

Ayrshire Valuation Joint Board

Annual Report on the 2012/13 Audit



Prepared for Members of the Ayrshire Valuation Joint Board and the Controller of Audit
September 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Key Messages

2012/13

In 2012/13 we looked at the key strategic and financial risks faced by Ayrshire Valuation Joint Board (the board). We audited the financial statements and looked at aspects of governance, use of resources and performance. This report sets out our main findings, summarising key outcomes from the 2012/13 audit and the outlook for the period ahead.

We have given an unqualified opinion that the financial statements of Ayrshire Valuation Joint Board for 2012/13 give a true and fair view of the state of the board's affairs and of its net expenditure for the year.

The board approved its budget on 10 January 2013. The budget was set on the basis of gross expenditure of £2.301 million and Income of £2.229 million leaving a funding gap of £0.072 million to be funded from reserves. Requisition on constituent councils were held at 2011/12 levels.

Actual income (£2.235 million) exceeded expenditure (£2.225 million) by £0.010 million resulting in an underspend of £0.082 million for the year. The general fund reserve balance has increased to £219,215 as at 31 March 2013.

The most significant variances were in respect of employee costs, £0.113 million underspend as a result of long term sick leave and payments to other bodies £0.034 million overspend as a result of engaging external experts as part of the valuation appeals process.

The board's net assets have decreased by £0.473 million in the 2012/13 financial year due primarily to the rise in the board's net pension liability.

Performance, both in terms of targets set and subsequent performance is poor. Measured against neighbouring joint boards, the performance of the board is comparatively poor.

A workforce plan is needed to ensure that the needs and priorities of the board are aligned with its workforce in order to efficiently meet current and future legislative, regulatory, service requirement objectives.

In March 2013, the Assessor indicated his intention to resign his post to take up a similar position at another valuation joint board. The post was filled on a temporary basis by an Assistant Assessor while the recruitment process progressed. An external candidate has recently been appointed.

Outlook

Financial pressures are unlikely to abate over the next few years and difficult decisions will need to be made by the board and incoming Assessor as they seek to improve performance against a backdrop of real terms resource reduction and upwards cost pressures.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Ayrshire Valuation Joint Board. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions on the financial statements and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice issued by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; however, this does not relieve management of their responsibility for the preparation of the financial statements. This report has been prepared for the use of Ayrshire Valuation Joint Board and no responsibility to any third party is accepted.
3. Appendix D is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Ayrshire Valuation Joint Board understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is also addressed to Controller of Audit and will be published on our website after consideration by the Ayrshire Valuation Joint Board.

Financial statements

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Ayrshire Valuation Joint Board on 26 March 2013 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and, as we did not require to carry out any work additional to our planned audit activity, this fee remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of Ayrshire Valuation Joint Board for 2012/13 give a true and fair view of the state of the board's affairs and of its net expenditure for the year. The audit opinion will be formally issued and signed on 24 September 2013 after the board has considered this report.
8. We received the unaudited financial statements on 18 June 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team. Ayrshire Valuation Joint Board is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings (ISA260)

9. During the course of the audit we identified no significant issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
10. The net assets on the board's balance sheet have decreased from £1.088 million in 2011/12, to £0.615 million in 2012/13, a reduction of £0.473 million. The principal reason for this decrease is due to the £0.465 million increase in the pension liability. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables, principally projected rates of return on assets.

2012/13 Outturn

11. The main financial objective for Ayrshire Valuation Joint Board is to ensure that the financial outturn for the year is within the resource provided through contributions from the constituent authorities.
12. The board approved its budget on 10 January 2013. The budget was set on the basis of gross expenditure of £2.301 million and Income of £2.229 million leaving a funding gap of £0.072 million to be funded from reserves. Actual income (£2.235 million) exceeded expenditure (£2.225 million) by £0.010 million resulting in an underspend of £0.082 million for the year. The most significant variances were in respect of employee costs which recorded a £0.113 million underspend as a result of long term sick leave; and payments to other bodies of £0.034 million overspend as a result of engaging external experts as part of the valuation appeals process. The Ayrshire Valuation Joint Board underspent its budget for 2012/13 as detailed at table 1.

Table 1: Budget variance

	Initial Budget (£'000)	Actual Outturn (£'000)	Variance (£'000)
Gross expenditure	2,301	2,225	76
Gross income	2,229	2,235	6
Use of reserves	72	0	(72)
Surplus	0	10	(10)

Source: AVJB minutes and annual accounts

2012/13 Financial position

13. The balance sheet shows an increase in the general fund balance of £0.010 to £0.219 million. The balance exceeds the level recognised as good practice of between 2% and 4% of revenue expenditure. Currently, the balance is close to 10% of expenditure. The board's approved budget for 2013/14 set in January 2013 includes an anticipated draw down of £0.068 million of general fund balances to fund, in the main, temporary trainee valuer positions. Recognising the funding pressures and the need to reduce the level of the general fund balance, the Treasurer will report to the board on proposals for the use of the accumulated surplus following the conclusion of the audit.

Financial planning

14. In preparing the 2013/14 budget the Treasurer incorporated funding for the staff structure approved at the board meeting of 14 December 2012, with full provision for any increments and exam success payable from 1st April 2013 and employer's superannuation contributions of 19.3%. In addition, specific funding of £0.020 million has been incorporated to meet the

cost of the legislative requirement to refresh the postal vote signatures during 2013/14. Gross expenditure has been maintained at £2.224 million.

15. Public sector organisations are facing a period of financial constraint, with cuts of around 20% in real terms expected over the next few years. In order to manage the challenges, organisations are encouraged to prepare medium term financial plans and forecasts. Each of the constituent authorities of the board prepare three year budgets. In January 2013, the board agreed a revenue budget of £2.301 million, including the use of £0.068 million of general fund balances to fund, in the main, temporary trainee valuers positions during 2013/14. The board does not prepare medium to long term budgets.

Action Point 1

Corporate governance and systems of internal control

Overall governance arrangements

16. The Code of Audit Practice requires auditors to review and report on audited bodies' corporate governance arrangements and overall we found the board had sound governance arrangements in place which included working groups assigned specific projects in aspects of governance.
17. Following the local government elections in May 2012, a number of new members were appointed to the board by its constituent councils. Under the rotation agreement included in the board standing orders the position of chair was taken by a member from North Ayrshire Council. The challenge by members, to reports submitted to the board, provides us with evidence that members have recognised their governance responsibilities. Financial pressures are unlikely to abate over the next few years and difficult decisions will need to be made by the board as it seeks to improve performance against a backdrop of real terms resource reduction and upwards cost pressures.

Accounting and internal control systems

18. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
19. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
20. Internal audit is an important element of the Ayrshire Valuation Joint Board's governance structure. Our review established that the work of internal audit at the host authority, South Ayrshire Council, is of a good quality allowing us to place reliance on the key controls expected in the main financial systems. As part of the continuous audit approach to key financial systems, internal audit reviewed SAC's payroll, main accounting, and creditors

processes (which are all used by or have an impact on the board) and found these to be satisfactory. We considered these findings in determining the testing required in obtaining the necessary assurance. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

21. South Ayrshire Council provides support in some key areas of business, especially in finance, legal and Information Technology. To ensure clarity and a common understanding of mutual obligations, we consider it important that a service level agreement (SLA), which clearly sets out the cost, standard and level of support, is in place. Although there is a SLA in place, It is now a considerable time since this was reviewed. Management should review the SLA in partnership with South Ayrshire Council to ensure that support function expectations and associated costs are adequately documented.

Action Point 2

Prevention and detection of fraud and irregularity

22. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion, the overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

23. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in September 2012 but is not due to report until May 2014.
24. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error. Where matches are identified these are made available to bodies to investigate. No matches relating to Ayrshire Valuation Joint Board were found from the last exercise.

Standards of conduct and arrangements for the prevention and detection of corruption

25. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Performance

Best value and performance

- 26. Achievement of Best Value depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
- 27. The Local Government in Scotland Act 2003 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. No specific work was undertaken at the board during 2012/13.
- 28. We also have a responsibility to review and report on the arrangements that the board has to prepare and publish performance information. The board publishes an annual performance report, made available on its website.
- 29. Table 2 sets out a comparison with internally set targets and with two neighbouring valuation boards. Performance, both in terms of targets set and subsequent performance is poor. Given that financial circumstances are likely to be similar across Scottish joint boards management should, as a priority, investigate the reasons for poor service delivery and take steps to address the issues.

Action Point 3

Table 2: Performance Analysis

Council Tax - New Houses Added			
	Board A	Board B	AVJB
Achievement	%	%	%
Within 3 mths	99.5	96.5	68.7
Within 6 mths	100.0	98.7	88.5
> 6 mths	100.0	100.0	100.0
Target			
Within 3 mths	95.0	93.0	70.0
Within 6 mths	99.5	98.0	90.0
> 6 mths	100.0	100.0	100.0

Non Domestic Rates Alterations to the Valuation Roll			
	Board A	Board B	AVJB
Achievement	%	%	%
Within 3 mths	90.9	77.0	53.4
Within 6 mths	97.9	91.2	80.3
> 6 mths	100.0	100.0	100.0
Target			
Within 3 mths	80.0	80.0	50.0
Within 6 mths	95.0	92.0	80.0
> 6 mths	100.0	100.0	100.0

Source: Annual performance reports 2013

- 30. Long term sickness absence can have a significant impact on the performance of an organisation of the size of Ayrshire Valuation Joint Board. Long term staff absence continued to be an issue throughout 2012/13. The board has recently addressed the issue by means of dismissal and early retirement.
- 31. Workforce planning is a process used to align the needs and priorities of an organization with its workforce to ensure it can meet its legislative, regulatory, service requirements and business objectives. The board does not have a current workforce plan. The board should review and assess current and future requirements and determine its needs for effective and efficient service delivery. The assessment should include staffing complement, appropriate skills mix as well as succession planning. In addition, in previously confirming a revised staff structure, the board committed to undertake a review of its administrative function: this has not yet been done. The board should take the opportunity to undertake this review as part of the workforce planning exercise.

Action Point 4

- 32. Legislative changes can significantly change the amount of work required in meeting board objectives. Individual electoral registration and the refresh to the register of postal votes will place additional pressure on the resources available to the board. In the present financial climate, additional funding and resources to implement these changes may not be available. The board should consider a review of services and how they are provided to ensure the changed duties arising from legislation required can be successfully delivered.

Action Point 5

Acknowledgements

33. We would like to express our thanks to the officers and staff of Ayrshire Valuation Joint Board and South Ayrshire Council for the courteous assistance extended to the audit team during the audit of this year's financial statements.

Appendix D: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	15	<p>Financial planning and use of reserves</p> <p>The board does not prepare medium to long term budgets.</p> <p><i>Risk - the board may not be able to achieve the necessary future savings.</i></p>	Work will be undertaken to prepare medium to long term budgets	Treasurer/Assessor	31 March 2014
2	21	<p>Service level agreements</p> <p>There are no up to date SLAs in place to define the support services provided to the board by South Ayrshire Council.</p> <p><i>Risk - there is insufficient clarity over issues such as service definition, performance measurement and costs.</i></p>	A review of current arrangements will be undertaken and the service level agreement formalised	Treasurer/Assessor	31 March 2014
3	29	<p>Performance</p> <p>Performance both in terms of targets set and subsequent performance is poor. Performance does not compare well with a sample of similar boards.</p>	The Assessor will review the current performance, take steps to address and revise targets accordingly	Assessor	To be advised

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>Risk - performance levels remain at levels below stakeholder expectation.</i>			
4	31	<p>Workforce planning</p> <p>The board does not have a current workforce plan in place.</p> <p><i>Risk - the board does not have the optimum skills mix and structure to address performance issues and deliver a satisfactory level of service.</i></p>	The Assessor will work with HR colleagues to review the staffing structure.	Assessor/Head of HR and Organisational Development (SAC)	To be advised
5	32	<p>Legislative changes</p> <p>The introduction of individual electoral registration and postal the vote refresh exercises will put additional pressure on resources.</p> <p><i>Risk - without an appropriate review of service requirement and how it is provided, the board may not be able to deliver the legislative changes proposed without additional funding.</i></p>	The Assessor will review the resources required to introduce individual electoral registration and undertake the postal refresh exercise	Assessor	To be advised