

# Lanarkshire Valuation Joint Board

**2005/06 Report to Members**

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Council Offices  
Almada Street  
HAMILTON

22 September 2006

Controller of Audit  
EDINBURGH

Ladies and Gentlemen

**Report on the Audit for the year ended 31 March 2006**

I have now completed my audit of the Board's Accounts for the year ended 31 March 2006.

As part of my responsibilities as external auditor to the Board I am required to submit, at the conclusion of each year's audit, a report addressed both to Members of the Board and to the Controller of Audit. I have pleasure in attaching my report on the Board's audit for the year to 31 March 2006.

This report aims to summarise all significant matters which have arisen during the course of the audit and which I feel are worthy of Members' attention.

I should like to take this opportunity to thank those officers who have assisted my staff in the course of the audit.

Yours faithfully

**Asif A Haseeb**  
**Senior Manager**

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# Contents

<b>Executive summary</b>	<b>2</b>	<b>Corporate governance</b>	<b>7</b>
<b>Introduction</b>	<b>3</b>	<b>Performance management</b>	<b>9</b>
<b>Financial statements</b>	<b>4</b>	<b>Action plan</b>	<b>11</b>



# Executive summary

This report summarises the main issues arising from the 2005/06 audit. Overall, the financial stewardship of Lanarkshire Valuation Joint Board during the year was satisfactory. Our conclusions on key aspects of the Board's performance are highlighted in the table below.

<b>Financial statements and financial position</b>
<p>The financial statements present fairly the Board's financial position.</p> <p>The Statement on the system of internal financial control complies with accounting requirements and is not inconsistent with audit findings.</p> <p>Final accounts preparation procedures and working papers were generally good.</p> <p>Balances held at 31 March 2006 are shown as due to the constituent authorities as the Board has no authority to carry forward general balances.</p>
<b>Corporate governance</b>
<p>Many aspects of a sound corporate governance framework are in place.</p> <p>Effective risk management systems, including internal control systems and an internal audit function are in place.</p> <p>A corporate anti-fraud and corruption policy is in place, supported by a fraud response plan.</p> <p>Internal audit concluded that <i>'reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2006.'</i></p>
<b>Performance management</b>
<p>Key performance indicators (KPIs) are agreed with the Scottish Executive and continually monitored.</p> <p>The Board reported that the statutory deadline for publishing the Electoral Registers by 1<sup>st</sup> December 2005 was achieved.</p> <p>The Board reported that KPIs were achieved in 2005/06 for both non-domestic rating and council tax.</p> <p>Progress continues to be made in developing performance management and public performance reporting arrangements.</p>

1. Detailed action plans covering the issues raised during the audit have been discussed with management throughout the year. Key issues for the attention of members are outlined in the Action Plan included in this report.



# Introduction

2. The members and officers of the Board are responsible for the governance and management of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed;
  - the Board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests;
  - the Board has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability;
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption;
  - the Board has proper arrangements for securing Best Value in its use of resources and is complying with its community planning duties; and
  - arrangements have been made to collect, record and publish performance information.
  
3. This report summarises the most significant issues arising from our work during 2005/06. Internal audit have submitted more detailed reports to management throughout the year and we have placed reliance on their work.



# Financial statements

## Auditor's report

4. The financial statements present fairly the Board's financial position at 31 March 2006 and income and expenditure during the year.
5. The Board's balance sheet has an excess of liabilities over assets of £1.973 million due to the accrual of pension liabilities in accordance with financial reporting standard (FRS) 17 (Retirement Benefits). Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
6. Note 8 to the Balance Sheet outlines the Treasurer's view that it has been considered appropriate to adopt a going concern basis for the preparation of the financial statements as the accounting requirements for pensions do not impact on the underlying basis for meeting the Board's current and ongoing liabilities. Future pension liabilities will be met, as they fall due, by contributions from constituent authorities in the normal way. We are satisfied that the process the Board has undertaken to consider going concern is reasonable.
7. We were pleased to note that as a result of our audit no adjustments were required to the accounts made available for public inspection.

## Financial position

8. The Board's total revenue expenditure amounted to £3.245 million in 2005/06 and was met by constituent authorities' contributions of £3.260 million, other income of £0.010 million resulting in a net return of service of £0.024 million. After pension adjustments there was a surplus for the year of £0.107 million. The Treasurer confirmed that the two constituent authorities had agreed to the surplus being added to the accumulated surplus of £0.215 brought forward from previous years resulting in a cumulative surplus of £0.322 million. This cumulative surplus is shown in the accounts as being due to the constituent authorities rather than as a reserve, because under current legislation valuation joint boards have no statutory authority to carry forward general balances.

## Issues arising

9. The Board's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were generally very good and this enabled the audit to progress smoothly.



10. Accounting for the costs of pensions presents a difficult challenge. The amounts involved are large, the timescale is long, the estimation process is complex and involves many areas of uncertainty that are the subject of assumptions. FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.
11. Note 7 to the Balance Sheet highlights that the Board's estimated pension liabilities at 31 March 2006 exceeded its share of assets in the Strathclyde Pension Fund by £1.973 million. The movement from a liability of £1.875 million at 31 March 2005 is largely due to a change in the assumed rates of inflation, increase in salaries, increase in pensions and discount rate on which the calculations have been based. The full actuarial valuation of the Strathclyde Pension Fund at 31 March 2002 recommended that the overall net liability be recouped through increased employers' contributions. The Board's contributions have increased from 220% of employees' contributions in 2002/03 to 250% in 2005/06.

## **Legality**

12. Each year we request written confirmation from the Treasurer that the Board's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of the Clerk of the Board and the Assessor, the financial transactions of the Board were in accordance with the relevant legislation and regulations governing its activities.
13. The Freedom of Information (Scotland) Act 2002 came into force on 1 January 2005 and provides citizens with the right to obtain information and documents held by public authorities in Scotland. In the year ended 31 March 2006 the Board has received a total of 45 requests for information, all of which have been dealt with in accordance with the required timescales. To date, the Board has been able to adequately fulfil its responsibilities under the Act.
14. There are no additional legality issues arising from our audit which require to be brought to members' attention.

## **Statement on the system of internal financial control**

15. The 2005/06 financial statements include a statement on the system of internal financial control which highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal financial control system.
16. The statement was signed by the Treasurer on 8 June 2006 and reviewed by the Board as part of the annual accounts on 3 July. It is supported by a high level review of the adequacy and



effectiveness of internal financial controls undertaken by internal audit. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## **Issues from previous years**

17. A revenue support grant designated as funding for preparatory work for a Scotland wide survey of electricity subjects, was transferred to the Board in 2002/03 and is being recorded as deferred income, which is released as the expenditure is incurred. The compilation and maintenance of the roll is an ongoing process and the Scottish Assessors Association (SAA) has written to the Scottish Executive to request that funding be provided on an annual basis, preferably as an adjustment to the Grant Aided Expenditure, for designated Assessors. This is an ongoing situation and will need to be monitored in the future.



# Corporate governance

## Overview

18. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation.
19. As part of our 2005/06 audit of Lanarkshire Valuation Joint Board an overview of the Board's website was carried out. The website was found to be informative and containing relevant links and information. However there are some areas where improvements to the management and operation of the website are advisable.
20. The Board has decided not to set up an audit committee. The full board is instead considering reports and issues regarding Best Value as they arise. Internal and external audit reports are submitted and considered by the Board as appropriate.
21. Internal audit plays a key role in the Board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. The Board's internal audit service is provided by South Lanarkshire Council under a service level agreement. Each year we undertake an overview of internal audit arrangements which includes an assessment of whether or not we can place reliance on internal audit work in order to reduce our own input.
22. We are pleased to conclude that internal audit work within the Board continues to be of a consistently high standard and allows us to place formal reliance on it.
23. Officers have confirmed that to date there have been no claims for equal pay issues.

## Anti-fraud and corruption arrangements

24. As part of our audit we considered the adequacy of current arrangements using a standard checklist approach. Overall, we found a number of good practices including a whistle blowing policy that is consistent with the provisions of the Public Interest Disclosure Act 1998. This provides the framework of statutory protection for employees making disclosures relating to instances of fraud and malpractice in the workplace. The Board also has a defined policy for the prevention and detection of fraud and corruption and both of these policies have been communicated to staff.

## Systems of internal control

25. We placed reliance on the work of internal audit in 2005/06 on a number of key systems within the Board, covering system compliance, best value gap analysis, risk management and the addition of



new properties. The Risk and Audit Manager concluded that *'for the year 2005/06, based on the work undertaken in the last year, assurance can be placed on the adequacy and effectiveness of the Board's internal financial control system'*.

## **Issues from previous years**

26. Recommendations made in previous years' audit reports are monitored by management and internal audit, with progress regularly reported to the Board. The 2005/06 audit also included specific follow up of progress in relation to best value reporting and efficient government. We are pleased to report that the actions with regard to both of these issues are progressing satisfactorily. A working practice review has been carried out during 2005/06 to identify areas for improvement and implement more astute ways of working.

## **Looking ahead**

27. In the coming years the Board faces significant challenges which include continuing with the progress made on best value reporting and efficient government.



# Performance management

## Best Value

28. The Local Government in Scotland Act 2003 established Best Value and community planning as statutory duties for local authorities and joint boards. Although the Board was not subject to a formal audit in this area we carried out some high level transitional work to review some broad aspects of best value requirements in 2005/06.
29. Key findings included:
  - clear standards and targets are set and monitored in the form of key and internal performance indicators; and
  - accountability and transparency are facilitated through the publication of the public performance reports in South Lanarkshire's quarterly Fourcast publication and the North Lanarkshire News as well as on the Lanarkshire Valuation Joint Board website and valuation and council tax bandings on the Scottish Assessors Association website. This information will be included in future issues of the above publications and on the Board's website. The Board should continue to monitor progress in this area.
30. Our review confirmed that the Board is making progress in the areas reviewed.

## Key Performance indicators

31. The Board is not required to prepare statutory performance indicators in terms of the Local Government Act 1992. However, it is required to produce key performance indicators (KPIs) and, so far as is practicable, ensure they are accurate and complete. The Board has agreed key performance indicators for non-domestic valuation and council tax with the Scottish Executive. These are reviewed annually by the Board and are supplemented by a range of internal performance indicators which are monitored at monthly management meetings. In 2005/06 the Board reported that all KPI targets have been met.

## Issues from previous years

32. In 2004/05 neither of the Key Performance Indicators agreed with the Scottish Executive were met and this was raised as an action point in our 2004/2005 Report to Members. As mentioned above the Board reported that all Key Performance Indicator targets have been met in the current year.



## Looking ahead

33. Challenges facing the Board in the coming years continue to include responding to the Efficient Government agenda and progressing activities in relation to Best Value as well as communicating performance information to interested parties.



# Action plan

No. (para)	Issue, risk & recommendation	Responsible officer	Response & agreed action	Action date
1 (para 17)	<p>Valuation roll for electricity subjects</p> <p>An initial contribution was made by the Scottish Executive for the compilation of the valuation roll for electricity subjects. However the maintenance of the roll is an ongoing process and requires funding. A joint application for funding has been made by the SAA on behalf of all Scottish Assessors.</p> <p><i>Risk: If no specific funding is granted there is a risk that other activities of the Board may not be delivered as insufficient funding may be available to meet all objectives.</i></p> <p><i>Recommendation: The Board should continue to monitor the application for funding.</i></p>	Assessor and Electoral Registration Officer	The SAA executive is party to regular meetings with the Scottish Executive. Utilities funding has been discussed previously and will continue to be raised as an issue at these meetings.	Ongoing
2 (paras 28-30)	<p>Best Value</p> <p>Best Value is an area in which ongoing work is required to ensure that the Board is complying with its statutory duties.</p> <p><i>Risk: The Board is unable to demonstrate compliance with the principles of Best Value as outlined in the 2003 Act.</i></p> <p><i>Recommendation: The Board should continue to progress its activities in relation to Best Value which will ensure compliance with the 2003 Act.</i></p>	Assessor and Electoral Registration Officer	In addition to having representation on the Scottish Assessors Association's Best Value Committee, LVJB will continue as an organisation to seek areas for improvement in its service delivery. This will be monitored at LVJB's in-house monthly management team meetings at which Best Value is a standing agenda item.	Ongoing
3 (para 33)	<p>Efficient Government</p> <p>The Board will need to take necessary action in relation to cash releasing and time releasing savings.</p> <p><i>Risk: The Board fails to demonstrate that available efficiencies have been identified and realised.</i></p> <p><i>Recommendation: The Board should carry out a systematic review of its activities with the aim of identifying and releasing potential efficiency savings, incorporating key Efficient Government workstreams.</i></p>	Assessor and Electoral Registration Officer	LVJB have, after a review of working practices, recently introduced a number of revised operational procedures with the overall	Ongoing



			<p>objective of improving service delivery. This has included the implementation of two core system software applications, one of which, namely the core valuation software application, now forms the basis of a shared service initiative involving three other Assessors with a view to integrating processes and procedures in an effort to identify potential efficiency savings.</p>	
<p>4 (para 29)</p>	<p>Public Performance Reporting</p> <p>Although there is an intention to report Key Performance Indicators on the website and in local publications this had not been achieved at the time of the audit.</p> <p><i>Risk: Accountability and transparency may not be achieved.</i></p> <p><i>Recommendation: The key performance indicators should be published as intended.</i></p>	<p>Assessor and Electoral Registration Officer</p>	<p>LVJB's key performance indicators have been and will continue to be circulated to all other Assessors throughout Scotland, in addition to being published (as part of LVJB's Public Performance Report) in North and South Lanarkshire Council's citizen publications (North Lanarkshire News and Fourcast respectively) and LVJB's own web site.</p>	<p>Annually</p>