

Lanarkshire Valuation Joint Board

Annual Report to
Elected Members and
the Controller of
Audit for the financial
year ended 31 March
2012

31 October 2012



Table of Contents

1. Introduction	2
2. Audit Process and Financial Position	3
3. Governance and Internal Financial Control	5
4. ISA 260 Communications to those charged with governance	6

The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at the Lanarkshire Valuation Joint Board or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

1. Introduction

Purpose of this report

- 1.01 This Annual Report is primarily intended to direct your attention to matters of significance that have arisen out of the 2011/12 audit process. The report is not only addressed to Members, but it is also addressed to the Controller of Audit who appoints us as your external auditor.

Scope of the Audit

- 1.02 Our overall responsibility as external auditor of Lanarkshire Valuation Joint Board ('the Board') is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011. In this regard, 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 not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Controller of Audit and other auditors.
- 1.03 Our audit for 2011/12 has been planned and conducted throughout the year to take into account these wider responsibilities and our obligations set out in the Code of Practice.
- 1.04 Under the requirements of the 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 the audit of the financial statements to those charged with governance of an entity. Based on this definition, we have assumed the Board fulfil this responsibility. This Annual Report to Members discharges our requirements under ISA 260.

Acknowledgment

- 1.05 We would like to formally extend our thanks to all South Lanarkshire Council Officers for the assistance they have given us during the audit process.

2. Audit Process and Financial Position

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 financial statements:
- give a true and fair view in accordance with applicable law and the 2011/12 Code of the state of the affairs of the Lanarkshire Valuation Joint Board as at 31 March 2012 and of the income and expenditure of the Lanarkshire Valuation Joint Board for the year then ended;
 - have been properly prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2011/12 Code; and
 - have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.
- 2.02 Our opinion for the year ended 31 March 2012, as set out in the format presented by the Accounts Commission 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 United Kingdom 2011/12 (the 2011/12 Code).
- 2.04 The accounts were approved by the Treasurer for issue on 18 June 2012 and presented to Audit Scotland by 30 June 2012. 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 who prepare the financial statements on behalf of the Board.

Adjustment to the draft Financial Statements

- 2.05 Our audit of the financial statements identified minor disclosure and financial adjustments which have been amended by Management in the final audited 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 audited financial statements.

Financial Position for the year ended 31 March 2011

2.07 The Board's financial performance can be summarised as follows:

	Year ended 31 March 2011 (£,000)	Year ended 31 March 2012 (£,000)
Total Expenditure	2,357	4,123
Income	(3,732)	(3,964)
Net cost of services	(1,375)	159
Financing and Investment Income and Expenditure	(9)	(108)
(Surplus)/Deficit on the Provision of Services	(1,384)	51
Actuarial (Gains)/Losses on pension assets/liabilities	(1,812)	1,093
Total Comprehensive (Income) and Expenditure	(3,196)	1,144

The primary driver for change between 2010/11 and 2011/12 results is from the one off gain in 2010/11 relating to the change in inflation assumptions used in relation to the defined benefits pension scheme, from one based on Retail Price Index to Consumer Price Index. Staff costs for 2011/12 also include exit package costs which have been agreed and accrued for in year.

2.08 The general fund balance as at 31 March 2011 is nil, which is consistent with prior years and the Boards funding arrangements with North and South Lanarkshire Council.

3. Governance and Internal Financial Control

- 3.01 It is part of management's overall responsibility to design and maintain appropriate systems of internal control 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.

Key Financial Controls

- 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 2011/12 audit of South Lanarkshire Council including sample testing of relevant controls. No issues were noted in relation to the controls we tested that are applicable to the Board.
- 3.04 We challenged the reasonableness of the assumptions underlying the estimated net pension liability in the balance sheet in accordance with ISA (UK&I) 540 'Audit of accounting estimates' and consulted with our pension specialists. We are satisfied that the assumptions are within our expected range. .

Statement of Internal Financial Control

- 3.05 The financial statements, in accordance with the Code include a statement on the system of internal financial control which has been signed by the Board's Treasurer. This statement sets out the financial control arrangements in place for the year and future reviews planned. This statement is in line with the requirements set out in the 2011/12 Code.

4. ISA 260 Communications to those charged with governance

4.01 International Standards on Auditing (“ISA”) (UK&I) 260 – Reporting to those charged with Governance, requires that the External Auditor communicates certain matters to those charged with governance. Summarised below is how we have addressed these requirements for the Board:

Communication Required under ISA 260	Reference/Comment
Engagement Letters	✓ Signed Engagements Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	✓ We confirmed in our Audit Strategy Letter there are no matters which may be perceived to impact the independence and objectivity of the audit team.
Audit Approach and Scope	✓ Our approach to the audit is based upon an understanding of the Board and its business. Compliance with International Standards on Auditing (ISAs) is integral to our approach and our methodology is undertaken to ensure compliance with the additional requirements of the APB’s Practice Note 10 – Audit of the Financial Statements of Public Bodies in the UK.
Materiality	✓ Our base calculation for materiality is based on total expenditure in year and our approach is in line with Accounting Standards Guidance.
Form and Timing of Communications	✓ Agreed as per Audit Scotland’s planning guidance, and agreed with the Treasurer of the Board.
Accounting Policies/Estimates/Disclosures	✓ No matters to report.
Correspondence with management on significant matters	✓ There were no significant accounting matters. Disclosure matters have been resolved during our fieldwork.
Letter of Representation	✓ Signed on 26 September 2012.
Other matters significant to the oversight of financial reporting process and material uncertainties relating to Going Concern	✓ None identified.
Related Parties	✓ Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.
Fraud	✓ There are no matters to report.
Material Weaknesses in Internal Controls	✓ Due to the reliance on South Lanarkshire Council processes, internal controls findings have been reported separately in our South Lanarkshire Council ‘Interim Management Letter 2011/12’. No findings related to the controls applicable to the Board.

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