Scott-Moncrieff
business advisers and accountants

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 were approved by the Board on 3 September 2018.

We 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.

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.

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:

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

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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.

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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 were approved by the Board on 3 September 2018. We 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.

14. We also noted, during our 2017/18 audit, that user access controls to the financial ledger

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

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 10[1] 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.

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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

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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 **Rating** **Grade 3** **Paragraph ref** **17**	**Issue** 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. **Risk** There is a risk that incorrect or fraudulent postings could be made without detection by the Board's officers. **Recommendation** 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.	**Responsible officer:** Governance Manager/Treasurer **Implementation date:** Feb 2019 LVJB will liaise with CEC to assess current access controls to the financial ledger. Following this assessment agreed recommendations will be implemented.

Action plan point	Issue, Risk & Recommendation	Management Comments
2. Policy Review **Rating** **Grade 3** **Paragraph ref** **38**	**Issue** The Board has a comprehensive suite of governance policies in place however we noted that a number of these are significantly overdue for review. 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. **Risk** There is a risk that the Board's arrangement for risk management and fraud prevention are outdated and do not comply with best practice. **Recommendation** 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.	**Responsible officer:** Governance Manager **Implementation date:** Dec 2018 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.

Follow up of prior year audit recommendations

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
1. Authorisation of journals **Rating** **Grade 3**	**Observation** 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 **Recommendation** 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.	**Action owner:** Treasurer/Interim assessor **Due Date:** Immediate 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. Expenditure and income to date and annual forecast is reported to the Board on a quarterly basis. Strict separation of financial controls, segregation of duties and authorisation levels exist for all expenditure transactions of the Board.	**Action Complete** 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.

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
2. Registers of Interests **Rating** **Grade 2**	**Observation** 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. **Recommendation** 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. The Board should seek to maintain their own records of members' interests if assurances cannot be established.	**Action owner:** Interim Assessor/Clerk to the Lothian valuation Joint Board **Due Date:** 20 November 2017 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.	**Action complete** A reminder was given to all Board members at the Board meeting held on 18 September 2017 to ensure registers of interest are updated. 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.

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
3. Reserves Policy **Rating** **Grade 3**	**Observation** The Board does not currently have a policy in place over the level and application of its general reserve. **Recommendation** The Board should develop and formally approve a reserves policy, which outlines the purpose and level of general reserve that should be maintained.	**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.

Action plan point	Issue & Recommendation	Management Comments	External audit update 2017/18
4. Financial Planning **Rating** **Grade 3**	**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. **Recommendation** The Board should move towards developing a longer-term financial planning framework, which considers a range of options and scenarios around service delivery.	**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. **Responsible officer:** Assessor and Electoral Registration Officer/Treasurer **Implementation date:** 31st 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