

Lothian Valuation Joint Board

2018/19 Annual Audit Report to
members of Lothian Valuation
Joint Board and the Controller of
Audit

September 2019





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1. Key messages





Annual accounts audit

The Lothian Valuation Joint Board annual accounts for the year ended 31 March 2019 are due to be approved by the Board on 2 September 2019. Our independent auditor's report includes 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 audit

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 and key observations 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).



Financial sustainability

- Progress has been made during 2018/19 to develop a four year medium term financial plan. The plan forecasts, based on a number of assumptions and the introduction of legislative changes, that the Board will have a funding gap from 2020/21 that will rise to £0.949million by 2022/23. The Board is to receive regular updates on the medium term financial plan in advance of approving a budget for 2020/21 in February 2020.

Conclusion

This report concludes our audit for 2018/19. 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 2019



2. 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 2018/19.

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 2018/19 audit of Lothian Valuation Joint Board (“the Board”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Board at the outset of our audit. The core elements of our work include:
 - an audit of the 2018/19 annual accounts and related matters;
 - consideration of the Board’s arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. The Board is responsible for preparing annual accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified 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 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.
4. The 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 on 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 all management and staff at the Board and City of Edinburgh Council for their co-operation and assistance during our audit.

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 complied with the 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.
8. We set out in Appendix 1 our assessment and confirmation of independence.



Adding value through the audit

9. All of our clients 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

10. 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
11. This report is addressed to the Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.



3. 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 2018/19 annual accounts.



Annual accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2019 are due to be approved by the Board on 2 September 2019. We intend to report unqualified audit opinions within our independent auditor's report.

Overall conclusion

An unqualified audit opinion on the annual accounts

12. The annual accounts for the year ended 31 March 2019 are due to be approved by the Board on 2 September 2019. We intend to report within our independent auditor's report:
 - An unqualified opinion on the financial statements; and
 - An unqualified opinion on other prescribed matters.
13. We are also satisfied that there were no matters which we are required to report by exception.

Good administrative processes were in place

14. We received the unaudited annual accounts and supporting papers of a good standard. 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

15. The assessed risks of material misstatement described in Exhibit 2 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 to 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 2.



Exhibit 2 – 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 has 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 annual accounts. 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 2018/19 External Audit Plan

16. 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 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.
17. During our prior year audit, we recommended that user access controls to the financial ledger should be strengthened. At that time, any member of the City of Edinburgh Council finance team with ledger access could post to the Board's financial ledger. We noted during our current year audit that arrangements have now been put in place to restrict access to the Board's financial ledger.

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 revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

18. 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 we therefore rebutted this risk. The Board receive the majority of its income from requisitions and Cabinet Office grants both of which can be readily agreed to external sources. Our assessment of this risk has been reviewed throughout the audit and our conclusion to rebut this risk has 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 2018/19 External Audit Plan

19. 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 Board’s policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Pension assumptions

Due to the timing of the publication of unaudited accounts, IAS 19 valuations are typically performed in advance of actual investment returns being available. This results in the valuation also including an assumption regarding the investment returns of assets held by the fund for the final quarter of the financial year. Financial markets have experienced significant volatility in the last year and this trend has continued into 2019 which may result in challenges in estimating expected return on assets.

Excerpt from the 2018/19 External Audit Plan

20. We obtained the information provided to the actuary and agreed to source documentation to confirm accuracy. We reviewed the assumptions used by the actuary and compared these to benchmarks across the sector.
21. The unaudited annual accounts were prepared based on an actuarial report received in April 2019. A subsequent actuarial report was received in May 2019 which had been revised to take account of the year-end results of Lothian Pension Fund. This resulted in an increase in the net pension liability as reported by the Board of £160,000.
22. The net pension liability within the audited annual accounts was further revised to take account of the financial effects of the ‘McCloud Judgement’ and the General Minimum Pension (GMP) equalisation:
- **McCloud Judgement:** This case related to an employment tribunal ruling that transitional provisions impacting on a public sector final salary scheme were unlawfully age discriminatory. This was upheld in the Courts in December 2018 although the Government at that stage sought leave to appeal this judgement. The ruling has implications for all public service schemes including the LGPS funds. In June 2019, the Supreme Court rejected the Government’s request for a further appeal.
 - **Guaranteed minimum pension (GMP)** was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this



arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

23. Management requested a revised actuarial report from its Actuary. The financial effect of these pension issues has resulted in an increase in the net pension liability of £1.146million.
24. As at 31 March 2019, the Board reported a net pension liability of £8.884million, compared to a net pension liability of £5.933million as at 31 March 2018. In addition to the increase in the deficit due to the circumstances noted above, the in-year movement has arisen primarily due to changes in financial assumptions made by the actuary.

Our application of materiality

25. 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 financial statements.
26. Our initial assessment of materiality for the annual accounts was £144,000. On receipt of the 2018/19 unaudited annual accounts, we reassessed materiality and reset it to £130,000. We consider that our updated assessment has remained appropriate throughout our audit.
27. Our assessment of materiality is set with reference to gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance.

Performance materiality

28. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
29. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all 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		
	High	Medium	Low
Performance materiality	£65,000	£78,000	£97,000

30. We agreed with the Board that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of 5% of the overall materiality figure, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

31. One adjustment was made to the annual accounts in respect of the net pension liability (paragraphs 21-24). There were no unadjusted differences to the unaudited annual accounts.

Board representations

32. We have requested that a signed representation letter be presented to us at the date of signing the annual accounts. This letter is to be signed by the Treasurer on behalf of the Board.

An overview of the scope of our audit

33. The scope of our audit was detailed in our External Audit Plan, which was presented to the Board in April 2019. 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.

34. 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.
35. 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

36. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:
 - Reviewing minutes of Board 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.
37. 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

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

The Local Authority Accounts (Scotland) Regulations 2014

39. 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.

¹ Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object

Management commentary

40. The Local Authority Accounts (Scotland) Regulations 2014 require local authority bodies to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.
41. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

Annual governance statement

42. We have reviewed the annual governance statement and have found that it is consistent with the annual accounts and has been prepared in accordance with Delivering Good Governance in Local Government Framework (2016). We have provided further detail on our work and findings within the Wider Scope section of our report (section 4).

Remuneration report

43. 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.

Going concern

44. As at 31 March 2019, the Board reported a net liability position of £7.709million.
45. The Board's usable reserves increased by £99,000 to £0.897million. The Board's unusable reserves totalled £8.606million. This is primarily related to the net pension liability of £8.884 million as at 31 March 2019.
46. 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.

to the accounts and consideration and signing of the audited accounts.



Related parties

47. Local government bodies are required to make relevant disclosures in the annual accounts in respect of related parties. We concluded during our audit that while the relevant disclosures had been made in the annual accounts; improvements could be made over the procedures for collating this information. Once potential related parties have been identified, an exercise should be carried out to review accounting records for transactions associated with those related parties. This part of the process is carried out by the City of Edinburgh Council (the Council) on behalf of the Board and is dependent on potential related parties being identified by management at the Board and reported to the Council. We would encourage both management at the Board and the Council to review existing procedures to ensure these are carried out in the most efficient and effective way.

Action plan point 1

Follow up of prior year recommendations

48. As part of our audit we have followed up the agreed audit recommendations from prior years which were yet to be implemented. We are pleased to report that all prior year recommendations have been implemented. Detail on these recommendations is included in the action plan at Appendix 2.

Looking forward – IFRS 16 Leases

49. IFRS 16 Leases will be effective from 1 April 2020. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.
50. There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications, or revised lease payments.
51. This will be a key area of focus for our 2019/20 audit.

Qualitative aspects of accounting practices and financial reporting

52. During the course of our audit, we consider 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. The following observations have been made:





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.	<p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to pension liabilities. We consider the estimates made, and the related disclosures, to be appropriate to the Board.</p> <p>We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.</p>
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2019/20. 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 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.	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.



4. Wider scope

Following consideration of the size, nature and risks of the Board, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

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



Wider scope conclusions



Governance statement

We are satisfied that the Annual Governance Statement for the year to 31 March 2019 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).



Financial sustainability

Progress has been made during 2018/19 to develop a four year medium term financial plan. The plan forecasts, based on a number of assumptions and the introduction of legislative changes, that the Board will have a funding gap from 2020/21 that will rise to £0.949million by 2022/23. The Board is to receive regular updates on the medium term financial plan in advance of approving a budget for 2020/21 in February 2020.

Our approach to the wider scope audit

53. Our approach to the wider scope audit (as set out in our 2018/19 External Audit Plan) builds upon our understanding of the Board which we developed from previous years, along with discussions with management and review of Board minutes and key strategy documents.

54. During our audit we also considered the following risk areas as they relate to the Board:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency

Overall we concluded that the Board has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal

The Board has assessed the impact of EU withdrawal on the organisation as it relates to workforce, finance and regulation and where appropriate is taking steps to mitigate any impact. The main area of uncertainty and risk to the Board is with regard to snap elections and referendums over the coming year and the additional demand this would have on the Board's resources.

Changing landscape of financial management

Following recommendations of the Scottish Budget Review Group, the Scottish Government has indicated that it will bring forward a three-year funding settlement for local government from 2020/21 onwards. This may give the Board greater clarity to support medium-term financial planning.

Dependency on key suppliers

Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where key suppliers are experiencing difficult trading conditions.

The Board has not identified any key suppliers that they rely on for services which would have a detrimental effect on the Board should the relationship cease. We consider this to be appropriate due to the nature of the supplier relationships.



Openness and transparency

We consider the Board to exhibit good practice with respect to their openness and transparency arrangements through the following:

- Publication of Board minutes on its website;
- Key publications including the Annual Corporate Plan, Annual Service Plan and annual accounts being available on its website;
- Range of methods used to communicate with stakeholders.



Governance statement

Our audit opinion considers whether the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

55. We are satisfied that the Annual Governance Statement for the year to 31 March 2019 is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
56. 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.
57. From our audit work performed we concluded that 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.
58. 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.
59. In May 2018, the Board introduced a Governance, Risk and Best Value Group (the "Group"). The Group met once during 2018/19 and further meetings are scheduled during 2019/20. The aim of the Group is to provide formal, transparent arrangements for monitoring corporate reporting, risk management and internal financial and core system controls within the Board. We will continue to monitor the development of this Group and its activity during 2019/20.



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.

Significant audit risk

60. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

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.

In 2017/18, the 'Transformation and Cultural Change Programme' commenced. The programme has delivered changes to staffing structures alongside process improvements. The Board has recognised that the implementation of the Barclay review recommendations will have a significant impact on their future sustainability with full year costs associated with the implementation currently estimated at £0.4million. The proposed changes to non-domestic rates valuation cycle will have a significant impact on resources available creating both budgetary and staffing pressures. A Barclay roadmap has been developed to ensure all key milestones are achieved and progress is reported at each Board meeting.

A medium-term financial plan is currently being developed for the 5-year period to 2024/25. Initial assumptions used in the development of the plan were presented to the Board in February 2019 with full plan due to be presented in April 2019.

Excerpt from the 2018/19 External Audit Plan

61. Progress has been made during 2018/19 to develop a four year medium term financial plan. In April 2019, the Board received an update on the development of a medium term financial plan. The medium term financial plan presented covers a four year period commencing 2019/20 through to 2022/23.
62. The plan reflects the strategic direction and priorities of the Board and includes assumptions following the implementation of the recommendations of the Barclay Review (paragraph 68), which would be met through Scottish Government funding, and the impact of changes to Individual Electoral Registration (IER). In respect of IER, the Cabinet Office has confirmed ring-fenced funding until 2019/20. The financial planning assumption is that any unspent IER grant at the end of 2019/20 will be required to fund additional ongoing IER costs until the annual running cost of IER is known.
63. In addition, the following cost assumptions have been applied in developing the medium term financial plan:
- Pay awards – assumed at 3% per annum
 - Pension fund contributions – based on most recent triennial valuation
 - Transformation Programme – the medium term financial plan assumes no additional costs or savings from this programme
 - Non-staff costs – cost savings are to be achieved to address unavoidable increases in non-staff costs
 - Requisition funding – assumed continuation of 'flat-cash' position in each of the next four years
 - No drawdown from the General Reserve.
64. Based on these assumptions and the introduction of legislative changes, the plan indicates that the Board will have a funding gap from 2020/21 that will continue to rise to 2022/23.



Financial modelling was carried out based on potential future reductions in constituent council requisitions. This realises a funding gap of £0.949million by 2022/23.

65. The plan recognises that a three year funding settlement for local government from 2020/21 onwards may give the Board greater clarity to support its medium term financial planning
66. The Board is to receive regular updates on the medium term financial plan in advance of approving a budget for 2020/21 in February 2020.

2019/20 budget

67. In February 2019, the Board approved a one-year budget for 2019/20 of £5.847million. The 2019/20 budget assumes no change from the 2018/19 Council requisition, prior to inclusion of new statutory requirements to deliver recommendations of the Barclay Review. For 2019/20, the Board has received, to date, £154,000 to support the implementation of the Barclay recommendations; taking the budget for 2019/20 to £6.001million.

Barclay review

68. In August 2017, a review commissioned by the Scottish Government on non-domestic rates culminated in the Barclay report that included a number of recommendations designed to improve the current non-domestic (business) rates systems. It is expected that the most significant impact will be the proposed change to move from a five year to a three year revaluation cycle with effect from 2022. It is expected that this reduction in the valuation cycle will also have a significant impact on the appeals process, as all appeals will need to be finalised in advance of the next three year cycle.
69. Following completion of the Scottish Government consultation, it is expected that the Barclay proposals will be incorporated into legislation, with primary legislation effective from 1 April 2020² and secondary legislation finalised by 2022. The Scottish Government has provided indirect funding via Local Authorities to the 14 Scottish valuation boards to support implementation of the Barclay recommendations, to be distributed using a Scottish Government funding allocation model.
70. Since 2017, the Board has been preparing for implementing recommendations of the external Barclay Review into Non-Domestic Rating.
71. During 2018/19, the Board's internal audit function carried out a review into the design adequacy and operating effectiveness of the project management framework and its application to the Barclay

project. Overall they concluded that the project framework in place and its application across the Barclay project is generally adequate with enhancements required.

The Board's performance in 2018/19

72. The Comprehensive Income and Expenditure Statement for 2018/19 shows that the Board spent £9.056million on the delivery of services, resulting in an accounting deficit of £1.520million. However, the accounting deficit 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 2018/19 Code), and which are subsequently adjusted to show their impact on reserves.
73. Taking account of these adjustments, the Board reported an underspend position of £99,000 as shown in Exhibit 3. The underspend position was primarily due to the implementation of a new staffing structure from 1 April 2018.
74. The costs of Individual Electoral Registration (IER) were fully funded in 2018/19 with £0.372million currently being deferred for future years.

² On the 25 March 2019 draft primary legislation entitled the "Non Domestic Rating Reform (Scotland) Bill" was laid before the

Scottish Parliament. It is anticipated that this will be enacted from 1 April 2020.



Exhibit 3: Revenue performance against budget

Financial target	Revised budget £000	Actual £000	Variance £000
Core expenditure	5,893	5,795	(98)
IER expenditure	275	219	(56)
Total expenditure	6,168	6,014	(154)
Core income	(46)	(47)	(1)
IER income	(275)	(219)	56
Total income	(321)	(266)	55
Total	5,847	5,748	(99)

Source: Annual accounts for the year ended 31 March 2019

75. The Board has held a general reserve since 2015/16. The general reserve balance of £0.897million has increased by £99,000 in comparison to 2017/18 as a result of the underspend position.
76. 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.

5. Appendices

Appendix 1: 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 proper officer of the Board has the responsibility for the administration of those affairs. At the Board, that officer is the Treasurer.

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 2018/19 Code of the state of the affairs of the body as at 31 March 2019 and of 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 2018/19 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 audited part of the Remuneration Report 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 audited part of the Remuneration Report are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit.

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 of Audit Practice 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.

Best value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the Board's best value arrangements has been integrated into our audit approach, including our work on the wider scope audit dimensions.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, the Board and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Action plan

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

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	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring 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.

Current year action plan

Action plan point	Issue & recommendation	Management comments
1. Related parties	While we concluded during our audit that while the relevant disclosures in respect of related party transactions had been made in the annual accounts; improvements could be made over the procedures for collating this information.	A review of existing procedures to identify related parties will be undertaken
Rating		Responsible officers: Assessor and Treasurer
Grade 3		Implementation date: 31 March 2020
Paragraph Ref	Once potential related parties have been identified, an exercise should be carried out to review accounting records for transactions associated with those related parties. This part of the process is carried out by the City of Edinburgh Council (the Council) on behalf of the Board and is dependent on potential related parties being identified by management at the Board and reported to the Council.	
47	Risk There is a risk that the disclosure within the annual accounts is incomplete.	
	Recommendation We would encourage both management at the Board and the Council to review existing procedures to ensure these are carried out in the most efficient and effective way.	

Follow up of prior year recommendations

Of the three recommendations raised within our previous annual audit reports and which had yet to be fully implemented, we are pleased to report that these are now all complete. Details are given below.

1. User access controls

Initial rating	Issue & recommendation	Management comments
Grade 3	<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>LVJB will liaise with CEC to assess current access controls to the financial ledger. Following this assessment agreed recommendations will be implemented.</p> <p>Responsible officer: Governance Manager/Treasurer</p> <p>Implementation date: Feb 2019</p>
Current status	Audit update	Management response
Complete	<p>We have reviewed the actions taken to ensure access to post journals has been limited to those with appropriate authority.</p> <p>Recommendation has been closed with new authorisation measures in place.</p>	N/A

2. Policy review

Initial rating	Issue & recommendation	Management comments
Grade 3	<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>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>	<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> <p>Responsible officer: Governance Manager</p> <p>Implementation date: December 2018</p>
Current status	Audit update	Management response
Complete	The Risk Management Strategy and Anti-Fraud and Corruption policy have been reviewed and updated.	N/A

3. Financial planning

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Observation</p> <p>The Board recognises that it needs to move towards a sustainable budget position for 2017/18 and is working to develop options to achieve this.</p> <p>Recommendation</p> <p>The Board should move towards developing a longer-term financial planning framework, which considers a range of options and scenarios around service delivery.</p>	<p>2016/17 management comments</p> <p>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.</p> <p>2017/18 management comments</p> <p>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.</p> <p>Responsible officer: Assessor and Electoral Registration Officer/Treasurer</p> <p>Implementation date: 31st March 2019</p>
Current status	Audit update	Management response
Complete	<p>Refer to paragraphs 61-66 of this report. Progress has been made during 2018/19 to develop a four year medium term financial plan.</p>	N/A

