

Ayrshire Valuation Joint Board

Report to Members and the Controller of Audit
on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND



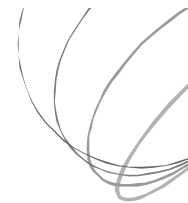
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Key Messages

In 2009/10 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 uses of resources, governance and performance. This report sets out our main findings, summarising key outcomes from the 2009/10 audit and the outlook for the period ahead.

Financial Statements

We have given an unqualified opinion that the financial statements of Ayrshire Valuation Joint Board for 2009/10 give a true and fair view of the financial position and expenditure and income of the board for the year. We also certified that the accounts have been prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

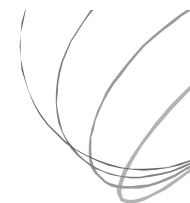
Outlook

The public sector is facing significant reductions in funding over the next 3- 5 years. The board, in line with other public bodies, is not immune from these financial pressures. The board have a considerable challenge in effectively delivering services with decreasing levels of income. Members and officers have recognised these challenges and are taking steps to make savings in future years.

The co-operation and assistance given to us by board members and staff is gratefully acknowledged.



October 2010



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Ayrshire Valuation Joint Board (the board). Findings are set out in four sections: financial statements; use of resources; governance and accountability; and performance management and improvement. Within each of these sections we have also provided an outlook setting out key issues and concerns facing the board going forward, where applicable. Appendix A provides details of our reports issued during 2009/10.
2. Appendix B 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 set out in the column headed '*Planned Management Action*'. We do not expect all risks to be eliminated or even minimised. What we are expecting to see is that the board understands its risks and has in place mechanisms to manage them. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to be duly assured that the proposed action has been implemented.
3. This report is addressed to board members and the controller of audit. It will be published on our website after consideration by the board.



Financial statements

Introduction

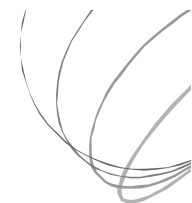
4. The financial statements are an essential means by which the board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources. It is the responsibility of the board to prepare financial statements that provide a true and fair view of its financial position and the income and expenditure for the year.
5. In this section we summarise key outcomes from our audit of the board's financial statements for 2009/10, comment on the significant accounting issues faced and provide an outlook on future financial reporting issues.

Audit Opinion

6. We have given an unqualified opinion that the financial statements of the board for 2009/10 give a true and fair view of the financial position and expenditure and income of the board for the year. We also certified that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We were satisfied with disclosures made in the annual statement of internal financial control and the adequacy of the process put in place by the board to obtain assurances on systems of control.
8. The board's unaudited financial statements were submitted to the controller of audit by the deadline of 30 June 2010. The final accounts preparation process and working papers were very good and enabled the audit to progress smoothly.
9. Audited accounts were finalised prior to the target date of 30 September 2010 and were presented to the board on 21 September 2010. The financial statements are an essential means by which the board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Accounting issues

10. Local authorities in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2009 SORP. We were satisfied that the board prepared the accounts in accordance with the revised SORP.



11. As reported to the board via our report in line with the International Standard on Auditing 260 *communication of audit matters to those charged with governance*, there were no audit adjustments required to the financial statements as a result of our audit findings.
12. Some minor presentational changes were identified and were corrected by the treasurer as appropriate.

Financial Position

Going Concern

13. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets. The board's balance sheet at 31 March 2010 shows a net liability of £0.773 million.
14. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the board's full pension obligations in the year they are earned. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from constituent authorities, employees' and employer's contributions, and investment returns. In common with similar authorities, the board have considered it appropriate to adopt a going concern basis for the preparation of its financial statements for the reasons outlined above.

Legality

15. Through our planned audit work we consider the legality of the board's financial transactions. In addition the treasurer confirmed that, to the best of her knowledge and belief, the financial transactions of the board were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Fixed Assets

16. There continues to be little progress made in the transfer of the title deeds for the board's offices in Wellington Square from the former Strathclyde Regional Council to the board. This transfer remains to be completed. We understand that the issue is currently being addressed.

Key Risk 1



Outlook

Pension Liabilities

17. Financial planning and 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. In accounting for pensions, Financial Reporting Standard 17 (retirement of benefits) 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. This requirement results in a very large future liability being recognised on the face of annual accounts.
18. The board's estimated pension liabilities at 31 March 2010 exceeded its share of the assets in the Strathclyde Pension Fund by £1.509 million. This was due to the reduction in the discount rate applied and an increase in pensioners' life expectancy, which outweighed the large increases in the market values of assets.

International reporting standards adoption

19. Local government will move from UK Generally Accepted Accounting Principles (UK GAAP) to International Financial Reporting Standards (IFRS) with effect from 2010/11. Local government has already adopted some aspects of IFRS and we expect the transition to be fairly smooth. We have been advised that the board will be working with South Ayrshire Council staff to prepare a set of IFRS-compliant statements for 2010/11.

Key risk 2

Use of resources

Financial results

20. The board's financial position as at 31 March 2010 showed a deficit of £19,879 in the income and expenditure account for the year. After taking account of statutory adjustments there was an accumulated surplus of £62,439 at the year end which will be utilised in future years.
21. The board previously committed to using £30,000 to meet the costs of implementing single status, however this is no longer required and the board have agreed to hold the balance of £62,439 as an uncommitted general reserve.



Budgetary Control

22. Budgetary control reports are presented to members at each of the board meetings. Reports identify any variances from budget and provide an explanation as to why the variance has occurred.

Single Status

23. Officers have confirmed that to date there have been no claims for equal pay issues. As there are no equal pay issues there will be no requirement to backdate the implementation of single status. As mentioned before the board agreed to provide £30,000 of the accumulated surplus to meet the costs of implementing single status. A new pay and grading model and revised terms were approved in January 2010, with an implementation date of July 2010. There was no requirement to draw on the funds set aside.

Outlook

Funding reductions

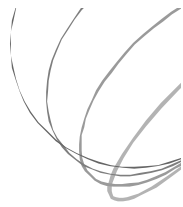
24. Clearly we are in a period of reduced economic growth with significant implications for public sector resources. The board faces a significant reduction in funding over the period 2011/12 to 2014/15. Plans need to be in place to ensure that savings are made in a managed way.

Key Risk 3

Reserves and balances

25. The board have been able to carry a general fund balance since 2007/8. The board have yet to formalise a reserves strategy which would outline the appropriate level of reserves and the proper utilisation of these reserves. We have been advised that the board agreed to hold the accumulated surplus (£62,439) as an uncommitted general reserve. This equates to 2.65% of the net budgeted expenditure in 2010/11.

Key Risk 4



Governance and accountability

Introduction

26. Corporate governance is concerned with direction and control of organisations. The board's financial systems are the same as those operated by South Ayrshire. Our review of the council's financial systems did not identify significant issues relating solely to the board.

Overview of arrangements in 2009/10

27. Six board meetings are held in the year to consider reports and issues regarding budget approval, budgetary control and performance. The board's membership consists of experienced councillors and meetings are generally well attended.
28. The board does not have an audit committee. Internal and external audit reports are submitted and considered by the full board as appropriate.

Outlook

29. Governance and accountability issues are likely to become more prominent as financial pressures and the economic position of the board become increasingly challenging.



Performance management and improvement

Introduction

30. In this section we summarise how the board measures and reports its performance.

Performance management

31. The board is required under the Local Government Scotland Act 2003 to report on the performance of its functions to the public.

32. The main way the board measures performance is through the key performance indicators (KPIs) in the areas of non-domestic valuation roll amendments and appeals, and new council tax entries. These are reported to the board on a quarterly basis.

33. An annual performance report is also presented to the board and is made available to the public.

Equality and Diversity

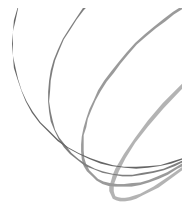
34. The board is aiming to ensure that all of its activities comply with best practice in the field of equality and diversity. Work is being undertaken to combine the separate schemes and to lay the foundations for the new equality duties laid down in the new legislation. A revised equality report will be submitted to the board in due course.

Risk Management

35. Risk is the threat that an event, action or inaction will adversely affect an organisation's ability to achieve its objectives. Risk management is the process of identifying, evaluating and controlling risks.

36. The board have a risk register in place which was updated in March 2009 and was presented to the board. The format of the risk register is being revised in line with South Ayrshire Council's computerised approach and the revised version will be submitted to the board in January 2011.

Key risk 5



Key Performance Indicators

37. In 2009/10 the board performed well against their KPIs. The board achieved their target KPIs concerning the speed at which new domestic properties were added to the council tax valuation list. For non domestic properties the principle measure of performance is the number of valuation amendments undertaken in less than 3 months. This was achieved in 2009/10 rising to 75.9% which is above the target of 75%. The target of amendments within the first 6 months was not achieved, this stood at 88.3% which is below the target of 91%.
38. The increase in workload as a result of the requirement to complete the non domestic rates (NDR) revaluation by the end of August 2009 has had a negative effect on the performance indicators.

Outlook

39. In 2011/12, a reduction in staff numbers is likely, due to the need to deliver savings. The board have approved a voluntary severance scheme. The reduction in staff numbers may result in a drop in performance. In particular, the board may no longer be able to meet their KPI targets.

Key risk 6



Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date presented to Board
Annual audit plan	22/02/2010	23/03/2010
Report on financial statements to those charged with governance	07/09/2010	21/09/2010
Audit opinion on the 2009/10 financial statements	21/09/2010	21/09/2010
Final report to members and the controller of audit	27/10/2010	9/11/10



Appendix B: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	16	<p>Fixed Assets</p> <p>The ongoing issue of transferring the title deeds for the property at 9 Wellington Square has not yet been resolved.</p> <p>Risk</p> <p><i>There is a risk that the board is unable to demonstrate legal ownership of its main asset.</i></p>	Officers have confirmed that the transfer will be completed no later than December 2010.	Estates Manager	31 December 2010
2	19	<p>IFRS Adoption</p> <p>The introduction of new accounting guidelines under IFRS may present difficulties to the board in preparing the 2010/11 financial statements.</p> <p>Risk</p> <p><i>There is a risk that the board do not fully comply with accounting standards following the introduction of IFRS and this could result in a qualified audit opinion.</i></p>	Treasurer will work with South Ayrshire Council staff to ensure that the 2010/11 financial statements meet the new accounting guidelines.	Treasurer	30 June 2011
3	24	<p>Funding Reductions</p> <p>The board is facing significant funding reduction over the next 3-5 years. The achievement of savings will be vital for the board.</p> <p>Risk</p> <p><i>The board does not have sufficient resources to deliver its services.</i></p>	The board have established a budget sub group to consider the implications of funding reductions and ensure that a balanced budget can be achieved.	Treasurer/Assessor and budget sub group	31 January 2011



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	25	<p>Reserves Strategy</p> <p>The board should formalise a reserve strategy to ensure reserves are maintained at sufficient levels.</p> <p>Risk</p> <p><i>There is a risk that the board holds an inappropriate level of funds for unexpected events.</i></p>	<p>The board have committed to retaining the accumulated surplus as an uncommitted general reserve. This will be reconsidered when the 2011/12 budget is determined.</p>	Treasurer/Board	31 January 2011
5	36	<p>Risk Register</p> <p>An updated risk register has not been presented to the board since March 2009.</p> <p>Risk</p> <p><i>Members may not be aware of key issues facing the board.</i></p>	<p>An updated risk register will be presented to the January board meeting.</p>	Assessor	31 January 2011
6	39	<p>Key Performance Indicators</p> <p>The board faces a challenge in maintaining performance with reduced staffing levels.</p> <p>Risk</p> <p><i>Performance against KPIs may be adversely affected.</i></p>	<p>This challenge is recognised by the board and the assessor will ensure that the board are fully informed of the impact of budget reductions on performance</p>	Assessor	31 January 2011