

Ayrshire Valuation Joint Board

Annual report on the 2010/11 audit



Prepared for Members and the Controller of Audit
September 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

In 2010/11 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 2010/11 audit and the outlook for the period ahead.

We have given an unqualified opinion that the financial statements of Ayrshire Valuation Joint Board for 2010/11 give a true and fair view of the state of the affairs of the board as at 31 March 2011 and of the income and expenditure for the year then ended.

The general fund recorded a net surplus for 2010/11 of £93,491, therefore increasing the balance to £155,930 as at 31 March 2011. This includes an uncommitted general fund balance of £62,439. The board expects to draw upon the remaining funds to address workload and budget pressures.

Our review of the board's governance arrangements found that a number of internal management policies are not subject to regular review. The assessor has agreed to ensure that these policies are updated to reflect the current environment.

The board has continued to perform well against their key performance indicators (KPIs) in 2010/11.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

The board have a considerable challenge in effectively delivering services with decreasing levels of income and the increased workload that has arisen from 2010 revaluation appeals. Members and officers have recognised these challenges and continue to take steps to make savings. The board's budget for 2011/12 shows a reduction in funding from constituent authorities of 4.7% in cash terms.

From 2011/11 the performance measurement KPI target levels will be reduced by a third to take account of the increased appeals caseload. The board feels that this is necessary to ensure that targets remain challenging but realistic.

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

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Ayrshire Valuation Joint Board (the board). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Appendix A provides details of our reports issued during 2010/11. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the board.
3. 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 in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the board understands its risks and has arrangements in place to manage these risks. The board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to board members and the controller of audit. It should be made available to the public and other stakeholders. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the board.
5. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit of the financial statements.

Audit opinion

9. We have given an unqualified opinion that the financial statements of Ayrshire Valuation Joint Board for 2010/11 give a true and fair view of the state of the affairs of the board as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

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

Statement on the system of internal financial control

11. We are satisfied with the disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the board to obtain assurances on the system of internal control.

Remuneration report

12. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985 and the disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant officers, chair and vice-chair of the board.

Accounting issues

13. Local authorities in Scotland are required to follow the 2010 Code of Practice on Local Authority Accounting in the United Kingdom (the 2010 Code), including for the first time in 2010/11 the application of International Financial Reporting Standards (IFRS). We were satisfied that the board prepared the accounts in accordance with the 2010 Code.

Accounts submission

14. The council's unaudited financial statements were submitted to the controller of audit by the deadline of 30 June 2011. A comprehensive working papers package was also available by this date. This enabled us to conclude the audit and certify the financial statements by the target date of 30 September 2011. The financial statements are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited accounts

15. As reported to the board via our report in line with 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.
16. A number of presentational changes were identified and were corrected by the treasurer as appropriate.

Prior year adjustments

17. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The areas that required restatement include the treatment of capital grants and the inclusion of an accrual for employee benefits such as untaken annual leave.

Pension costs

18. Ayrshire Valuation Board is a member of Strathclyde Pension Fund which is a multi-employer defined benefit scheme. In accordance with pensions accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net assets for the pension fund in the balance sheet. The valuation at 31 March 2011 provided by the scheme's actuaries increased the board's share from a net liability of -£1.509 million last year to a net asset of £0.909 million this year. The large increase is primarily due to a change in one of the financial assumptions, with future pensions' increases now linked to the consumer prices index (CPI) rather than the retail prices index (RPI).

Outlook

Audit appointment for 2011/12

19. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the Accounts Commission have appointed a new audit team from Audit Scotland to audit the board. We look forward to continuing the good working relationship that exists.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

23. The net operating expenditure for the board in 2010/11 was £1,181,321, an under spend of £1,152,590 against budget. The under spend was attributable to lower than expected employee, past service pension and transport costs. In particular, a higher than anticipated level of vacancies and a shift to more office-based working.

Financial position

24. The board's financial statements for the year ending 31 March 2011 showed a surplus of £1,152,590. After taking account of statutory adjustments there was an in year surplus of £93,491.
25. An accumulated surplus of £155,930 was held by the board at 31 March 2011, £62,439 of which is being held as an uncommitted general reserve. It is anticipated that the remainder of this surplus will be used to address the increased workload that has arisen from revaluation appeals, and also to assist the board in achieving its 2012/13 revenue budget. It is important that the board devises a plan for the use of the remaining funds.

Refer Action Plan no. 1

Outlook

2011/12 budget

26. A revenue budget of £2,223,897 was agreed in November 2010 for the 2011/12 financial year, a reduction in cash terms of 4.71% against the 2010/11 budget. Cost savings have been achieved mainly through a staffing restructure.

2011/12 budget reporting

27. The budget monitoring report to 31 May 2011 showed an under spend of £18,070 due to a higher level of vacancies than anticipated. The treasurer intends to review the budget to account for the structural changes to the board that were approved in March 2011.

Financial forecasts beyond 2011/12

28. Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years. The board has recognised that there is likely to be a requirement to draw upon surplus funds from 2012/13.

Refer Action Plan no. 2

Governance and accountability

29. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
30. Through its board, chief executive and/or accountable/proper officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
31. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
32. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

33. The board met 5 times in 2010/11 to consider reports and issues such as budget approval, budgetary control and performance. The board's membership consists of experienced senior councillors and meetings are generally well attended.
34. The board does not have an audit committee. Internal and external audit reports are considered by the full board as appropriate.

Internal control

35. 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.
36. The board's financial systems are the same as those operated by South Ayrshire Council. Our review of the council's financial systems did not identify significant issues relating solely to the board.

37. Our review of the board's internal management policies found that the scheme of delegation, whistleblowing policy and code of conduct for employees (including gifts and hospitality) have not been reviewed for some time. These policies are an essential part of the internal control system and should be kept up to date to reflect changes in the internal and external environment.

Refer Action Plan no. 3

Outlook

38. The board underwent a management restructure following the assessor's retirement on 31 March 2011. The post of depute assessor has been removed, and the depute assessor has now been promoted to assessor. At this early stage it is difficult to determine if the new structure is fit for purpose. The board have been monitoring the situation and it is important that they continue to do so.

Refer Action Plan no. 4

Best Value, use of resources and performance

39. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
40. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
41. As part of their statutory responsibilities, the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
42. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
43. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
44. This section includes a commentary on the Best Value and performance management arrangements within the board. We also note any headline performance measures used by the board and comment on any relevant national reports.

Management arrangements

Best Value

45. The Board has not been subject to a Best Value audit. We have been advised that the assessor continues to undertake service planning aimed at ensuring best value is achieved and to report material issues to the Board.

Performance management

46. The main way the board measures performance is through the key performance indicators (KPIs) in the areas of non-domestic valuation role amendments and appeals, and new council tax entries. Progress against these targets is reported to the board at each meeting.
47. An annual performance report is also presented to the board and is made available to the public.

Community/user engagement

48. A customer satisfaction questionnaire is distributed to the community to help the board maintain a focus on customer needs.

Overview of performance in 2010/11

The board's performance measurement outcomes

49. In 2010/11 the board performed well against their KPIs.
50. The board exceeded their target of adding 87% of new council tax entries to the valuation list within 3 months and 96% within 6 months. In 2010/11 new council tax entries added to the valuation list within 3 months totalled 89.3%. A further 9.4% (total 98.7%) of entries were added within 3-6 months.
51. For non-domestic rates the principle performance measure is the speed at which amendments are made to the valuation roll. This was achieved in 2010/11, delivering 81.9% of amendments within 3 months, and 11.5% within 3-6 months. The board exceeded its overall amendments target of 91% within 6 months.

Outlook

52. The board sets its targets based on prior year achievements, resource pressures and anticipated workload in other areas. The board has faced a significant rise in the appeals caseload following the 2010 revaluations whilst at the same time the workforce has been reduced. In light of this, the assessor has taken the decision to reduce the target level for all KPIs by one third from 2011/12. There is a risk that under the current staffing structure the board will be unable to settle all appeals by the statutory deadline of 31 December 2013.

Refer Action Plan no. 5

National performance reports

53. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of interest are detailed in Table 1:

Table 1: A selection of national performance reports 2010/11

- | | |
|--|---|
| <ul style="list-style-type: none">• Scotland's public finances: responding to the challenges• Improving energy efficiency: a follow-up report | <ul style="list-style-type: none">• An overview of local government in Scotland 2010• The cost of public sector pensions in Scotland |
|--|---|

Source: www.audit-scotland.gov.uk

54. Officers should review national performance reports as they become available and consider the impact of the findings on the board.

Refer Action Plan no. 6

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual audit plan	4 February 2011	29 March 2011
Review of the internal control system	13 June 2011	21 June 2011
Report on financial statements to those charged with governance	29 August 2011	27 September 2011
Audit opinion on the 2009/10 financial statements	27 September 2011	27 September 2011

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	25	<p>General fund balance/reserves:</p> <p>The board has not agreed a plan for use of the in year surplus of £93,491.</p> <p><i>Risk</i></p> <p><i>The constituent councils may take a decision to claw back surplus funds.</i></p>	Proposals to utilise the surplus to address workload and budget pressures will be developed.	Assessor /Treasurer	Prior to budget setting in January 2012
2	28	<p>Funding reductions:</p> <p>The board is likely to face substantial funding reductions from 2012/13.</p> <p><i>Risk</i></p> <p><i>The board may not be able to identify the necessary savings without compromising service delivery.</i></p>	The requirement for funding reductions together with the pressures of the increased workload will be considered in determining an appropriate budget for 2012/13.	Treasurer/ Assessor	January 2012
3	37	<p>Internal policy review:</p> <p>Our review of the board's internal management policies found that the scheme of delegation, whistleblowing policy and code of conduct for employees (including gifts and hospitality) have not been reviewed for some time.</p> <p><i>Risk</i></p> <p><i>The policies do not reflect the current environment</i></p>	The scheme of delegation, whistleblowing policy and code of conduct for employees will be reviewed.	Assessor	March 2012

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<i>presenting an internal control weakness.</i>			
4	38	<p>Management restructure: A new management structure was introduced following the retirement of the assessor on 31 March 2011, which included the removal of the depute assessor post.</p> <p><i>Risk</i> <i>The new structure is not fit for purpose.</i></p>	The effectiveness of the new management structure will be monitored and reviewed as necessary.	Assessor	Ongoing
5	52	<p>Revaluation appeals: The board has seen a substantial rise in the revaluation appeals caseload whilst at the same time facing workforce reductions.</p> <p><i>Risk</i> <i>The board is unable to settle outstanding appeals within the statutory deadline of 31 December 2013.</i></p>	Progress towards resolving appeals within the statutory timetable will be monitored and reported to the Board at Board meetings.	Assessor	At each Board meeting
6	54	<p>National performance reports: Officers should consider the impact of findings from national performance studies.</p> <p><i>Risk</i> <i>The board does not take appropriate action to address relevant findings.</i></p>	The Treasurer & Assessor will monitor national performance reports and report to the Board as required.	Treasurer/ Assessor	Ongoing