

# Lanarkshire Valuation Joint Board

2018/19 Annual Audit Report



 AUDIT SCOTLAND

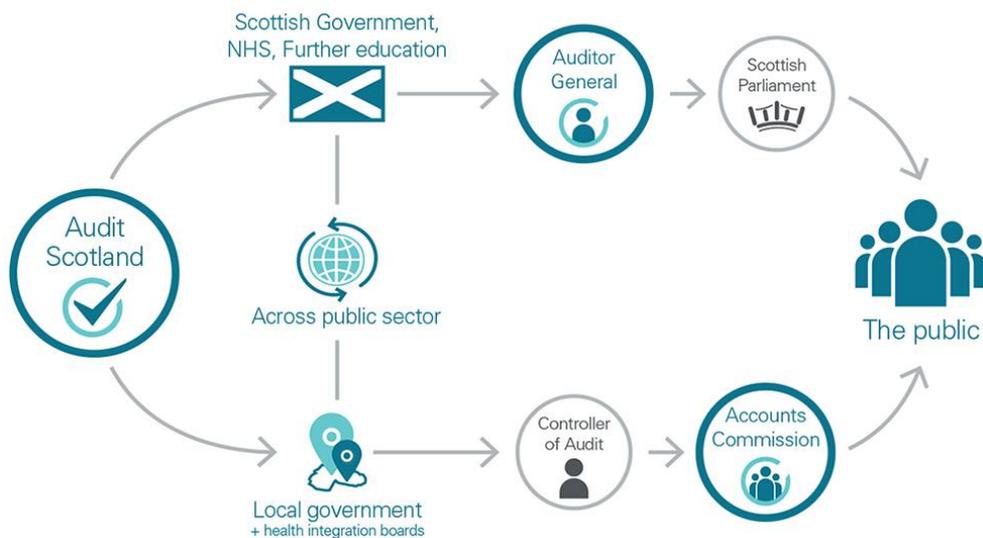
Prepared for the Lanarkshire Valuation Joint Board and the Controller of Audit

02 September 2019

## 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 2018/19 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** An unqualified independent auditor's opinion has been issued for the 2018/19 annual accounts.
- 3** The audited part of the Remuneration Report; the Management Commentary; and the Annual Governance Statement are properly prepared and are consistent with the financial statements.

## Financial sustainability, governance and performance

- 4** The Joint Board contained expenditure within budget.
- 5** The Joint Board's financial position is sustainable in the foreseeable future although recruitment and retention of staff and increasing costs may constrain its capacity to deliver services at current levels.
- 6** The Joint Board's governance arrangements are satisfactory and adequately disclosed and concluded upon in the Annual Governance Statement.
- 7** 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 2018/19 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 not to be appropriate, then audit work can focus on 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 2018/19 audit of the Lanarkshire Valuation Joint Board. We have, however, taken the opportunity to comment on aspects of the Joint Board's service performance and public performance reporting.
- 3.** The management of the 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.** We did not find any new issues arising from our 2018/19 audit work which merited a recommendation and action plan point. We have updated the action plan point brought forward from 2017/18 at [paragraph 28](#).
- 7.** We comply with the Financial Reporting Council's Ethical Standard. We have not undertaken non-audit related services. No work was undertaken beyond that set out in our Annual Audit Plan, therefore our audit fee of £7,280 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 2018/19 annual accounts



### Main judgements

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.

The audited part of the remuneration report; the management commentary; and the annual governance statement are properly prepared and are consistent with the financial statements.

### Audit opinions on the annual accounts

10. The annual accounts for the year ended 31 March 2019 were approved by the board on 2 September 2019. 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 10 June 2019 in line with the agreed 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.

### Risks of material misstatement

14. [Appendix 1](#) 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

15. 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 the 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).

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.

**16.** 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, [exhibit 1](#).

## Exhibit 1 Materiality levels

Materiality level	Amount
Overall materiality	£42,000
Performance materiality	£32,000
Reporting threshold	£2,000

Source: Annual Audit Plan 2018/19

## Significant findings

**17.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to “those charged with governance”. The qualitative aspects of the agency’s accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate to the agency. We have only one significant matter to report.

**18.** An increased pension liability of £2.966 million (2017/18 £1.060 million) was included in the balance sheet of the unaudited accounts submitted for the Joint Board’s approval on 3 June 2019. The pension liability represents the difference between expected future payments to pensioners and the projected value of pension fund assets available to meet this cost.

**19.** International accounting standards require all organisations to disclose information on pension liabilities in their financial statements. Lanarkshire Valuation Joint Board is a member of Strathclyde Pension Fund (SPF), one of the largest in the UK, which has assets of some £22 billion.

**20.** Annual valuations of pension fund assets and liabilities are made by the Strathclyde Pension Fund actuary (Hymans Robertson LLP). The resulting liability is then allocated between the participating members of SPF and these are included as pension disclosures in individual participating members’ annual accounts. The calculation of SPF assets and liabilities is complex and 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.

**21.** Historically, there has been considerable volatility year on year on the valuation of net pension liabilities across the public sector. Small changes in actuarial assumptions can have a significant impact on the calculation of liabilities.

**22.** In addition to the “normal” variation in the annual estimate of the Joint Board’s pension liability the impact of two distinct pensions issues, affecting the accounts of UK public sector organisations, became apparent during 2019.

**23.** In essence, following a judgement handed down by the Supreme Court (the McCloud case) on 28 June 2019, UK public sector organisations were obliged to obtain revised pension liability figures to reflect the Court’s judgement.

**24.** In October 2018 the High Court (England) held that pension schemes must eliminate the discriminatory effects of guaranteed minimum pensions.

**25.** The Strathclyde Pension Fund actuary provided an estimate of the financial impact of the two issues. The increase in liability in respect of the McCloud case was £0.374 million and for GMPs was £0.065 million. The total adjustment required was £0.439 million. The appropriate changes were made to the accounts, increasing the net pension liability from £2.966 million to £3.411 million.

**26.** [Appendix 2](#) provides more detail on the adjustments to the pension liabilities.

## **Other findings**

**27.** In addition to the pension issue set out above, and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

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

**28.** We made one recommendation in our Annual Audit Report of 2018/19. We recommended that management should consider engaging internal audit to carry out a review to provide assurance that the Joint Board is in full compliance with the General Data Protection Regulation (GDPR) regulations. The Internal Auditor's Annual Assurance Report 2018/19 went to the Joint Board on 3 June 2019. The Internal Auditor reported that "good assurance was obtained that the LVJB has comprehensive arrangements in place to meet the legislative requirements of GDPR".

# Part 2

## Financial sustainability, governance and performance



### Main judgements

**The Joint Board contained expenditure within budget.**

**The Joint Board's financial position is sustainable in the foreseeable future although recruitment and retention of staff 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 2018/19

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

**30.** The Joint Board's budget for 2018/19 was set on the basis of gross expenditure of £4.108 million and income of £3.938 million, the deficit of £0.170 million to be funded from general reserves.

**31.** The actual outturn in 2018/19 was total expenditure of £3.797 million and total income of £3.923 million. An underspend for the year of £0.296 million is reported resulting in an increase in the general fund of £0.126 million.

**32.** In our Annual Audit Report of 2017/18 we were critical of the Joint Board's use of incremental based budgeting. Management advised that adjustments had been made to the budget process. We note that there is a greater convergence between budget and actual expenditure. Expenditure of staffing was underspent by some £0.265 million. The Assessor reports that a significant element of the underspend relates to the Joint Board's challenges in recruiting and retaining staff.

**33.** 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 £0.297 million was received, marginally down on the budgeted figure of £0.312 million.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial sustainability

**34.** As part of the budget setting process revenue estimates are prepared on a three year rolling basis. This allows management and members to identify pressures and take early actions to mitigate the pressures.

**35.** The Joint Board approved the 'Financial Strategy 2019/20 to 2021/22 and Longer-Term Outlook' in March 2018. The plan outlines the Joint Board's statutory obligations and services and outlines details of key activities and outcomes which will allow the objectives of the plan to be achieved over the three year period. The

plan includes activities and outcomes in relation to financial planning, budgeting, and monitoring.

**36.** A new Service Plan has been prepared, which covers the period from 1 April 2019 through to 31 March 2022. The Service Plan sets out the key challenges faced by Joint Board within its three main business areas, [exhibit 2](#).

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## Exhibit 2 Service Plan – key challenges

### Non-Domestic valuation

- 
- to ensure the disposal of all appeals, received in accordance with statutory timescales
- 
- to ensure the maintenance of the valuation roll between revaluations and that values accurately reflect changes to valuation roll entries
- 
- to plan for and ensure the completion of, in accordance with statutory timescales, the 2022 Revaluation and the future challenges as a result of the Barclay Review.
- 

### Council Tax

- 
- to ensure that new houses are entered in the Valuation List as soon after completion as possible
- 
- to ensure that band changes relating to a material change of value of a dwelling, followed by its subsequent sale, are effected as soon as possible
- 
- to continue to deal with proposals to alter council tax bands as efficiently as possible
- 

### Electoral Registration

- 
- to plan for and ensure that Individual Electoral Registration continues to be managed successfully.
- 
- to respond to, and implement changes which result from the electoral reform review process.
- 
- to plan for and ensure service delivery for each election arising over the period of the Service Plan
- 
- to ensure the completeness and accuracy of the Electoral Registers
- 

Source: Lanarkshire Valuation Joint Board - Service Plan 1 April 2019 to 31 March 2022

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

## Governance

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

**39.** 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.

**40.** A refreshed Local Code of Governance was approved by the Joint Board in March 2019. We reviewed the Local Code of Governance and concluded that it reflects the principles set out in the CIPFA/SOLACE guidance.

**41.** We concluded that the information in the annual governance statement is consistent with the financial statements and our knowledge of the Joint Board's operations and had been prepared in accordance with the CIPFA/SOLACE guidance: *Delivering Good Governance in Local Government: Framework (2016)*.

## Public performance reporting

**42.** 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.

**43.** The Joint Board's 2018/19 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

**44.** 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.

**45.** 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](#).

**46.** In respect of amendments to the valuation roll, the Joint Board has maintained its place in the top of the range, [exhibit 4](#). The Joint Board consistently outperforms most other joint boards.

## National performance reports

**47.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. National performance reports, published in 2018/19, which may be of interest to members are listed at [appendix 3](#).

### Exhibit 3 Council Tax

Addition of new houses to the council tax list								
	Comparator boards 2018/19					Lanarkshire VJB		
	A	B	C	D	E	2016/17	2017/18	2018/19
<i>Achievement</i>	%	%	%	%	%	%	%	%
Within 3 months	94	96	93.7	96.8	95.9	96	97	96
Within 6 months	99	99	98.3	99.6	99	99	99	99

Source: Scottish Assessors Association – KPIs 2018/19

### Exhibit 4 Valuation Roll

Amendments to the valuation roll								
	Comparator boards 2018/19					Lanarkshire VJB		
	A	B	C	D	E	2016/17	2017/18	2018/19
<i>Achievement</i>	%	%	%	%	%	%	%	%
Within 3 months	60	77	59.2	74.2	78.4	72	76	80
Within 6 months	81	93	77.2	92.2	91.9	87	87	90

Source: Scottish Assessors Association – KPIs 2018/19

# Appendix 1

## 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.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 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 to change the position disclosed in the financial statements.</p>	<p>Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>Reviewed accounting estimates for biases.</p> <p>Evaluated significant transactions that are outside the normal course of business.</p>	<p>Our audit procedures did not detect evidence of management override of controls.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>Our audit procedures did not detect any evidence of fraud over expenditure.</p>

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# Appendix 2

## Adjusted pensions liabilities

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The impact of two distinct pensions issues, affecting the accounts of public sector organisations, became apparent during 2019. The following sections summarise the issues and the actions taken by the Joint Board to reflect the impact in the 2018/19 annual accounts.

### **Age discrimination on pension scheme transitional protection**

In March 2011 the Independent Public Services Pension Commission published a review of Public Sector Pensions, the Hutton Report. It recommended wholesale public sector pension reform in order to place public sector pensions on a more sustainable footing. The Government largely accepted the recommendations of that Report and enacted pension reforms through the Public Service Pensions Act 2013. The main changes were: pensions are now based on career average rather than final salary; retirement ages are now aligned with state pension eligibility age; rates of the annual accrual of pension benefits are changed.

The reforms included transitional protection for scheme members approaching retirement age. In December 2018, the Court of Appeal ruled that the transitional protection provided to some members of the judiciary and fire fighters schemes amounted to unlawful age discrimination. On 28 June this judgement was upheld by the Supreme Court. Although this (McCloud) case related to specific schemes the principle applies to other public sector groups who have seen similar changes to their pension schemes.

As a result, the Joint Board was obliged to reflect the additional liabilities arising from the McCloud decision in the financial statements for 2018/19.

### **Sex discrimination on guaranteed minimum pension rights**

Contracting out of the state earnings related pension scheme (SERPS) became possible in April 1978. This provided for reduced employer and employee National Insurance contributions in return for members receiving a guaranteed minimum pension (GMP) from an occupational pension scheme. GMPs are discriminatory in various ways. For example, they are payable at 60 for female members and 65 for male members and they built up at different rates, reflecting the earlier payment age for women.

In October 2018 the High Court (England) held that pension schemes must equalize the discriminatory effects of GMPs. The Court's judgement will be applicable across all affected public sector defined benefit pension schemes. An interim method of calculating costs in respect of persons retiring from April 2016 and April 2021 has been agreed. However, the issue is a long standing one and the many complexities of dealing with it have meant that there is, as yet, no agreed solution to calculating the liabilities of pension schemes.

The Strathclyde Pension Fund actuaries, Hymans Robertson, provided estimates of the increased liabilities attributable to the Joint Board and these have been included in the 2018/19 annual accounts.

# Appendix 3

## List of national performance reports 2018/19

### 2018/19 Reports

Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

# Lanarkshire Valuation Joint Board

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)