

Lanarkshire Valuation Joint Board

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Lanarkshire Valuation Joint Board and the Controller of Audit
December 2023

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Key messages

2022/23 annual accounts

- 1** The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2** The audited part of the remuneration report, management commentary and the annual governance statement were properly prepared in accordance with the applicable requirements.
- 3** One material adjustment of £0.496 million was made to the annual accounts to correctly recognise a liability for unfunded pensions on its balance sheet.

Wider scope

- 4** The Joint Board has a medium-term financial strategy in place but will continue to face significant financial challenges in the future.
- 5** The Joint Board has appropriate arrangements in place for securing Best Value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Lanarkshire Valuation Joint Board (the Joint Board). The scope of the audit was set out in an Annual Audit Plan presented to the 5 June 2023 meeting of the Joint Board. This Annual Audit Report comprises:

- significant matters arising from an audit of the annual accounts
- conclusions on wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability and Best Value

2. This report is addressed to Lanarkshire Valuation Joint Board and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Pauline Murray, have been appointed by the Accounts Commission as auditor of Lanarkshire Valuation Joint Board for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank management and staff for their cooperation and assistance and we look forward to working together constructively over the course of the appointment.

Responsibilities and reporting

5. The Joint Board has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Joint Board is also responsible for compliance with legislation and putting arrangements in place for governance and propriety.

6. The responsibilities of an independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

Auditor Independence

8. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £8,800 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

9. We add value to the Joint Board by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual accounts are unmodified.

One material adjustment of £0.496 million was made to the annual accounts as a result of the audit process.

Audit opinions on the annual accounts are unmodified

10. The Joint Board approved the annual accounts for the year ended 31 March 2023 on 4 December 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed on receipt of the annual accounts as £0.091 million

11. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£0.091 million
Performance materiality	£0.068 million
Reporting threshold	£4,500
Source: Audit Scotland	

13. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting no significant errors or material adjustments made in prior year.

15. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

16. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Joint Board, including our view about the qualitative aspects of the body's accounting practices.

17. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

18. We have no significant findings to report from the audit.

Our audit work responded to the risks of material misstatement we identified in the annual accounts

19. We have obtained audit assurances over the identified significant risks of material misstatement to the annual accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2**Identified significant risks of material misstatement in the annual accounts**

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals at the year-end and post-closing entries with focus on significant risk areas. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. 	<p>We found no instances of material misstatement due to fraud caused by management override of controls.</p>

Source: Audit Scotland, Annual Audit Plan 2022/23

20. In addition, we identified one “area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The area of specific audit focus was:

- Pension liability valuation – there is a significant degree of subjectivity in the measurement and valuation of the pension liability included in the annual accounts. The valuation is based on specialist and management assumptions and changes in these can result in material changes to the pension liability. We utilised the work of PwC as auditor expert in assessing the reasonableness of the methodology used and assumptions made by the Joint Board’s actuary, Hymans Robertson LLP, in arriving at the IAS 19 pension valuation as at 31 March 2023.

21. A significant increase in the net discount rate in year led to a large decrease in the pension liability which resulted in a net asset position.

22. The Accounting Standard (IFRIC 14) imposes a limit on the maximum amount of surplus which can be recognised. A further actuarial calculation was requested by the Joint Board to restrict the asset recognised to the benefit the Joint Board anticipates receiving. This resulted in the net pension asset held on

the balance sheet being limited to £0.289 million by making a £10.562 million adjustment. We have considered the assumptions and methodology applied in determining the net asset and are satisfied these are consistent with the requirements of IFRIC 14.

23. The accounts also required a pension liability in relation to unfunded liabilities to be recognised. The Joint Board made an adjustment to the unaudited accounts to correctly recognise a liability of £0.496 million for unfunded pensions on its balance sheet.

One material misstatement was identified and corrected for

24. Other than the corrected material misstatement for the unfunded pension liability (detailed at [paragraph 23](#)), our audit identified no misstatements above our reporting threshold. In addition, we have no unadjusted misstatements to report.

The unaudited annual accounts were received in line with the agreed timetable

25. The unaudited annual accounts were received in line with our agreed audit timetable on 29 June 2023.

26. Our original audit timetable included a target date for the delivery of our final outputs of September 2023. However, the delays in commencing our audit work this year due to overruns as a result of the Covid-19 pandemic and the need to maintain the quality of our audit, led to a review of resource plans across all audits. We agreed a revised timetable with officers on the delivery of our audit fieldwork for completion.

Follow up of prior year recommendations

27. There were no actions raised in our [2021/22 Annual Audit Report](#).

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term, and the arrangements for securing Best Value

Conclusion

The Joint Board has a medium-term financial strategy in place but will continue to face significant financial challenges in the future

The Joint Board has appropriate arrangements in place for securing Best Value

The Joint Board reported an underspend of £0.302 million against its final budget in 2022/23

28. The Joint Board is mainly funded by requisitions from its constituent members, North Lanarkshire Council and South Lanarkshire Council.

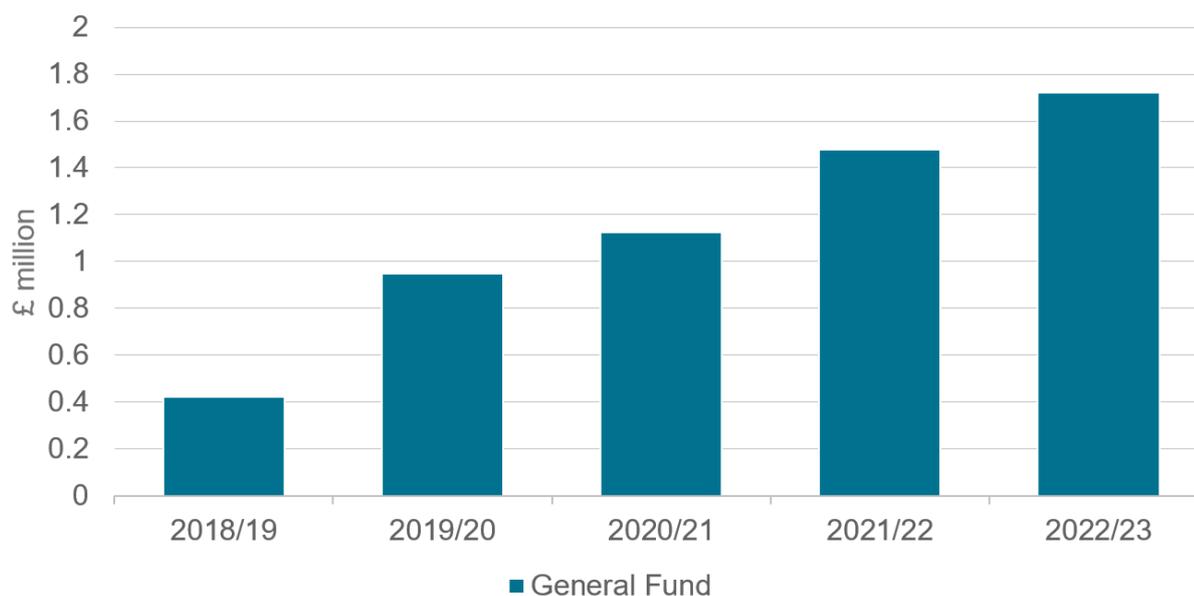
29. The Joint Board approved its 2022/23 budget in December 2021. This was set based on net expenditure of £3.665 million, with a planned contribution from the Joint Board's reserves of £0.193 million. During the year, this budget was revised to include additional funding received to support the Barclay review of £0.698 million. Therefore, the final budget for 2022/23 was £4.265 million for 2022/23.

30. The actual outturn reported for 2022/23 was total net expenditure of £3.963 million and total income of £4.205 million, resulting in an underspend of £0.242 million. When compared with the final budget of £4.265 million, there is an actual underspend of £0.302 million.

31. The underspend was largely in relation to employee costs which reported an underspend against budget of £0.220 million (£0.546 million in 2021/22). This was due to turnover of staff and difficulties in recruiting staff. Underspends in employee costs in recent years have led to a steady increase in the General Fund reserve balance, see [Exhibit 3](#).

Exhibit 3

Analysis of General Fund 2018/19 to 2022/23



Source: Lanarkshire VJB audited annual accounts 2018/19 to 2022/23

The Joint Board has a medium-term financial strategy in place but will continue to face significant financial challenges in the future

32. The Joint Board approved an update to its medium-term 'Financial Strategy 2023/24 to 2025/26' in June 2022. This outlines the Joint Board's planned management of its budget and reserves over this period. The strategy allows management and members to consider the impact of the Joint Board's increased workload set against the challenging financial climate faced by public sector bodies.

33. The main area of uncertainty in the strategy relates to Barclay funding. The strategy assumes that Barclay funding will remain at the same level as 2022/2023 at £0.698 million for the remainder of the current parliamentary term.

34. The Scottish Government has not provided any information beyond 2024/2025. Therefore, there is a risk that Barclay funding is reduced or removed after this period. The Joint Board considers the forecast reserve balance of £0.534 million as at 2025/26 to be reasonable to mitigate this risk.

35. The Joint Board's budget for 2023/2024 was approved in December 2022. The revised expenditure budget totals £4.280 million and is funded by contributions from councils and the use of Reserves (£0.272 million).

36. The Joint Board acknowledges its challenging financial plans over the medium-term as it plans to use £1.187 million of its reserve balance and also achieve efficiency savings of £0.249 million over this period. This will allow the

Joint Board to reduce the contributions required from both constituent member councils.

37. Overall, the Joint Board's financial strategy provides assurance over the medium-term financial outlook and therefore the provision of services.

The Joint Board has appropriate arrangements in place for securing Best Value

38. The Joint Board has a specific responsibility to ensure that arrangements have been made to secure Best Value.

39. The Joint Board's Service Plan was approved in March 2022 and covers the three-year period from April 2022 to March 2025. The Service Plan sets out the key business areas identified for Lanarkshire Valuation Joint Board over this period to ensure that services are delivered as effectively and efficiently as possible to service users.

40. Service performance is measured by standard performance indicators agreed between the Scottish Government and the Scottish Assessors' Association. The Joint Board reports performance against its key performance indicator targets in the annual accounts:

- Of 3,009 new Council Tax entries added, 90% were completed within 3 months of the effective date against a target of 87%. 98% were completed within 6 months against a target of 92%
- Of 1,147 alterations to the non-domestic valuation roll, 53% were completed within 3 months of the effective date against a target of 77% and 68% were completed within 6 months against a target of 92%.

41. The three-monthly and six-monthly targets for the non-domestic valuations roll were not met. The Joint Board has reported that this was partly due to the challenges presented by the extensive preparatory work associated with the 2023 non-domestic revaluation.

42. A further contributing factor to these missed targets was a drive to dispose of as many of the outstanding Council Tax appeals and proposals prior to the changeover from the Valuation Appeal Committee to the new Scottish Courts and Tribunals Service which was effective from 1 April 2023. The Joint Board also continues to experience challenges in retaining and recruiting staff.

43. Performance information is accessible to all stakeholders, including service users through the Joint Board's website.

Lanarkshire Valuation Joint Board

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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