Lanarkshire Valuation Joint Board

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Lanarkshire Valuation Joint Board and the Controller of Audit
December 2024

Contents

Key messages

2023/24 annual accounts

1 Audit opinions on the annual accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

2 Key risks arising from the audit of the Joint Board's annual accounts in my Annual Audit Plan were presented to the Board on 4 March 2024. There are no significant matters from that work to draw to the attention of the Board.

3 One material adjustment of £0.525 million was made to the annual accounts to reflect the interest cost on pension asset not recognised in 2022/23.

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 2023/24 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 4 March 2024 meeting of the Joint Board. This Annual Audit Report comprises:

- significant matters arising from an audit of the Joint Board's annual accounts
- conclusions on financial sustainability as required by the *Code of Audit Practice 2021*.

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

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 2023/24 financial year was the second of my five-year appointment.

4. My team and I would like to thank management and staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the remainder of the five-year 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. My responsibilities as the 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 (ISAs).

7. The weaknesses or risks identified in this report are only those which have come to the attention of the audit team 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. I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £9,330 as set out in my 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

9. The annual audit adds 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 2023/24 annual report and 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 of public funds.

Main judgements

Audit opinions on the annual accounts are unmodified.

One material adjustment of £0.525 million was made to the annual report and 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 2024 on 2 December 2024. 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 £0.077 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. My initial assessment of materiality was carried out during the risk assessment 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	£0.077 million
Performance materiality	£0.058 million
Reporting threshold	£4,000
Source: Audit Scotland	

13. The overall materiality threshold was set with reference to gross expenditure, which I 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 a history of no significant errors or material adjustments in prior years.

15. It is my responsibility to request that all misstatements are corrected, other than those below the reporting threshold, 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, I communicate significant findings from the audit to the Joint Board, including my view about the qualitative aspects of the body's accounting practices.

17. The Code of Audit Practice also requires me to highlight key audit matters, which are defined in International Standard on Auditing (UK) 701 as those matters judged to be of most significance in my audit of the financial statements.

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

Audit work responded to the risks of material misstatement identified in the annual accounts

19. My team and I have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. Exhibit 2 sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures 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
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA (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.	• 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. • Considered the need to test journal entries and other adjustments throughout the year. • 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.	We found no instances of material misstatement due to fraud caused by management override of controls.

Source: Audit Scotland, Annual Audit plan 2023/24

20. In addition, I identified one "area of audit focus" in my 2023/24 Annual Audit Plan where I considered there to be other risks of material misstatement to the financial statements. The area of specific audit focus was:

21. **Pension 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 2024.

22. In accordance with IFRIC14, the pension asset recognised within the financial statements was capped at the estimated future benefit to the Council. My team and I reviewed the assumptions applied by the actuary in arriving at the asset ceiling cap and were satisfied that it is in accordance with IFRIC 14. The net pension asset recognised was £Nil.

23. Where an asset ceiling cap was applied in 2022/23, IFRIC 14 requires that net income/expenditure should be reduced by an amount linked to the interest costs on any asset not recognised in 2022/23. Management obtained a supplementary report from the actuary which identified that amount as £0.525 million. Financing and Investment Income, and the Surplus on Provision of Services, were adjusted downward in the unaudited accounts by that amount.

24. Note, however, that an appropriate adjustment has been made under statutory accounting rules to the Total Comprehensive Income and Expenditure recognised by the Board, so that the above has no impact on the resources available to meet future revenue expenditure.

One material misstatement was identified and corrected for

25. Other than the corrected material misstatement for interest on pension fund asset not recognised for 2022/23 (detailed at paragraph 23), the audit identified no misstatements above the reporting threshold. In addition, I have no unadjusted misstatements to report.

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

26. The unaudited annual accounts were received in line with the agreed audit timetable on 29 May 2024.

27. The original audit timetable included a target date of 2 September 2024 for the delivery of the audit outputs. However, due to resourcing pressures, we were not able to complete our field work in time to meet the original timetable. A revised timetable for the delivery of our audit fieldwork was agreed with officers to enable us to deliver audit outputs by 2 December 2024.

Follow up on prior year recommendations

28. There were no actions raised in our 2022/23 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 £0.526 million against its final budget in 2023/24

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

30. The Joint Board approved its 2023/24 budget in December 2022. This was set based on net expenditure of £4.392 million, with a planned contribution from the Joint Board's reserves of £0.272 million. During the year, this budget was reduced by £0.112 million to reflect the transfer, from 1 April 2023, of Valuation Appeal Panel activities and their associated costs to the Scottish Courts and Tribunal Service. The final budget was, therefore, £4.280 million for 2023/24.

31. The actual outturn reported for 2023/24 was net expenditure £3.755 million and total funding income £4.009 million, resulting in an underspend of £0.254 million. When compared with the final budget of £4.280 million, there was an actual underspend of £0.526 million.

32. The underspend against original budget arose principally in relation to employee costs, with an underspend against budget of £0.374 million due to turnover of staff and ongoing recruitment difficulties in the sector. Continuing underspends in employee costs have led to the steady increase in the General Fund Reserve balance from £0.947 million to £1.975 million over the five years from 2019/20 to 2023/24.

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

33. The Joint Board approved an update to its medium term 'Financial Strategy 2023/24 to 2025/26' in December 2023. The strategy aids management and members in managing the key risks which directly impact on the funding available to deliver the Board's objectives, and identifies a future strategy for its financial reserves.

34. The main area of uncertainty in the strategy is in relation to Barclay funding. The strategy assumes that Barclay funding will remain at the same level as 2023/24 ie £0.698 million for the remainder of the current parliamentary term.

35. The Scottish Government has not provided any information beyond 2024/25, with the risk that Barclay funding is reduced or removed after then. The Joint Board considers the forecast reserve balance of £1.104 million as at 2025/26 to be reasonable to mitigate this risk.

36. The Joint Board's budget for 2024/2025 was approved in December 2023, including assumptions in relation to pay award and pension contributions. The revised expenditure budget totals £4.028 million and is funded by contributions from councils and the use of reserves (£0.400 million).

37. The Joint Board acknowledges the impact of the difficult financial climate on its constituent authorities, therefore continues to seek to generate efficiencies in the provision of services and utilise reserves where appropriate.

38. 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

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

40. 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.

41. An updated Strategic Workforce Plan, effective for 1 January 2024 – 31 December 2026, was approved by the Management Team in March 2024. The plan includes:

- Wider environment and workforce challenges
- Analysis of current workforce
- Planning for future challenges in relation to workstreams and staffing
- An action and implementation plan.

42. 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 2,609 new Council Tax entries added, 95% were completed within 3 months of the effective date against a target of 87%. 97% were completed within 6 months against a target of 92%

- Of 3,073 alterations to the non-domestic valuation roll, 69% were completed within 3 months of the effective date against a target of 77% and 79% were completed within 6 months against a target of 92%

43. The three-monthly and six-monthly targets for the non-domestic valuation roll were not met. The Joint Board has reported that this was due to shortage of staff combined with new processes in place for dealing with the 2023 revaluation proposals.

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

Lanarkshire Valuation Joint Board

2023/24 Annual Audit Report

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

AUDIT SCOTLAND

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

AS.4.0