

31 August 2008

# Lanarkshire Valuation Joint Board Annual Report to Members and the Controller of Audit

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# Executive Commentary

Our overall responsibility as the external auditor of Lanarkshire Valuation Joint Board ("the Board) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice revised and published in March 2007.

## Independent Auditors' report and audit process (Section 2)

We are pleased to report that our opinion (presents fairly) on the financial statements for the year ended 31 March 2008 is **unqualified**.

The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of supporting working papers provided and internal review process undertaken by management were of a good standard.

Our audit of the financial statements identified a number of minor disclosure and financial adjustments which have now been amended by Management in the financial statements.

## Financial Position 2007/08 (Section 2)

During 2007/08 total income was received of £3.496 million of which £3.422 million was received from precepts from North Lanarkshire Council and South Lanarkshire Council, and £0.074 million received as a Revenue Support Grant from the Scottish Government for electoral registration.

Total expenditure of £3.382 million was in line with the budget approved at the start of the financial year by the Board. The income and expenditure account for 2007/08 is shown in Appendix 1 of this report for information.

## Governance and Internal Financial Control (Section 3)

The Board utilises the key financial systems in place at South Lanarkshire Council in particular general ledger, payroll, accounts payable and accounts receivable. Therefore appropriate systems audit work has been undertaken as part of our 2007/08 audit of South Lanarkshire Council.

## Business Issues (Section 4)

Within Section 4 of our report we have outlined a number of potential business issues and challenges likely to be faced by the Board going forward: Financial Position; Postal Votes; and Electoral Administration Act 2006

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31 August 2008

# 1. Introduction

- 1.01 Our overall responsibility as the external auditor of Lanarkshire Valuation Joint Board (“the Board”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice revised and published in March 2007.
- 1.02 The Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector, involving assurance on the financial statements but also consideration of areas such as regularity, performance and achievement of Best Value.
- 1.03 Set out below for information is a summary of our responsibilities as your external auditor and the responsibilities of the Board and the Treasurer.

Responsibility of the Treasurer and the Board	Responsibilities of External Audit
<ul style="list-style-type: none"><li>• Ensuring proper administration of the Board’s financial affairs.</li><li>• Managing the Board’s affairs to secure economic, efficient and effective use of resources and safeguard its assets.</li><li>• Selecting suitable accounting policies and applying them consistently.</li><li>• Making judgements which are prudent, and estimates that are reasonable and prudent in line with the CIPFA/LAASAC Code of Practice on local authority accounting in the United Kingdom.</li><li>• Maintaining proper accounting records.</li></ul>	<ul style="list-style-type: none"><li>• Issuing an audit report (opinion) on whether the financial statements present fairly the financial position of the Board as at 31 March 2008 and its income and expenditure for the year ended.</li><li>• Determining whether the financial statements have been prepared in accordance with relevant legislation, accounting standards and other reporting requirements.</li></ul>

- 1.04 Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260: “Communication of audit matters to those charged with governance”, we are required to communicate audit matters arising from our audit of financial statements to those charged with governance of an entity. This report discharges our requirements set out under ISA 260.

## Acknowledgements

- 1.05 We would like to thank all management and staff involved for their assistance throughout the audit process.

## 2. Independent Auditors' Report and Audit Process

### Our Audit Opinion

- 2.01 The Local Government (Scotland) Act 1973 requires that, following the completion of an audit, the auditors shall place on the abstract of accounts a certificate which sets out the basis on which they have formed their audit opinion. Our opinion on the accounts states:
- That the audit has been conducted in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Code of Audit Practice;
  - The respective responsibilities of management and auditors in relation to the accounts; and
  - Whether, in the auditors' opinion, the accounts present fairly the financial position of the Board as at 31 March 2008.
- 2.02 We are pleased to report that our opinion (presents fairly) on the financial statements for the year ended 31 March 2008 is **unqualified**.

### Audit Process

- 2.03 The financial statements for the Board have been prepared in accordance with the accounting requirements set out in the Code of Practice on local authority Accounting in the UK 2007 – A statement of recommended practice ("SORP").
- 2.04 The accounts were approved by the Treasurer for issue on 6 June 2008 and presented to Audit Scotland by the statutory deadline of 30 June 2008. The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The quality of supporting working papers provided and internal review process undertaken by management were of a good standard. Overall we believe an efficient audit process was achieved and an effective working relationship exists with the South Lanarkshire Council finance staff.

### Adjustment to the draft Financial Statements

- 2.05 Our audit of the financial statements identified a number of minor disclosure and financial adjustments which have now been amended by Management in the financial statements.
- 2.06 Under international auditing standard ("ISA") 260 – "Communication of audit matters to those charged with governance" we are required to report all unadjusted errors identified during the course of our audit to Members of the Lanarkshire Valuation Joint Board, in their governance role. We are pleased to report that all adjustments proposed have been agreed with management and are reflected in the financial statements.

## Year End Cut off procedures – Accruals and Prepayments

- 2.07 When preparing the Board's financial statements, Management set a de-minimus level of £5,000. Therefore, any balances under £5,000 incurred in April are not separately analysed and split into the correct accounting year e.g. all balances are automatically accounted for in 2008/09 financial statements. This is the same cut off procedure that is adopted for the South Lanarkshire Council financial statements.
- 2.08 In terms of the Board's monthly financial transactions, it was noted that very few balances exceed £5,000. However, there is a risk the Board is potentially misstating debtors and/or creditors within the 2007/08 financial statements. Following discussion with Management, all Board transactions in April 2008 were reviewed and where necessary reflected within the financial statements. Going forward, it is recommended that management review the de-minimus level set to ensure that it is appropriate for the size of the Board.

### Action 1

## 2007/08 Financial Position

- 2.09 During 2007/08 total income was received of £3.496 million of which £3.422 million was received from precepts from North Lanarkshire Council and South Lanarkshire Council, and £0.074 million received as a Revenue Support Grant from the Scottish Government for electoral registration.
- 2.10 Total expenditure of £3.382 million was in line with the budget approved at the start of the financial year by the Board. The income and expenditure account for 2007/08 is shown in Appendix 1 of this report for information.

# 3. Governance and Internal Financial Control

- 3.01 It is part of management's overall responsibility to design and maintain an appropriate system of internal controls to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard Lanarkshire Valuation Joint Board's assets.
- 3.02 As auditors, we obtain a sufficient understanding of internal controls to plan the audit. The understanding includes knowledge about the design of policies and procedures and whether they have been implemented, but does not necessarily extend to evaluating the operating effectiveness of all such policies and procedures. We only evaluate, and test, those internal controls on which we plan to rely on during our audit and which are required in relation to our Code of Audit Practice responsibilities. Accordingly, an audit would not usually identify all matters of interest to management in discharging its responsibilities.
- 3.03 The Board utilises the key financial systems in place at South Lanarkshire Council in particular general ledger, payroll, accounts payable and accounts receivable. Therefore appropriate systems audit work has been undertaken as part of our 2007/08 audit of South Lanarkshire Council. During the course of our interim controls work we noted a number of exceptions in respect of the Council's financial systems, which have been discussed and agreed with management. Agreed actions are reflected in a detailed action plan monitored by South Lanarkshire Council officers.

## Internal Audit

- 3.04 Internal audit services for the Board are provided by South Lanarkshire Council through a service level agreement. During the year internal audit undertook thirty days of internal audit work and reviewed the following operational areas of the Board:
- Electoral Register;
  - Financial systems assurance; and
  - Follow up of prior year recommendations.
- 3.05 The Board's Internal Audit Annual Report, presented to the Board on 2 June 2008 concludes in respect of internal financial controls that:

*"The overall opinion of internal audit for the year 2007/08, based on the work undertaken in the last year is that good assurance can be placed on the adequacy and effectiveness of the Board's internal control system."*

## Fraud and Corruption Arrangements

- 3.06 During the year the Board submitted an annual fraud return to Audit Scotland. For the financial year ended 31 March 2008, no frauds were reported.

# 4. Summary of Future Business Issues

- 4.01 In this section we have summarised certain of the future business issues and challenges potentially facing the Board during 2008/09 and beyond, as discussed with management during the year and formally discussed and reported to the Board during the 2007/08 financial year.

## Financial Position

- 4.02 As set out in statute the Board is unable to retain any financial surpluses achieved in year. Therefore, all money needs to be spent by the Board during the year or returned to the two Local Authorities – South Lanarkshire Council and North Lanarkshire Council. As a result the Board is unable to retain any resources for contingency to meet unplanned expenditure or to fund specific longer term projects.
- 4.03 In addition, the removal of ringfenced funds from 2008/09 by the Scottish Government, and local authorities freezing council tax may impact on the funding received by the Board in 2008/09 onwards. A potential reduction on the income from the two local authorities would result in additional financial pressures for the Board and the need to identify and deliver additional efficiency savings.

## Electoral Administration Act 2006

- 4.04 The introduction of the Electoral Administration Act in 2006 resulted in additional responsibilities for the Assessor. Although additional funding was made available from the Scottish Government in 2006/07 and 2007/08 to address the new responsibilities this funding may not continue into 2008/09 and beyond. If no future additional funding is received, the costs of the additional responsibilities will need to be met from current revenue.

## Postal Votes

- 4.05 For all postal votes, signatures of the voters and dates of birth need to be maintained and provided to returning officers for checking at both the UK parliamentary and Scottish Parliament elections. During 2007/08 the Board has written to all members of the public in Lanarkshire who hold a postal vote seeking this information. This has resulted in an additional administrative burden on the Board. In addition, the Board need to ensure that it meets all the requirements of the Data Protection Act when collating and holding this data and the security of personal data is maintained.

## Sustainability

- 4.06 The Board continue to work closely with South Lanarkshire Council in respect of the sustainability agenda. In particular, the Board is looking to move to producing more information in an electronic format, moving away from paper records. To date this has resulted in improvements to the Board's website and on-line registering system.



# Appendix 1 – Financial Performance 2007/08

<b>Income and Expenditure Account</b>	<b>2007/08 £000's</b>	<b>2006/07 £000's</b>
Employee costs	2,455	2,878
Property Costs	334	303
Supplies and Services	169	126
Administration Costs	395	743
Payments to Other Bodies	3	11
Financing Charges	26	27
<b>Total Expenditure</b>	<b>3,382</b>	<b>4,088</b>
<b>Income</b>	<b>(3,496)</b>	<b>(3,654)</b>
Net Cost/(Return) of Services	(114)	434
Return on Pension Assets	(652)	(551)
Interest Cost on Pensions	549	504
<b>Net Operating Expenditure (Deficit/(Surplus))</b>	<b>(217)</b>	<b>387</b>
 <b>Statement on the Total Movement on the General Fund Balance</b>		
Net Additional Amount Required by Statutory and Non-Statutory Practices to be Debited or (Credited) to the General Fund for Year	217	(387)
<b>General Fund Balance Carried Forward</b>	<b>0</b>	<b>0</b>

Total expenditure of £3.382 million for 2007/08 was in accordance with the budget agreed at the start of the year.

Employee costs were less than in previous years due to the organisational restructure that took place during 2007/08 which resulted in certain staff vacancies. Administration costs were significantly less in 2007/08, as included in 2006/07 were additional pension costs associated with the retirement of the assessor.

Income received of £3.496 million was primarily precepts received from North Lanarkshire Council and South Lanarkshire Council.

In accordance with the statutory powers of Valuation Boards, no balance is carried forward into 2008/09.

# Appendix 2 – Action Plan

## Risk Ratings:

Our findings are classified based on the following risk ratings:

High	Significant weakness requiring immediate attention by management.
Medium	Weakness identified which needs to be rectified but there is no material impact on the achievement of objectives.
Low	Minor weakness identified.

Recommendation No.	Recommendation and Risk Rating	Management Response
Section 2, paragraph 2.08	<p>Going forward, Management should review the de-minimus level set up of £5,000 for preparing the accounts with a view to making this more appropriate to the value of transactions in respect of the Board.</p> <p>Low Risk</p>	<p>Agreed – Deminimus level will be reviewed for financial year end 2008/09.</p> <p><b>Responsible Officer</b> – Lorraine O'Hagan, Accounting and Budgeting Manager</p> <p><b>Timescales</b> – 31 March 2009</p>

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