valuation Joint Board (LVJB) be reduced much further there is a risk that, without adequate planning of services, LVJB will be unable to fulfil its statutory duties.	Through the adoption of corporate and service plans in association with detailed work planners and timetables that reflect major work items, and specific event risk registers, in conjunction with detailed budget monitoring and forecasting, every effort shall be made to fulfil the necessary statutory duties.	Assessor / Depute Assessor	31 March 2013
2	30,60	The continuing financial constraints on the public sector together with a potentially significant increase in demand for resources, over the next few years, means there is a risk that LVJB will not be able to deliver continuous improvement or maintain performance.	The combination of high workloads and increasing financial constraints does place pressure on the drive for improvement performance and the achievement of best value.  Through careful planning and monitoring, risk identification and mitigation, appropriate use of the resources available, and the setting of realistic targets, performance levels shall be maintained at acceptable levels.	Assessor / Depute Assessor	31 March 2013