Lanarkshire Valuation Joint Board

2019/20 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Lanarkshire Valuation Joint Board and Controller of Audit

September 2020

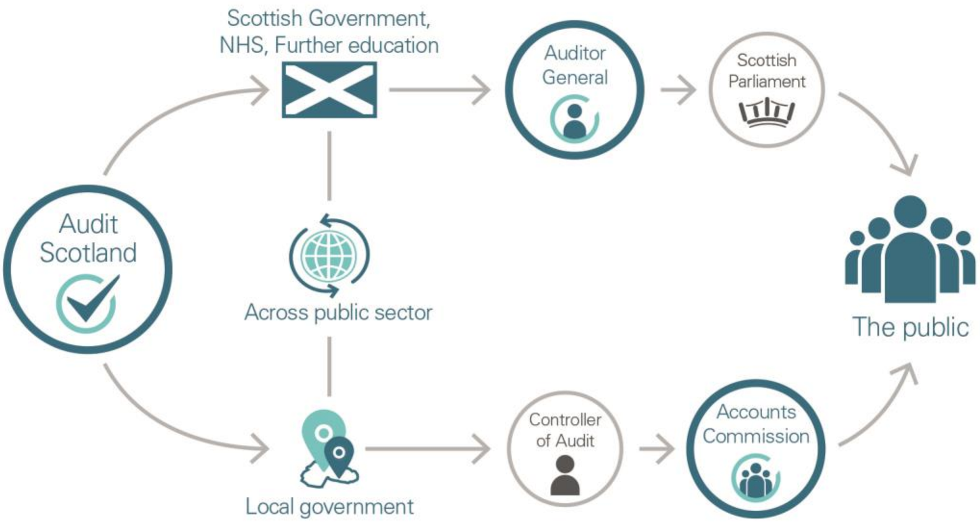
Who we are

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.

Contents

Key messages

2019/20 Annual Accounts

1 **The financial statements of Lanarkshire Valuation Joint Board give a true and fair view and were properly prepared in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the UK.**

2 **An unqualified independent auditor's report has been issued for the 2019/20 Annual Accounts.**

Financial sustainability, governance and performance

3 **The Joint Board's financial position is sustainable in the foreseeable future. At over 20% of annual expenditure members should consider whether the level of reserve is appropriate to the Joint Board.**

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

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

Introduction

1. The scope of our audit was set out in our Annual Audit Plan presented to the June meeting of the Joint Board.

2. This report sets out the findings from:

- the audit of the Annual Accounts
- consideration of the Joint Board's financial sustainability, governance arrangements and performance.

3. Subsequent to the preparation of the Annual Audit Plan, the Joint Board has had to respond to the Covid-19 disruption. This impacted on the final month of the financial year and will continue to have significant impact into 2020/21. Our planned audit work has had to adapt to new and emerging risks as they relate to the audit of the financial statements and our wider dimension audit work.

Responsibilities and reporting

4. 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.

5. Our responsibilities, as independent auditor appointed by the Accounts Commission, are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice (2016) and International Standards on Auditing.

6. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016*.

7. At the conclusion of our audit, we provide an Independent Auditor's Report for inclusion in the Annual Accounts. The Independent Auditor's Report sets out our opinions on:

- whether the financial statements give a true and fair view of the state of the affairs of the Joint Board and of its income and expenditure for the year.
- whether the Annual Accounts have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the UK.
- whether the Annual Accounts have been prepared in accordance with relevant legislation.
- other matters as directed by the Accounts Commission.

8. An audit of annual accounts is not designed to identify all matters that may be relevant to those charged with governance. We have included in this Annual Audit 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.

Best Value

9. Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for citizens. As we have applied the Code of Audit Practice small body provisions to the audit of the Joint Board our wider scope responsibilities do not fully apply. Our Best Value work is limited to our audit work on financial sustainability and governance arrangements. In addition, we have reviewed and commented on the Joint Board's performance outcomes.

Adding value through the audit

10. As well as delivering the statutory audit of the Annual Accounts, our aim is to add value to the Joint Board by increasing insight into, and offering foresight on financial sustainability, governance and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the Joint Board promote improved standards of governance, better management and decision making and the more effective use of resources.

Auditor Independence

11. We comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit services; the audit fee of £7,450, set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Publication

12. This report is addressed to both 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,in due course.

Acknowledgement

13. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Part 1

Audit of 2019/20 Annual Accounts

Main judgements

The financial statements give a true and fair view and were properly prepared in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the UK.

An unqualified independent auditor's report has been issued for the 2019/20 Annual Accounts.

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.

Audit opinions on the Annual Accounts

14. The Annual Accounts for the year ended 31 March 2020 were approved by the board on 7 September 2020. We reported in the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the UK.
- the Management Commentary, Annual Governance Statement and Remuneration Report were all consistent with the financial statements and properly prepared in accordance with relevant legislation.

15. 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

16. Despite the disruption caused by Covid-19, the Joint Board did not elect to postpone the preparation of its Annual Accounts. The unaudited Annual Accounts were submitted to us on 30 June 2020 in line with the original agreed timetable.

17. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly. The Independent Auditor's Report was issued and signed off, on 7 September, in line with the original timetable.

Risk of material misstatement

18. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which could impact on the financial statements. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix 1 sets out the significant audit risks identified and how we addressed each risk in arriving at our opinion on the financial statements.

Materiality

19. 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). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2018/19 audited annual accounts.

21. On receipt of the 2019/20 unaudited Annual Accounts we recalculated materiality levels based on actual gross expenditure for the year. We concluded that there was no significant impact on the audit approach of the recalculated materiality level. Our final materiality levels are summarised at exhibit 1.

Exhibit 1
Materiality levels

Materiality level	Amount
Overall materiality	£44,000
Performance materiality	£33,000
Reporting threshold	£2,000

Source: Audit Scotland Annual Audit Plan 2019/20

Significant findings

22. 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 joint board’s accounting practices, accounting policies, accounting estimates and financial statements disclosures are satisfactory and appropriate to the joint board. We have only one significant matter to report.

23. Member bodies of Strathclyde Pension Fund were advised that following a government announcement on a key pension case, the McCloud case. there was a potential material impact on the liability previously provided for in the 2019/20 financial statements.

24. We requested that the Joint Board obtain a revised set of figures for inclusion in the 2019/20 financial statements. The actuary provided revised figures, and these were incorporated into the financial statements. The effect on the Balance Sheet was to reduce the defined pension liability by £0.206 million from £1.324 million to £1.118 million. Refer to paragraph 49 – Pension Liability.

25. In accordance with normal audit practice, several presentational and disclosure amendments were discussed and agreed with management.

Part 2

Financial sustainability, governance and performance

Main judgements

The Joint Board's financial position is sustainable in the foreseeable future. At over 20% of annual expenditure members should consider whether the level of reserve is appropriate to the Joint Board.

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

Financial performance in 2019/20

26. 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.

27. The Joint Board's initial budget for 2019/20 was set on the basis of gross expenditure of £4.108 million and income of £4.063 million, the budget deficit of £0.045 million was to be funded from general reserves. A revised budget, agreed in June 2019, set expenditure at £4.695 million and income of £4.525 which included additional Scottish Government funding of £0.455 million. The shortfall of £0.170 million increasing the draw on reserves by £0.125 million.

28. The actual outturn in 2019/20 was total expenditure of £3.979 million and total income of £4.502 million. An underspend for the year of £0.523 million.

29. Management report that the main element of the underspend (£0.711million) relates to employee costs particularly in the recruitment and retention of valuation officers.

30. 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 £0.296 million was received, marginally down on the budgeted figure of £0.311 million.

31. As at 31 March the Joint Board's reserve stands at £0.947 million (31 March 2019 £0.424 million). At over 20% of annual expenditure members should consider whether this level of reserve is appropriate to the Joint Board.

Financial sustainability

32. 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.

33. 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.

34. The Service Plan, which covers the period from 1 April 2019 through to 31 March 2022, was updated and reported to the June 2020 Joint Board meeting. The Service Plan provides an update on the business areas and specific projects based on the key challenges faced by the Joint Board within its three main business areas, exhibit 2.

Exhibit 2 Service Plan – key challenges

Non-Domestic Rating

- 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 - Update

35. The Joint Board's financial position is sustainable in the foreseeable future. However, the challenges of staff recruitment and retention will continue to place a strain on capacity to deliver services at current levels.

Governance

36. 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.

37. 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.

38. A Local Code of Corporate 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 Delivering Good Governance in Local Government Framework (2016).

39. We also concluded that the information in the Annual Governance Statement is consistent with the financial statements and our knowledge of the Joint Board's operations.

Covid-19 governance and operational arrangements

40. . At the start of the lockdown most Joint Board employees had the necessary equipment to allow them to work remotely. The Management Team held business continuity/emergency planning meetings daily in the lead up to the lockdown and these continued with the Senior Management Team thereafter. This has meant that the organisation has been able to continue operating during the lockdown period.

41. A number of Appeals Committee meetings have been postponed and rescheduled. In addition, a large number of Covid-19 "material change of circumstances" appeals have been received which will place a further burden on the Joint Board's service delivery capacity. Management have identified a range of risks which have the potential to affect the delivery of services along with mitigating actions.

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 2019/20 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.

Exhibit 3 Council Tax

Addition of new houses to the council tax list

	Comparator boards 2019/20					Lanarkshire VJB		
	A	B	C	D	E	2017/18	2018/19	2019/20
Achievement	%	%	%	%	%	%	%	%
Within 3 months	91	97	89.9	97.1	96.3	97	96	96
Within 6 months	98	99	96.6	99.4	99.4	99	99	99

Source: Scottish Assessors Association – KPIs 2019/20

Exhibit 4 Valuation Roll

Amendments to the valuation roll

	Comparator boards 2019/20					Lanarkshire VJB		
	A	B	C	D	E	2017/18	2018/19	2019/20
Achievement	%	%	%	%	%	%	%	%
Within 3 months	64	71	59.3	80	81.1	76	80	84
Within 6 months	82	87	77.3	91	91.8	87	90	91

Source: Scottish Assessors Association – KPIs 2019/20

Pension liability

47. The Joint Board has a long-term liability to secure the pensions of its staff. International Accounting Standard 19 - Employee Benefits, requires all organisations to disclose information on pension liabilities in the financial statements. This section is included for information to board members as we consider that the large movement requires explanation and comment.

48. The Joint Board is an admitted member of Strathclyde Pension Fund, one of the largest in the UK with assets of some £23 billion. Valuation of pension fund assets and liabilities is assessed by an independent firm of actuaries (Hymans Robertson LLP). Pension liabilities are calculated annually for each individual member body, by the actuary, for inclusion in the financial statements. 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.

49. The Strathclyde Pension Fund actuary provided an estimate of the Joint Board's liability as at 31 March 2020. The liability advised by the actuary (£1.324 million) was a significant reduction over that included in 2018/19 (£3.411 million).

50. In June of 2019 the Supreme Court handed down a judgement on a key pension case, the McCloud case. Essentially, the transitional arrangements of the scheme involved were judged to be discriminatory. The effect of this judgement was to increase the liability of public sector defined benefit schemes. Following the judgement, the Strathclyde Pension Fund actuary recalculated the Joint Board's share of the liability increasing it by £0.445 million from £2.966 million to £3.411 million.

51. Member bodies were advised by Strathclyde Pension Fund, on 14 August 2020, that following a government announcement on the McCloud remedy consultation, there was a potentially material impact on the calculated McCloud liability previously provided for in the 2019/20 financial statements. The actuary's advice was that "in broadly simple terms, the estimated impact for McCloud may now be less than half of the previously estimated figure".

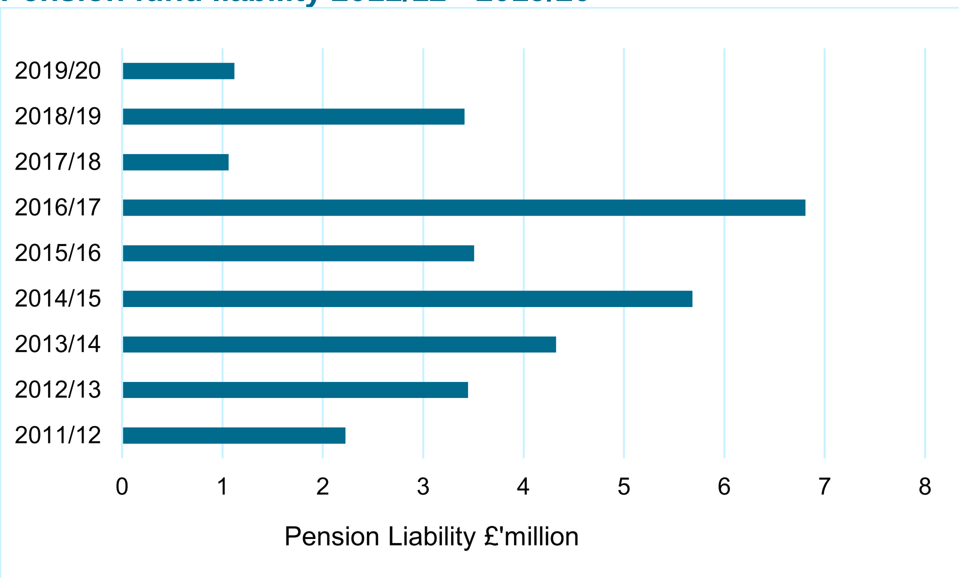
52. As auditors we sought to determine whether, given the advice from the actuary, the impact on the financial statements would breach our materiality tolerance. To do so we looked at the increase attributable to the McCloud case, as advised by the actuary, for 2018/19. We compared half of the difference (50% of £0.445 million = £0.223 million) to our materiality level (£0.044 million). On this basis we concluded that the difference was likely to be material.

53. We requested that the Joint Board obtain a revised set of figures for inclusion in the 2019/20 financial statements. The actuary provided revised figures on 20 August 2020 and these were incorporated into the financial statements. The effect on the Balance Sheet was to reduce the defined pension liability by £0.206 million from £1.324 million to £1.118 million.

54. The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this liability.

55. Over the past decade there has been considerable volatility in the valuation of pension liabilities across the public sector. For the Joint Board, the movement over the past nine years is set out at exhibit 5. Small changes in actuarial assumptions can have a significant impact on the calculation of closing liabilities.

Exhibit 5
Pension fund liability 2011/12 - 2019/20



Source: Lanarkshire Valuation Joint Board audited Annual Accounts 2011/12 -2019/20

National performance reports

56. 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 2019/20, which may be of interest to members are listed at appendix 2.

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
Risks of material misstatement in the financial statements			
1	**Risk of management override of controls** Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls.	Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. Reviewed accounting estimates for biases. Evaluated significant transactions that are outside the normal course of business. Focused testing of the regularity and cut-off assertions during the financial statements audit.	Testing completed as planned. We have not identified any instances of management override of controls.
2	**Risk of fraud over expenditure** Auditing standards assert that fraud should be presumed to be a significant risk in any audit.	Detailed testing of transactions focusing on the areas of greatest risk.	Our audit procedures did not detect any evidence of fraud over expenditure.
3	**Estimation and judgments** There is a significant degree of subjectivity in the measurement and valuation of pension liability included in the balance sheet The value of the pension liability is an estimate based on information provided by management and actuarial assumptions	Assessed the appropriateness of the actuarial assumptions. Established officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end. Focused testing of IAS19 disclosures. Reviewed the appropriateness of accruals.	We assessed the reliability of the actuary and reviewed their work. No issues were noted. Pension disclosures agreed in full to information from the actuary and to financial records. We undertook a review of the disclosed accruals and concluded that the methodology

Audit risk		Assurance procedure	Results and conclusions
			applied by management was reasonable and consistent with prior years.
Wider dimension risks			
4	**Impact on performance** There is a risk that there will be insufficient resources to meet the increased operational needs in relation to • the recommendations arising from the Barclay review of non-domestic rates. The change to three yearly revaluations will increase the workload of the Joint Board. • potential increased workload arising from the demands of the designated assessor responsibility in the valuation of electricity utilities. • inability to attract suitably qualified staff.	Resources are reviewed by management on a continuous basis. Management work closely with the Treasurer to the Board to identify any issues in both the short, medium and long term to ensure appropriate measures are taken to address these matters.	We reviewed the Service Plan and Progress Update. We reviewed the Performance Indicators. We reviewed the budget monitoring reports during the year. Management are aware of the identified risks and are taking appropriate mitigating action.

Appendix 2

Summary of national performance reports 2019/20

Lanarkshire Valuation Joint Board

2019/20 Annual Audit Report

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