

# Lanarkshire Valuation Joint Board

Proposed 2017/18 Annual Audit Report



## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2017/18 annual accounts

- 1** The financial statements of Lanarkshire Valuation Joint Board give a true and fair view of the state of its affairs and of its net expenditure for the year.
- 2** We have issued an unqualified Independent Auditor's Report on the Lanarkshire Valuation Joint Board Annual Accounts for 2017/18.

## Financial sustainability and governance statement

- 3** Containing expenditure within budget is a positive outcome.
- 4** The Joint Board's financial position is sustainable in the foreseeable future although increased workload and increasing costs may constrain its capacity to deliver services at current levels.
- 5** The Joint Board's governance arrangements are satisfactory and adequately disclosed and concluded upon in the Annual Governance Statement.
- 6** The Joint Board is sustaining a high level of service performance.

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# Introduction

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- 1.** This report summarises the findings from our 2017/18 audit of Lanarkshire Valuation Joint Board. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.
- 2.** The scope of our audit was set out in our Annual Audit Plan presented to the March meeting of the Joint Board. We applied the small body provisions of the Code to the 2017/18 audit of the Lanarkshire Valuation Joint Board.
- 3.** The management of Joint Board is responsible for, inter alia:

  - preparing financial statements which give a true and fair view
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
- 4.** Our audit of the Annual Accounts is not designed to identify all matters that may be relevant to those charged with governance. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made. It is the auditor's responsibility to express an opinion on the Annual Accounts prepared by management. This does not relieve management of the responsibility for the preparation of the Annual Accounts.
- 5.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 6.** Our annual audit report contains an agreed action plan ([appendix 1](#)). NUMBER new actions were identified from the 2017/18 audit; however, we have updated the action plan points brought forward from 2016/17. The Joint Board should ensure that it is satisfied with proposed actions and have adequate mechanisms in place to assess progress and monitor outcomes.
- 7.** We comply with the Financial Reporting Council's Ethical Standard. We have not undertaken non-audit related services and therefore the 2017/18 audit fee of £7,080 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 8.** This report is addressed to the members of the Joint Board and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.
- 9.** The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Part 1

## Audit of 2017/18 annual accounts



### Main judgements

**The financial statements of Lanarkshire Valuation Joint Board for 2017/18 give a true and fair view of the state of its affairs and of its net expenditure for the year.**

**We have issued an unqualified Independent Auditor's Report on the Lanarkshire Valuation Joint Board Annual Accounts for 2017/18.**

### Audit opinions on the annual accounts

**10.** The annual accounts for the year ended 31 March 2018 were approved by the board on 3 September 2018. We reported in our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified audit opinion on the auditable part of the remuneration report, management commentary and annual governance statement.

**11.** We also concluded that there were no matters upon which we are required to report to the Accounts Commission by exception.

### Submission of annual accounts for audit

**12.** We received the unaudited annual accounts on 19 June 2018 in line with the agreed audit timetable.

**13.** The unaudited annual accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

**14.** In our Annual Audit Report for 2016/17 we were critical of the standard of the annual accounts presented for audit. The format and structure of the 2017/18 annual accounts is considerably improved.

### Risks of material misstatement

**15.** [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed.

### Materiality

**16.** Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

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The preparation of annual accounts is the principal means by which the Joint Board demonstrates its stewardship of resources and its performance in the use of those resources.

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**17.** We carried out our initial assessment of materiality for the annual accounts during the planning phase of the audit. On receipt of the annual accounts and following completion of audit testing we reviewed our planning materiality calculations and concluded that they remained appropriate and these are summarised at [exhibit 1](#).

## Exhibit 1

### Materiality levels

| Materiality level  | Amount  |
|--|---------|
| Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2018.   | £40,000 |
| Performance materiality –. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of overall materiality. | £30,000 |
| Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.  | £2,000  |

Source: Annual Audit Plan 2017/18

## Significant findings from the audit

**18.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [exhibit 2](#).

**19.** The findings include our views about significant qualitative aspects of accounting practices including: disclosures, the impact of any uncertainties, misstatements in the annual accounts, accounting estimates and judgements, and the effect of any unusual transactions on the financial statements.

## Exhibit 2

### Significant findings from the audit of the financial statements

| Finding  | Resolution   |
|--|--|
| <b>1. Intangible Assets</b><br>The Joint Board's unaudited accounts disclosed intangible assets - software and licenses - for the first time in 2017/18. A restatement of the prior year stated that £46,000 of licenses was purchased in 2016/17 and a further £49,000 purchased in 2017/18. These asset additions, in the main, consisted of annual maintenance contracts. This has now been reduced to a total of £8,000 for the two years. | Management have adjusted the financial statements to correct the position. In future, additions of intangible assets will be disclosed in the Balance Sheet. |

Source: Audit Scotland

## **Other issues**

**20.** There was an error in the 2016/17 short term accumulating absences. The increase in the accrual should have been £7,000 but an error in the calculation identified an increase of only £1,000 in the Employee Statutory Adjustment Account. This is a technical accounting error and no prior year adjustment is required.

## **Follow up of prior year recommendations**

**21.** We have followed up actions previously reported and assessed progress on implementation. In total, eight agreed actions were raised in 2016/17; all of these have been fully implemented.



# Part 2

## Financial sustainability and governance statement



### Main judgements

**Containing expenditure within budget is a positive outcome.**

**The Joint Board's financial position is sustainable in the foreseeable future although increased workload and increasing costs may constrain its capacity to deliver services at current levels.**

**The Joint Board's governance arrangements are satisfactory and adequately disclosed and concluded upon in the Annual Governance Statement.**

**The Joint Board is sustaining a high level of service performance.**

### Financial performance in 2017/18

**22.** The Joint Board is mainly funded by requisitions from its constituent members South Lanarkshire Council and North Lanarkshire Council. Other sources of income include funding from the Cabinet Office for Individual Electoral Registration (IER) and income from sales, fees and charges.

**23.** The Joint Board's budget for 2017/18 was set on the basis of gross expenditure of £4.095 million and income of £3.907 million, the deficit of £0.188 million to be funded from general reserves.

**24.** The actual outturn in 2017/18 was total expenditure of £3.926 million and total income of £3.948 million. An underspend for the year of £0.210 million is reported resulting in an increase in the general fund of £0.022 million.

**25.** We reported last year that there were areas of persistent underspending/overspending against individual budget lines which required attention. Examples included, basic pay, overtime and canvassers' payments. Management have adjusted these areas to ensure that the budget is up to date and reflects the underlying cost of the service level required.

**26.** The Joint Board uses an incremental based budgeting method whereby the budget of the previous year is used as a base for the current year budget. While this method can work well for a small organisation like the Joint Board, changes over a number of years can lead to structural divergence between budget and actual outturn. Management have advised that adjustments have been made to the 2018/19 budget.

**27.** Each year the Joint Board undertakes work in relation to individual electoral registration (IER). At the start of the financial year it was not clear how much additional central funding from the Cabinet Office would be made available to complete this work. During the year funding of £0.315 million was received.

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Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services.

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## Short term financial planning

**28.** The Joint Board submitted its 2018/19 draft budget in December 2017. Total budgeted expenditure was £4.115 million with a resource allocation of £4.108 million. Requisition income for 2018/19 has remained the same as 2017/18 at £3.626 million. Anticipated Cabinet Office funding is £0.312 million and the deficit of £0.170 million is to be funded from general reserves.

**29.** The Treasurer considers the current level of reserves to be prudent to protect against unforeseen costs. The Joint Board's reserve position is the result of an accumulation of unplanned surpluses in previous years.

## Medium to long term financial planning

**30.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**31.** As part of the budget setting process revenue estimates are prepared for a 3-year period. This allows management and members to identify pressures and take early actions to mitigate against these pressures.

**32.** In addition to 3-year revenue estimates, there are financial outlook papers presented to the Joint Board. These include details of significant issues or pressures on the Joint Board, actions being taken to address the issues, and incorporate scenario planning where applicable which outlines the impact of various situations that could arise.

**33.** The Joint Board approved the 'Financial Strategy 2019/20 to 2021/22 and Longer-Term Outlook' The plan outlines the Joint Board's statutory requirements and services, and outlines details of key activities and outcomes which will allow the objectives of the plan to be achieved over the 3-year period. The plan includes activities and outcomes in relation to financial planning, budgeting, and monitoring.

## Conclusion on financial sustainability

**34.** The Joint Board's financial position is sustainable in the foreseeable future although the burden of extra workload from individual electoral registration activities and increasing costs will continue to place a strain on capacity to deliver services at current levels.

## Annual Governance Statement

**35.** We concluded that the information in the annual governance statement is consistent with the financial statements and had been prepared in accordance with the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government: Framework (2016)*.

## Internal control

**36.** South Lanarkshire Council, as host authority, provides support in some key areas of business, particularly in finance, legal and information technology.

**37.** As part of our audit, we reviewed the high-level controls in a number of the systems used by South Lanarkshire Council for the processing and recording of transactions and the preparation of the financial statements of the Joint Board.

**38.** Our overall conclusion was that the key controls within the council's main financial systems were operating satisfactorily, and no significant risks to the Joint Board were identified.

## Pension liability

**39.** A significantly reduced pension liability of £1.497 million (2016/17 £6.869 million) has been included in the Balance Sheet. This section is included for information to members as we consider that the large movement requires explanation and comment.

**40.** Lanarkshire Valuation Joint Board is a member of Strathclyde Pension Fund, one of the largest in the UK. Valuation of pension fund assets and liabilities is assessed by an independent firm of actuaries (Hymans Robertson LLP). Annual valuations are dependent on a number of external variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates and mortality estimates.

**41.** The net pension liability represents the difference between expected future payments to pensioners and the projected value of pension fund assets available to meet this cost.

**42.** Historically, there has been considerable volatility year on year on the valuation of liabilities across the public sector. Small changes in actuarial assumptions can have a significant impact on the calculation of closing liabilities. The pension fund actuary has indicated that the variable which had the greatest impact on the calculation of the 31 March 2018 liability was the reduction in life expectancy. Thus, the expectation of lower mortality rates has reduced the overall liability.

**43.** At the last reported triennial valuation (31st March 2014) the Strathclyde Pension Fund was 94.3% funded and had assets of £15.8 billion. The pension fund has a 12-year funding strategy in place to address the deficit.

## General Data Protection Regulations

**44.** The EU General Data Protection Regulation (GDPR) came into force across all member states on 25 May 2018. GDPR contains provisions and requirements pertaining to the processing of personally identifiable information and has introduced new and significantly changed data protection concepts. Substantial fines can be levied for breaches of the regulations.

**45.** We undertook a brief review of the revised arrangements. The Joint Board has updated its Privacy Notice and Data Protection Policy Statement, introduced a Special Category Data Protection Policy document and Personal Data Breach Notification Procedure. Arrangements for the data protection officer function is in place via the Scottish Assessors Association.

**46.** We concluded, from our overview, that the Joint Board has made arrangements to meet GDPR requirements. Management should consider engaging internal audit to carry out a more in-depth review to gain assurance that the Joint Board is in full compliance with the regulations.



[Recommendation 1 \(refer appendix 1, action plan\)](#)

## Public performance reporting

**47.** The Accounts Commission places great emphasis on local government bodies' responsibility for public performance reporting. The Commission does not prescribe how they should report but expects them to provide citizens with fair, balanced and engaging performance information reporting.

**48.** The Joint Board's 2017/18 public performance report was, in our view, fair and balanced and included useful and well-presented information in both narrative and graphic format.

## Performance indicators

**49.** Service performance is measured by standard performance indicators agreed between that Scottish Government and the Scottish Assessors' Association. We assessed the Joint Board's published data against that of a sample of other Scottish valuation joint boards.

**50.** We concluded that, in respect of adding new houses to the council tax valuation list, the Joint Board is performing at the top of the range and has been sustaining this level of performance over the last three years, [exhibit 3](#).

**51.** In respect of amendments to the valuation roll the Joint Board is consistently outperforming most other joint boards. Although performance dropped off in 2016/17 this is explained by the extra burden of work associated with the national revaluation during 2016/17 and into 2017/18. Notwithstanding the extra work, the Joint Board has maintained its place in the top of the range, [exhibit 4](#).

### Exhibit 3 Council Tax

#### Addition of new houses to the council tax list

|                    | Comparator boards 2017/18 |      |      |       |      | Lanarkshire VJB |         |         |
|--------------------|---------------------------|------|------|-------|------|-----------------|---------|---------|
|                    | A                         | B    | C    | D     | E    | 2015/16         | 2016/17 | 2017/18 |
| <i>Achievement</i> | %                         | %    | %    | %     | %    | %               | %       | %       |
| Within 3 months    | 96                        | 94   | 91.3 | 98.8  | 95   | 96              | 96      | 97      |
| Within 6 months    | 100                       | 99.5 | 96.8 | 99.75 | 98.8 | 99              | 99      | 99      |

Source: Scottish Assessors Association – KPIs 2017/18

### Exhibit 4 Valuation Roll

#### Amendments to the valuation roll

|                    | Comparator boards 2017/18 |    |      |      |      | Lanarkshire VJB |         |         |
|--------------------|---------------------------|----|------|------|------|-----------------|---------|---------|
|                    | A                         | B  | C    | D    | E    | 2015/16         | 2016/17 | 2017/18 |
| <i>Achievement</i> | %                         | %  | %    | %    | %    | %               | %       | %       |
| Within 3 months    | 70                        | 67 | 65.5 | 79.5 | 63.2 | 85              | 72      | 76      |
| Within 6 months    | 86                        | 86 | 82.1 | 89.7 | 85.9 | 95              | 87      | 87      |

Source: Scottish Assessors Association – KPIs 2017/18

## Conclusion

**52.** The Lanarkshire Valuation Joint Board is sustaining a high level of service performance.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No. Issue/risk



Recommendation



Agreed management action/timing

### 2017/18 recommendations for improvement

1

#### GDPR

The EU General Data Protection Regulation contains provisions and requirements pertaining to the processing of personally identifiable information and has introduced new and significantly changed data protection concepts. The Joint Board has made arrangements to meet GDPR requirements.

#### Risk

Gaps in the Joint Board's arrangements could lead to action by the Information Commissioner's Office, a substantial fines and reputational damage.

Management should consider engaging internal audit to carry out a more in-depth review to gain assurance that the Joint Board is in full compliance with the regulations.

We will ask Internal Audit to review and report on our GDPR arrangements.

Responsible officer: Assessor and Electoral Registration Officer

Target date: 31 March 2019

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

| Audit risk   | Assurance procedure   | Results and conclusions   |
|--|---|---|
| <b>Risks of material misstatement in the financial statements</b>  |   |   |
| <p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls.</p>   | <ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul> | Our audit procedures did not detect evidence of management override of controls.  |
| <p><b>2 Risk of fraud over expenditure</b></p> <p>Code of Audit Practice expands the ISA 240 assumption on fraud over income to aspects of expenditure.</p>  | <ul style="list-style-type: none"> <li>Analytical procedures of expenditure streams.</li> <li>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</li> </ul>   | Our audit procedures did not detect any evidence of fraud over expenditure.   |
| <b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>   |   |   |
| <p><b>3 Cyber security</b></p> <p>The Joint Board faces the risk of cyber-attacks targeting ICT systems, networks and infrastructure. There is a risk that the Joint Board is not fully aware of vulnerabilities in its ICT systems and may be at risk of unauthorised access and subsequent damage and interruption to its IT services.</p> | Assessed South Lanarkshire Council's cyber security arrangements against the Scottish Government Cyber Resilience Action Plan.  | The Council has committed to fully implementing the Scottish Government's Public Sector Action Plan on Cyber Resilience by the end of 2018. This includes achieving the associated Cyber Essentials Plus accreditation by October 2018. |
| <p><b>4 Financial sustainability</b></p> <p>The Joint Board continues to face significant financial pressures arising from increasing workloads and unavoidable costs. There is a risk that the Joint Board is not able to identify sustainable savings measures or meet cost pressures as they arise.</p>                                   | Review and assess financial plans prepared.   | The 'Financial Strategy 2019/20 to 2021/22 and Longer-Term Outlook' document submitted to the Board identifies the planned budget and use of reserves over the next three years.  |

# Lanarkshire Valuation Joint Board

## Proposed 2017/18 Annual Audit Report

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